

INDEX

- accountability 214, 246, 252–3
- accounting chart of accounts 47–8
- accuracy of forecasts *see* forecast accuracy
- Ackoff, Russell 284, 287
- Ackoff's Best* (Ackoff) 287
- actionability, quality of good forecast 47–9
- adaptive behavior and learning 128–9
- adaptive models/systems 247–8, 249, 283–4
- adjustments to forecasts 187
- aggregation of risk 141, 167–8
- agility, increasing 57–8, 59, 81–2
- alignment 51–2
- argument for multiple forecasts 205
 - close and loose coupling 202–5
 - design choices 206–8
 - and interdependence 202
 - and target setting 201
 - tight versus loose 198–9
 - and unavoidable variation 200–1
 - and unbiased forecasts 199–200
- American Express Corporation 29–30, 48
 - change process at 227–9
 - driver-based models at 108
 - dynamic resource allocation 74–5
 - freeing up management time 46
 - leadership behavior 192
 - range forecasting 173–4
- anchoring 100
- Anthony, R. 234
- Argyris, Chris 128–9
- Ariely, Dan 98
- Armstrong, J. Scott 103, 110
- Art of the Long View* (Schwartz) 172
- Asch, Solomon 192
- assumptions
 - of classical management model 245–6
 - in definition of forecast 38, 42
 - and judgmental forecasts 97
 - transformed into forecasts by models 91–3
- availability heuristic 98, 99
- averages, problem with using 138–41
- Axson, David 12–13
- baked beans example, manufacturing process 133–5
- ball catching, model for 89, 126–8
- Bazerman, M. H. 98–9
- Beckhard, R. 224
- Beer, Stafford 43, 285–6
- behavioral bias 98, 144, 261
 - cognitive bias 98–101
 - motivational bias 104–7
 - social bias 101–4
- behavioral process 190–1
 - 'bad behaviors' 191–2
 - information sharing 192
 - political versus social 192–3
 - power of action 194
- Beinhocker, Eric 287
- Bertalanffy, Ludwig von 276
- Beyond Budgeting* (Hope and Fraser) 248

- Beyond Budgeting Model 243–4
 - organizational principles
 - capability 253
 - empowerment 252–3
 - focus 253–4
 - governance 252
 - information 254
 - performance climate 251–2
 - origins of movement 244–5
 - process principles
 - coordination 251
 - investment management 250–1
 - measurement and control 250
 - planning and forecasting 249–50
 - rewards system 249
 - target setting 248–9
 - strengths of 248
- bias 261
 - advanced tool for measuring 142–3
 - benefits of tracking 144
 - causes of 143–4
 - changing unpredictably 105–7
 - distinguishing from random variable 135–8
 - freedom from 211
 - importance of eliminating 269
 - measures of 139–40
 - and reliable forecasts 50–1
 - using run charts to visualize 133–4
 - see also* behavioral bias
- Black Swan, The* (Taleb) 156
- Bognes, Bjarte 50, 64, 235, 248
- Bogoievski, Marko, CFO at Telecoms New Zealand 73–4
- boom and bust periods 11, 13, 62, 281
- Boyd, John 68–9
- Bridges, William 224
- Brohms, Anders 85
- Bryan, Lowell 151, 170–1, 173
- buckets (units of time) 132, 261
- Budgetary Control* (McKinsey) 13
- budgeting
 - coherent quality of 235
 - and commitment 76
 - constraint on resource reallocation 73–5, 236–7
 - definitions 233–4, 240–1, 261
 - encouraging spend 250–1
 - ‘immune system’ 236
 - looking beyond year-end 237
 - making more flexible 236–7
 - meaning of ‘budget’ 44
 - and performance measurement 238–9
 - roles & characteristics of 234
 - and target negotiation culture 237–8
 - budgeting mindset* 40
- business forecasting 66–7, 261, 267
- business horizon 67–8
- Cannon, Walter 231, 279
- capability 78, 253
- Cassandra paradox 33
- ‘catching heuristic’ 89
- central forecasts *see* range forecasts
- certainty, illusion of 36
- Chambers, John, Cisco CEO 5
- change
 - dealing with 15
 - rapid pace of 7–8
- Change Equation 224–5, 230–1
- change management 221–2
 - AMEX example 227–9
- Change Equation 224–5
 - first steps 226–7
 - resistance to change 225–6
 - three stages of change 222–3
- change ‘S’ curve 222–3
- chaos theory 88, 261
- Christopher, William 286
- Cisco, collapse of 4–5
- cognitive bias 98–101, 262
- commitments 76, 78
- complex systems, architecture of 283–5
- ‘Complexity Science’ 277
- concertina horizons 65–6, 262
- confirmation bias 100, 129
- conformity to group behavior 101–3
- conjunction fallacy 100
- ‘contingency funds’ 161–2, 236–7
- contingency plans 172–4, 262
- continuous risk 165–6, 262
- control systems 276–86

- conventional management model 246–7
 assumptions of 245–6
- coordination
 in complex systems 198–209
 lack of 21–2
 process principle of Beyond Budgeting 251
- Coram, Robert 85
- Cost Accounting: A Managerial Emphasis* (Horngren) 234
- cost effectiveness, quality of good forecast 52–3
- coupling 198–208, 262
- credit crunch 10, 170
- crises, scenario planning 171–2
- Crittenden, Gary 48, 174, 228, 229
- Croake, Jamie 29, 46, 75, 108, 174, 192, 227–9
- curse of knowledge bias 101
- cybernetics 55, 262
 aiding management thinking 277
 complex control systems 283–5
 concept of ‘a goal’ 277–8
 feedback and feedforward 281–4
 and information flow 278–80
 origins of 276–7
 practical application of 285–6
 time, role in regulation of system 280–1
- cycle time of a forecast 45–6, 55, 262
- decision-making
 devolution of 252–3
 information needed for 268–9
 and resource allocation 72–6
 rule of four successive errors 135–8
 and time 76–7
 forecast decay 79–81
 frequency of forecast updates 271
 lead times 62–3, 81–2, 262
 life cycle stages 77–9, 84
- Deming, W. Edwards 135, 216
- dependent risk 167–8, 262
- detail in a forecast 47, 55, 206
 knowledge of decaying 116–17
 problems of too much 20–1, 48–9
 varied levels of 81, 207–8
- devolution of decision-making authority 252–3
- discipline 190
 Toyota’s example 187–8, 189
 versus conformity 188
- discontinuities 94–5, 112, 131–2, 153–4, 156
- discrete risk 165–6, 262
- dissatisfaction
 in the Change Equation 224
 sources of 226–7
- diversification 141, 155
- divination techniques 36
- domain knowledge 211, 212–13, 262
- double loop learning 128–9, 283–4
- driver-based forecasting 107–8, 263
- duPont Corporation 13, 14
- ‘dynamic equilibrium’ 226, 231, 278–9
- dynamic resource allocation 73–5, 81–2
- ease of recall bias 99
- emergence principle, systems science 276
- empowerment 252–3
- errors *see* forecast error
- event risk 165, 177, 263
- exchange rates, risk factor 173–4
- execution stage of project 78
- expertise, failure of 103
- exploitative actions 169, 177, 263
- Farmer, Doyne 88
- Farrell, Diana 151, 170–1, 173
- fatalism 25
- feasibility stage of projects
 assessing 77, 117–18
 and forecast decay 80
 innovation funnel 78–9
- feedback 263
 destabilizing role of 281–2
 in goal seeking systems 278–80
 for information learning 128–9
 for successful performance 126–7
- feedforward information 127, 263
 destabilizing role of 281–2
 goal seeking systems 279–80
- Fifth Discipline, The (Senge) 129
- first order control systems 283, 285

- folk lore remedies 25
- Fooled by Randomness* (Taleb) 137
- forecast accuracy
 - danger of incentivizing people 192–3
 - futility of measuring 131–2, 158–9
 - obsession with 19–20
 - reliability as goal for 49–51, 269
- ‘forecast decay’ 79–81, 116–17, 263
- forecast error 12, 263
 - balancing 50–1
 - inevitability of 19–20
 - measurement of 129–32
 - frequency of 132–3
 - using run charts 133–43
 - see also* risk; systematic error; uncertainty; variation
- forecast horizons 62–3
 - definitions of 83–4, 263
 - and forecast decay 116–17
 - operational and strategic 66–8
 - rolling and concertina 64–6
 - sub horizons 81
- forecast lead times 62–9, 81–2, 131–2, 263
- forecast process, benefits of improving 28–9
- forecasting ‘illness’
 - cure for 26–7
 - ineffective therapy 23–5
 - symptoms of 17–22
- forecasts
 - definitions 40–2, 263
 - five qualities of good 45–52
 - and prophesies, difference between 9–10, 37–9
 - three different types of 67
 - uses of 39–40
- four successive errors, rule of 135–8
- Fraser, R. 248
- frequency of forecasting 45–7, 69–71, 132–3, 271
- Frith, Chris 148
- future planning/shaping 39–40, 127
- Gaia hypothesis, Lovelock 287
- Gaussian (normal) distribution 156, 157, 163
- General Motors 13, 14
- General Systems Theory (GST) 276–7
- Geus, Arie de 49, 153, 182
- Gigerenzer, Gerd 36, 123
- Gladwell, Malcolm 88
- goal, concept of 277–8
- goal seeking systems 277, 278–80, 284
- goal seeking variable 285
- governance 252
- Greenspan, Alan 10, 288
- group behavior and social bias 101–2
- ‘groupthink’ 102
- ‘gut feelings’ 137, 161–2
- Hackett Group 12–13, 55–6, 70, 95
- Harris, R. T. 224
- heuristics 89, 98–101
- hindsight bias 101
- homeostasis 231, 279
- Hope, J. 248
- horizons *see* forecast horizons
- Horngren, Charles 234
- Hoverstad, Patrick 286
- ideas
 - in life cycle of a decision 77–80
 - spreading, ‘S’ curve 223
 - stage of projects, approaches for 117–18
- immune systems 236
- implementation of change 221–30
- Implementing Beyond Budgeting* (Bogsnes) 248
- independent risk 167–8, 263
- information
 - and decision-making 268–9
 - open access to 192, 254
 - role of in control systems 278–80
- innovation funnel, managing 78–9
- insensitivity to base rates bias 99
- insensitivity to sample size bias 99
- interdependency 202–5
- interventions 263
 - deciding what to treat as 118–19
 - judgmental forecasting for 115–16
 - models for forecasting 113–14
 - problem of forecast decay 116–17
 - risk attached to 165, 177, 263
 - see also* momentum

- Jarvis, Martin 45, 51–2, 145, 165, 185, 196, 207–8
- Johnson, Tom 13, 85
- judgmental forecasts 95, 264
 attractions of 95–6
 and cognitive bias 98–101
 for interventions 115–16
 and motivational bias 104–7
 popularity of 23–4
 problems with 96–7
 and social bias 101–4
- Kaplan, Robert 13
- Kelvin, Lord 10
- knowledge
 course of knowledge bias 101
 decline of 80–1, 116–18, 271
 domain knowledge 211, 212–13, 262
 of experts 103
 and judgmental forecasting 95–6
 and science 26, 275–6
- Kotter, John 231
- Laplace, P. S. 287
- law enforcement, behavior and process 191
- lead times 59–60, 131–2
 destabilizing a system 59–61, 84–5, 280–1
 different for different types of decisions 81
 and length of forecast horizons 62–8
 shortening to improve responsiveness 81–2
- leadership 190, 192, 253
- learning, first and second order 128–9
- Lehman Brothers 10, 88, 170
- length of forecast horizon 55, 62–3
- life cycle of a decision 77–9
- ‘like with like’, comparing 132
- Liker, Jeffrey 188
- Lorenz, Edward 88
- Lovelock, James 123, 287
- Magolewski, Artur 75, 113, 146, 173, 178
- Making up the Mind* (Frith) 148
- Managing Transitions* (Bridges) 224
- manufacturing processes, baked beans
 example 133–5
- MAPE (Mean Average Percentage Error) 139, 264
- maps as examples of models 91, 92
- Marconi, collapse of 5–7, 8–9
- Marconi, Guglielmo 4
- mathematical models 94, 107–8, 264
 benefits of 108–9
 drawbacks of 109–10
 for momentum forecasting 114–15
- Maxwell, J. C. 84, 280
- McKinsey, James O. 13, 14, 247
- mean percentage error (MPE) 139–40, 264
- measurement 125–9
 frequency of 132–3
 run charts 133–43
 what to measure 129–32
- meetings 26–7, 184–5, 190
- military strategy and time 68–9
- misconceptions of chance bias 100
- mitigating actions 154, 169, 177, 264
- models 87–91, 264
 guidelines for choosing 113–21
 types of 91–5
 judgmental 95–107
 mathematical 107–10
 statistical 110–12
- momentum 113–14, 264
 assessing risk 165
 models for forecasting 114–15
- motivational bias 104–5, 264
 unpredictable change in 105–7
- MPE (mean percentage error) 139–40, 264
- multiple forecasts, argument for 205
- navigation forecasts 39, 40–1, 57–8, 69, 113, 129–30, 131
- negative bias, factors driving 105
- negative feedback 282–3
- Nelson, LLoyd 135
- nervous system breakdown 20–1
- nonlinear systems 88, 122, 123
- normal distribution 156, 157, 163

- novelty 95
 - judgmental forecasting coping with 95–6, 115–16, 120
 - models unable to cope with 109–10, 112
- OODA (observe-orient-decide-act) loop 68–9
- openness 192, 254
- operational forecasting 67, 264
- ‘operational horizon’ 66
- options, assessing
- organization charts 211, 214, 253
- Organizational learning* (Argyris and Schon) 128–9
- orthostasis 231
- overconfidence bias 100, 101
- ownership of forecasts 213–14

- perception of risk 155–8
- plan, definition 264
- planning 43–4, 249–50, 264
 - in military affairs 202–3
 - new role of 76
 - scenario planning 170–2
- Plato 55
- portfolio effect 141
- positive bias, factors driving 104–5
- positive feedback, stabilizing role of 281–3
- potato prices example 168
- power law distributions 156
- Powers, William 284
- pragmatism 195–6
- predictions 35–6, 265
 - and forecasts, difference between 9–10, 37–9
 - models needed for 87–90
 - prediction markets 103
 - see also* unpredictability
- presumed association bias 99
- probability distributions 155–6, 157, 162–3
- process management 183–4
 - and alignment 198–208
 - definition of process 264
 - roles and responsibilities 209–15
- techniques
 - bad behavior patterns, eliminating 190–5
 - bias, minimizing 186–7
 - discipline, importance of 190
 - ordering tasks logically 184–6
 - principles and pragmatism, balancing 195–6
 - standardization and improvement 187–9
- Proctor and Gamble 201
- production processes, controlling
 - performance of 133–5
- pull versus push 251

- quality of forecasts, measuring 130–46, 272
- questionnaire on design principles 267–74

- RACI diagram, allocation of responsibilities 214–15
- Randal, Jeff 4
- random variation 50, 70, 134–8, 141, 142, 250
- range forecasts 152, 178, 265
 - estimating a range 158–9
 - examples of 159–61, 173–5
 - excessive skew of 164
 - mistakes made in constructing 168–9
 - mitigating effect of social bias 104
- rare events, likelihood of 155–6
- reaction times 57–8, 63, 85
- reductionism 274–5
- regression to the mean bias 100
- regulation, control systems 278, 280–1
- reliability, quality of good forecast 49–51, 265, 269
- representative heuristic 98–9
 - biases attributed to 99–100
- Republic, The* (Plato) 55
- resistance to change 225–6, 228–9
 - and budgeting 235–6
- resource allocation 72–6, 236–7, 271
- respect, importance of 195
- responsibilities and roles, allocation of 211–15
- retrievability bias 99

- rewards 192
 decoupling from targets 238, 249
 linked to targets 104, 234
- risk 151, 265
 aggregating 167–8
 assessing 159–69
 and contingency planning 172–3
 continuous and discrete 165–6
 definitions 153–4
 and diversification 155
 improving judgmental estimates of 166
 overstatement of 168
 own actions changing 168–9
 perception of 155–8
 range estimates 158–9
 range vs. single outcome 152–3
 skewed distribution of 162–4
 timing issues 162
 versus uncertainty 153–8
see also uncertainty
- Roemer, Fritz 12, 42, 49, 95, 97, 190
- roles and responsibilities 209–15
- rolling horizons 64–6, 265
- ‘rule of four’ errors 135–8
- run charts 106, 133–42, 265
- ‘S’ curve 222–3
- sales and operations planning (S&OP) 216, 265
- Sanwal, Anand 75
- scenario planning 162–75, 265
- Schon, Douglas 128–9
- ‘scientific’ approach, adopting 26
- Sciver, Richard 52, 74, 174
- second order control systems 283–4
- semantic schizophrenia 17–18
- Senge, Peter 129
- sensitivity analysis 166, 266
- Shewhart, Walter 148–9
- shower example 59–61
- Simon, Herbert 98
- Simpson, George, Marconi CEO 4, 6, 7, 9
- single loop learning 128–9
- skewed distribution, risk profiles 162–4, 266
- Sloan, Alfred 13, 14, 15, 70, 85, 123–4
- social bias 101–4, 266
- social conformity 101–3
- socio-pathological behavioral patterns 22
- software therapy 24–5
- Southwest Airlines 71
- speed of forecasting 45–7
- Stalin, Joseph 13–14
- standardization 188–9
- statistical models 94, 110–11, 266
 advantages of 111
 drawbacks 111–12
 for momentum forecasting 114–15
- statistical therapy 23–4
- StatoilHydro 50, 63, 64, 235
- ‘strategic horizon’ 66, 67
- strategic planning 66–7, 266
- ‘stretch goal forecasting’ 201
- ‘structural breaks’ 94–5
- substitution effects 119, 120
- success, redefining 26–7, 251–2
- Surovicki, Joseph 103
- Svenska Handelsbanken 204–5
- Symbios, systems dynamic models 109
- symptoms of forecasting illness 17–22
- systematic error 50
 cognitive bias 89, 98–101
 eliminating 143–4, 145, 269
 and judgmental forecasting 97–8
 motivational bias 104–5
 social bias 101–4
- systems dynamics 62, 109
- systems science 266, 276–7
 systems dynamics 62, 109
see also cybernetics
- Taleb, Nassim Nicholas 137, 156
- ‘tampering’ by managers 135
- TARAC mnemonic 45, 54–5, 91, 198
- targets 42–3, 266
 decoupling from rewards 238, 249, 250
 forecasts converted into 201
 negotiation, weakening of 237–8
 relative versus fixed 236–7, 248–9
- technical expertise 211–12
- technological therapy 23–5
- Telecoms New Zealand 73–4
- thinking systems 98

- time 57–8
 - and decision-making 76–82
 - forecast horizons 62–8
 - frequency of forecasts 69–71
 - and military strategy 68–9
 - role in regulation of systems 280–1
- time lags *see* lead times
- timeliness, quality of good forecast 45–7
- Tomkins plc 207
- Toyota 69, 187–8, 189, 245
- Toyota Way, The* (Liker) 188
- transparency of information 254
- trends
 - and discontinuities 94–5, 112, 131–2
 - extrapolating statistically 111, 119
 - momentum forecast 114–15
 - risk defined as variation around 153
- Trigg's Tracking Signal 142–3
- trust, importance of 195
- tunnel vision 18, 152–3

- uncertainty 266
 - assessing using scenarios 169–76
 - strategies for managing 155–8
 - versus risk 153–4
- underlying risk 165, 177, 266
- Unilever Canada 114
- Unilever Poland 74–5, 116, 175–4

- unpredictability
 - cause of variation 144
 - and chaos theory 88
 - dealing with 59–60, 171–2
 - and patterns of bias 105–6
- unsystematic error *see* variation

- variance analysis 145, 234, 238–9, 250
- variation 50–1, 266
 - causes of 144–5
 - and portfolio effect 141
 - random 50, 70, 141, 142, 250
 - distinguishing from bias 135–8
 - effect of reacting to 134–5
- Vester, Frederic 31, 287
- Viable Systems Model (VSM) 286
- visibility 9–10, 21, 47, 237
- vision for the future, Change Equation 224–5
- volatility, incorporating into forecast design 71

- Wackins, Michael 236
- weather forecasts 39, 87, 88
- Weiner, Norbert 55, 276–7
- Weinstock, Arnold, GEC founder 4, 7
- Welch, Jack 237
- 'what if' analysis 166, 177, 266
- Wisdom of Crowds, The* (Surowieki) 103

Index compiled by Sophia Clapham