

## Strategy-Focused Business Planning To Create Sustained Corporate Performance

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## Strategy-Focused Business Planning To Create Sustained Corporate Performance

*“The paradox of competition: Your biggest competitor is your own view of the future”<sup>1</sup>*

*“In many organizations, strategy is treated as an event rather than a continuous process”<sup>2</sup>*

Traditional business planning and budgeting processes were designed for a world in which change was a slow and gradual process. Information and the technology to gather, analyze and disseminate it was cumbersome, complicated and tightly controlled. Global competition, the information age, and open systems architecture have banished these attributes of business culture to the ash heap of history with the slide rule and pocket calculator. Today, business planning is the lifeblood of competitive success, requiring the ability to understand, predict, communicate, and act immediately. Financial and non-financial values must be integrated into a strategy and operational plan and then communicated across borders both geographic and functional. This paper describes the attributes of traditional planning processes that hinder successful business execution and in turn presents a unified framework termed “Strategy-Focused Business Planning” (SFBP) that can drive breakthrough results for organizations ready to take advantage of the advances in strategic performance management and new business applications available in today’s marketplace.

### The Case for Improved Business Planning

The first driver of process change is the value that the planning process can and should add to the organization, specifically, the need to be more competitive by adapting faster to the increasing pace of the business world. The ability to change quickly is affected by two primary factors: a) The ability to predict change, and b) the ability to quickly respond to change with effective strategy and execution. Core planning processes must be able to increase the accuracy of forecasting and provide additional information that can help your management teams make the right decisions before your competitors. Traditional planning and budgeting processes based on static financial budgets do not meet the needs of this challenge.

Few executives can truthfully say that their planning and budgeting processes deliver enough value for the effort they consume. The other reason most organizations seek to transform their planning processes is to rationalize the massive amounts of resources consumed. As with any other business process, planning and budgeting must be managed for both efficiency and effectiveness. There is no explicit customer value from static planning and budgeting, and its

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<sup>1</sup> The Visionary’s Handbook, Watts Wacker & Jim Taylor, 2000

<sup>2</sup> Strategy and Execution: A Continual Process”, Mark Frigo, editor, Strategic Management, April 2004

indirect ability to enable better and faster execution has declined markedly with the increased pace of modern business.

## Importance of a New Framework

Management science has provided many tools that help organizations plan and allocate resources for more effective execution. Organizations currently have access to these tools such as balanced scorecard, value-based management, activity-based costing, total-quality management, and six-sigma. What is more important than the individual tools or methods chosen is the need for the following:

- An integrated management approach that defines the key priorities for the organization at both the corporate and departmental levels
- Allocation of resources quickly and flexibly across the organization to support shared priorities and changes in priorities
- Evaluation of the success of execution while providing the information and strategic knowledge necessary to make better decisions in the future.

### Differentiators of Top Companies<sup>3</sup>

1. Integrated strategic planning with tactical planning and budgeting
2. Fewer line items in the budgets
3. Strategic performance tracking concurrent with business performance
4. Goals and critical success factors at every level of the business
5. More reliable forecasts
6. Less frequent work with standalone spreadsheets

Strategy-Focused Business Planning (SFBP) provides an integrated and consistent management framework to implement planning processes that deliver the value and effectiveness necessary for world-class execution.

SFBP makes use of contributions in Balanced Scorecard methodology and a new process-based planning and budgeting application that enable new methods of strategic planning.

In particular, Oracle Corporation has introduced the Enterprise Planning and Budgeting application, with a standardized analytic data model, enabling a host of analytic applications to share common dimensions and OLAP capabilities from the same applications database instance as other enterprise applications. This enables future integration at the data source level, as well as a variety of strategic planning and analysis capabilities — such as activity based costing and value based management — with a common user interface and little or no data movement, leveraging recent innovations within the Oracle database platform. This implementation of Enterprise Planning and Budgeting allows planning and budgeting to be a complete process-based application, with a data model, workflow and approval processes predefined yet customized to individual firms' needs.

<sup>3</sup> Hackgroup Study published in Financial Executives News April 2003

## The Problems with Traditional Planning Systems

Traditional planning models impede the linkage of strategy and execution management through a series of destructive attributes:

1. Budgets are disconnected from the strategy due to improper strategic communication, inflexibility, and a lack of an integrated framework. Strategy is often developed in the form of a report that cannot be easily communicated as priorities and targets. Also, tracking targets and actuals over time, as actuals accumulate and targets are changed according to the business environment, is challenging at best.

- Management typically provides financial targets late in the planning process without clearly defining the strategic framework and necessary conditions and actions that should result in improved financial performance.
- Planning based on financial metrics creates an objective of “what should we spend,” rather than “what should we do.” Alternatively, non-financial performance metric targets (such as customer retention or product defects) promote new thinking and better align spending targets to strategic goals.

2. Financial plans and budget performance reviews are backwards looking and based on fixed and obsolete assumptions

- A traditional planning process freezes an operating budget over a year in advance based on assumptions developed even earlier. This rigid framework becomes more and more disconnected from business conditions as the year progresses and provides little or no ability to forecast future performance.
- The fixed nature of the numbers impedes the organization’s ability to change execution priorities based on new and dynamic strategic information and analysis.
- External drivers (such as interest rates, housing starts, new car sales) for planning are not linked to internal measures of performance. That makes execution success impossible to separate from transient changes in external drivers. This in turn allows management to take credit for positive external drivers, and defer responsibility for negative external drivers — irrespective of internal performance changes.

3. Planning and budgeting processes take too long and consume too many resources (much of it is data gathering, cleansing, loading, and meetings to reconcile opinions and variances)

- There has been little use of workflow, with its well-defined process steps like submission, review and approval. This process enablement provides integration between people, departments and the financial planning goals.

Furthermore, this process workflow reduces re-work and the number of necessary meetings allowing people to act independently since the dependencies are specified, documented and repeatable using a software process definition.

- Typical planning processes include multiple iterations to negotiate disparities between bottom-up operational budgets and top-down financial targets. These negotiations motivate managers to provide inaccurate numbers to allow personal “wiggle” room while adding almost no value to the process.
- There is a lack of understanding of cost drivers to highlight causal relationships to cost consumption in the business. Understanding these (often disconnected) drivers of cost is as critical to cost containment as it is to process management and process efficiency. This challenge is best handled by activity-based cost management techniques.
- While budgets tend to be built from a functional standpoint, resources are consumed by processes that span functional boundaries, thus there are relationships between budgets within functions that are not part of an overall budget or plan.
  - Example: revenues are targeted for a 30% increase, there might need to be a 10% increase in sales and marketing expenses and a 20% increase in back office processing, depending on capacity limits.

## What is the difference between Plans, Targets, and Forecasts?

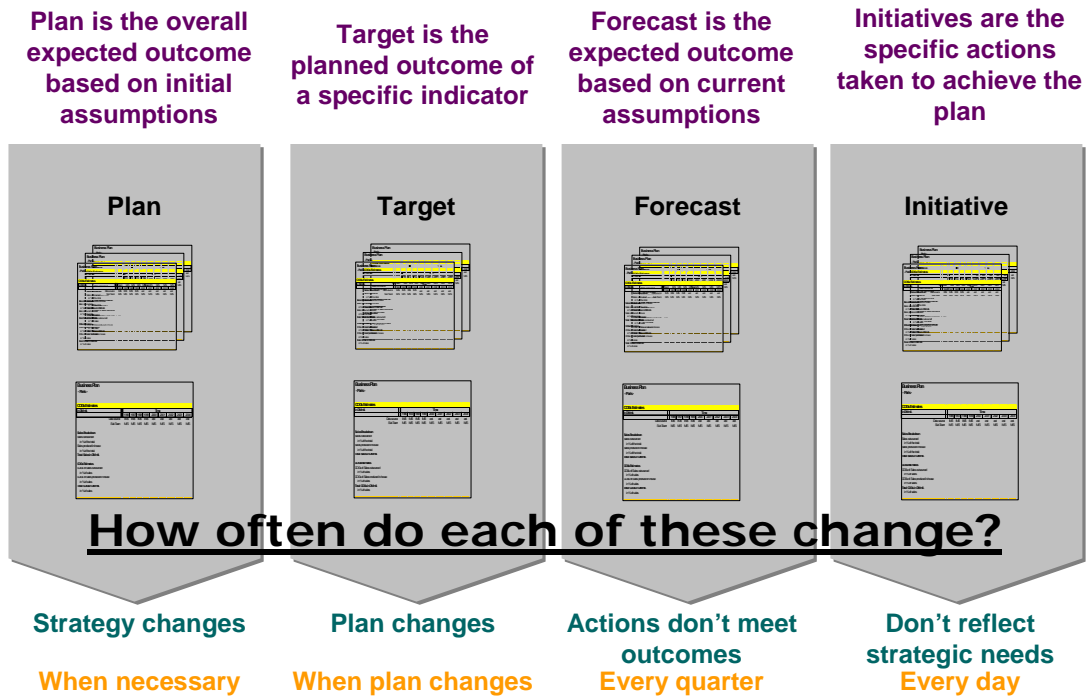


Figure 1. Time horizons of different types of planning data. A balanced scorecard is often used to bridge time horizons of short term, medium term and long-term goals. However financial planning and budgeting is used to aggregate revenue and cost projections, and is historically separated from the balanced scorecard design that specifies many financial and non-financial targets.

## What is the difference between the “Plan” and a traditional “Budget”

Plan	Budget
<ul style="list-style-type: none"> <li>➤ Based on the strategy</li> <li>➤ Focused on the key priorities and actions necessary to achieve the strategic goals</li> <li>➤ Uses targets across the business (Financial, Customer, Internal, Organizational) to define the goals and outcomes</li> <li>➤ Uses relative targets that adjust based on business conditions to maintain relevance               <ul style="list-style-type: none"> <li>➤ Market share</li> <li>➤ Performance to competition</li> <li>➤ Unitized cost and quality</li> <li>➤ Internal or external benchmarking</li> </ul> </li> <li>➤ On-going management is part of strategic management framework</li> </ul>	<ul style="list-style-type: none"> <li>➤ Based detailed financial line items</li> <li>➤ Composed of detailed line items with fixed expense targets</li> <li>➤ Uses only financial factors based on bottoms up and previous year estimates</li> <li>➤ Uses fixed targets that loose relevance when business and economic conditions change               <ul style="list-style-type: none"> <li>➤ Cost center budget</li> <li>➤ Independent revenue targets</li> <li>➤ Non-aligned targets</li> </ul> </li> <li>➤ On-going management is based on control items that do not provide strategic context and alignment</li> </ul>

Figure 2. Defining the differences between Plan and Budget. This highlights the weakness of separating a plan from a budget, and the weakness of separating them from targets for various performance metrics that have automated collection and reporting throughout the firm.

### The New Strategy-Focused Business Planning Framework

The new framework necessary to correct the problems with traditional planning must create consistent management practices that enable strategy and execution to be permanently linked, measured, and understood. The primary focus should be to create a single process to enable dynamic measurement, allocation and decision making for both strategic and operational management. We call this single process: “Strategy-Focused Business Planning.”

*“A challenge for many executives is to understand how BI [Business Intelligence] melds with performance management methodologies (such as the balanced scorecard) and management processes (such as budgeting, planning and forecasting). Too many enterprises have treated these as disconnected initiatives, perhaps implementing a balanced scorecard in isolation from the BI strategy.”*

*“Gartner defines corporate performance management (CPM) as the combination of methodologies, metrics, processes and systems used to monitor and manage the business performance of an enterprise. Understanding the convergence between these aspects of CPM is key to enterprise success — enterprises that effectively deploy CPM solutions will outperform their industry peers.”*

Gartner AV-16-3211  
Nigel Rayner  
Article Top View  
9 May 2002  
CPM: A Strategic Deployment of BI Applications

We propose a Strategy-Focused Business Planning framework based upon four core principles:

- I. ALIGN:** Align strategic and operational planning and budgeting for strategy execution. Divisional and departmental priorities are aligned to overall corporate goals.
- II. ADAPT:** Adapt quickly to change through continuous planning and forecasting.
- III. ASSIGN:** Assign and reallocate resources dynamically through strategic initiative management. Link strategic initiatives to the performance measures they intend to impact.
- IV. REDUCE:** Reduce detail and effort to increase planning efficiency and increase value delivered from the process. Focus the right level of planning detail on the right roles and responsibilities within the company.

## **I. Align Strategic and Operational Planning and Budgeting for Strategy Execution**

The ability of an organization to execute its strategy is directly proportional to its ability to understand and communicate the strategy. The most successful tool for articulating, implementing, and managing strategy is the Balanced Scorecard. The Balanced Scorecard (BSC), developed in 1992 by Drs. David Norton and Robert

Kaplan, has gained global acceptance as a powerful framework to help leaders define and rapidly implement strategy. This is accomplished by translating the vision and strategy into a set of operational objectives and measures that drive behavior and performance.

The BSC concept is built upon the premise that measurement motivates and that measurement must start with a clearly described strategy. There are two primary elements of a BSC. The first is the strategy map, which articulates the strategy in a series of linked objectives representing the most important priorities for the organization. The second is the scorecard, which holds the specific measures, and targets that represent the yardstick and expected level of success as well as the strategic initiatives or action programs that are the ways to achieve targets outside of current capabilities.

The creation of a strategy map and scorecard for each major organizational unit allows the goals of the organization to be explicitly and visually aligned. Cause and effect arrows link the upstream measurements across time to the downstream measurements. These key measurements are used to represent strategic objectives that highlight specific goals that lead to increased shareholder value. The strategic objectives are color-coded green, red, or yellow to indicate their relative success or failure, as compared to the forecast targets for each measurement. The forecast values come from a planning system when updating the balanced scorecard. Oracle Enterprise Planning and Budgeting application, discussed below, provides a distributed web-based interface for collecting all financial and non-financial forecast values through well-defined business processes. These forecast values feed the strategic plan, and when properly implemented — the balanced scorecard.

Furthermore the BSC strategy map, with its cause and effect linkages, articulates and communicates these strategic goals and performance targets to employees through the four BSC perspectives of financial, customer, internal, and learning and growth. The information reported from the scorecard on a periodic basis provides management with a clear representation of progress on executing the strategy, and now includes the forecast values from the planning and budgeting process.

## The Balanced Scorecard provides a framework to translate the vision and strategy into operational terms

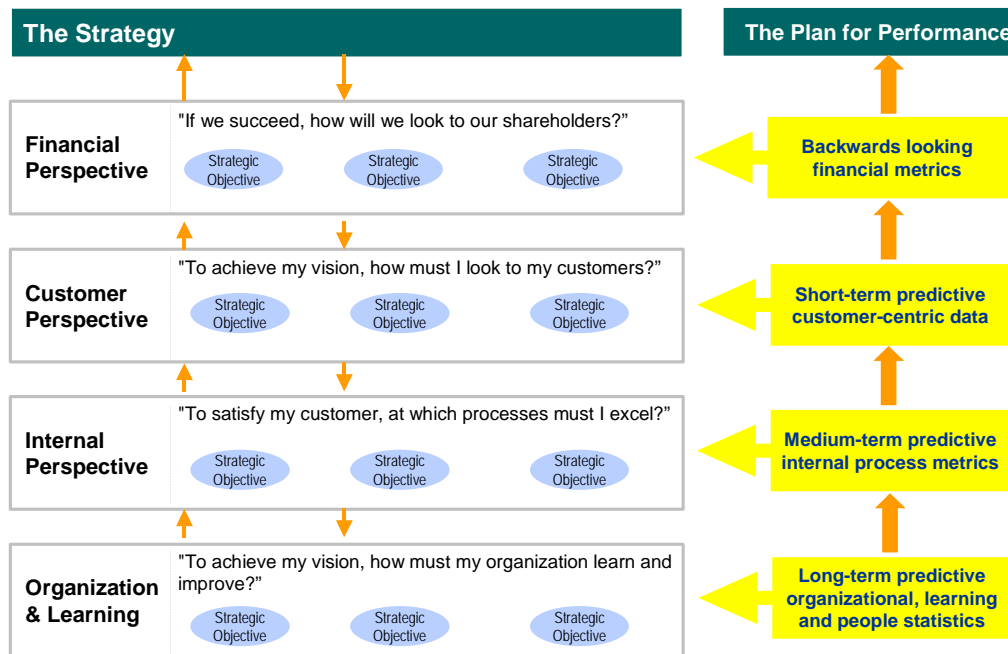


Figure 3. Depiction of Strategy Map and related time horizons for planning. The most obvious link from the scorecard to the budget is through the target values for performance measurement.

The scorecard method allows development of explicit targets relating to financial targets as well as non-financial targets, such as customer success factors, internal process achievement, and organizational learning and growth. As part of the SFBP framework, the scorecard provides the critical information necessary for divisions and departments to create top down budgets and forecasts that clearly represent the actions necessary to execute the strategy.

*The additional insight that non-financial targets provide allows the organization to ensure that resources are being applied to the correct actions in the correct proportions. This is resource allocation with specific links to forecast targets and linkage to corporate strategy.*

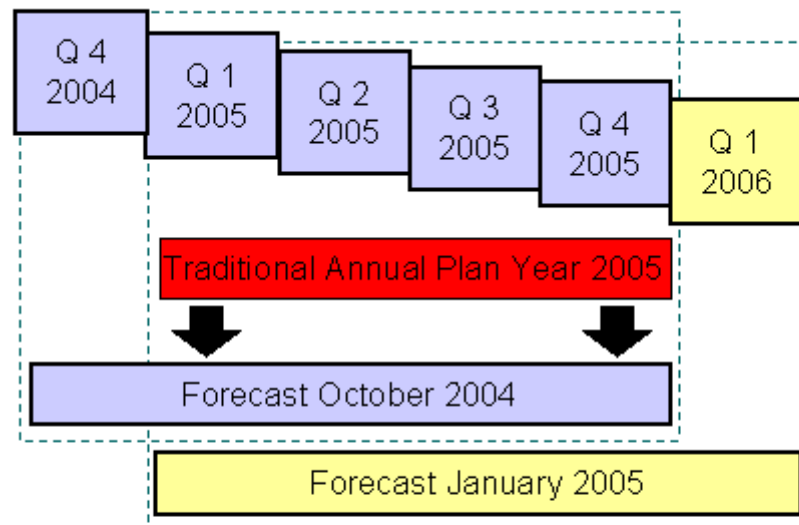
The use of a balanced set of measures gives not only a view of the current state of strategy execution, but a predictive outlook on strategic success. The financial perspective measures financial performance for a past period (last quarter, last year, etc). The customer perspective measures the value delivered to and the overall satisfaction of the customers that will have a short-term future impact on the financial performance. The internal perspective measures the ability of the organization to execute its processes that will have a short-term future impact on customer value and a medium-term impact on financial performance. The learning and growth

perspective measures the development of organizational capabilities that will have a short-term impact on operational execution, a medium-term impact on customer satisfaction, and a long-term impact on financial performance. So different time horizons play a role within a single BSC design. The BSC is a tool to represent and communicate strategy. The planning system allows forecast values to be easily modeled, collected and rolled up into higher-level aggregates. Oracle Balanced Scorecard and Enterprise Planning and Budgeting perform the combination of these functions.

*The breakthrough from using SFBP is that the BSC has key performance indicators with target values that come out of the long-term strategic planning and budgeting process. The integration enabling SFBP is scorecard usage with a better financial planning and budgeting process which relies on shared organizational hierarchies and analysis dimensions and shared target values. Both financial and non-financial performance targets are now communicated across the organization, allowing resource allocation to the right upstream priorities to drive downstream goals for the overall success of the firm.*

## **II. Adapt Quickly to Change Through Continuous Planning and Forecasting**

Since the complexity and pace of change in business is increasing, the idea of fixing the allocation of resources once a year through the standard budget becomes less and less effective over time. The need to make dynamic changes based on strategic input and to more accurately forecast future performance requires a more flexible and streamlined approach. The quarterly rolling forecast has been proven to be an effective way to both reallocate resources faster and improve the accuracy of business predictions. Some companies have moved to 12-month rolling forecast. Many more hope to, but can't find an easy way to integrate the process, culture and tools to support this change.



***The Five Quarter Rolling Forecast provides a continuous planning environment with an easy transition from a traditional annual plan***

Figure 4. Rolling Forecasts provide the path to continuous planning

The wide adoption of the rolling forecast has been slowed by a number of misperceptions that have obscured its true potential. The first is that you must get rid of the budget. In fact the forecast is simply a less complex and more dynamic form of the budget. The basic purpose of a traditional budget to monitor and control financial resources, is still provided. On a quarterly basis the forecast is analyzed for any gap (variance) between the most likely current outcome and the most desired outcome based on the strategic goals. A reallocation of resources is then done to close or reduce that expected gap.

The second misperception is that costs can't be controlled without a fixed budget. In this case, management discipline must commit to *removing* resources from areas in proportion to new allocations. This is particularly true when evaluating initiatives, which may change in strategic priority or expected benefits as conditions change over time. The basic economic principle of ignoring sunk costs to focus on the value of future benefits holds true in all cases. This focus on strategic priority should help remove resistance to the reallocation of resources.

The third misperception is that a quarterly forecast means completing the entire budgeting process four times a year instead of once. The design of the forecast is typically based on a limited set of line items representing the income statement with additional detail for the most important divisions, products, or customer segments. It

should require less than two weeks to both analyze and make changes to a corporate forecast on a quarterly basis. Reviewing and upgrading both processes and tools may be required to achieve this goal.

While the forecast can support a reallocation of resources, a continuous planning mindset also requires continuous surveillance of the strategic environment and assessment of the strategic plan. The scorecard objectives, measures, and targets must be evaluated in this context as well. Certain changes in conditions may warrant changes in overall scorecard targets as well as operational forecasts.

A continuous and adaptive system should also have targets that can change in relation to the strategic environmental conditions. Since changing the numerical value of the fixed targets over subsequent quarters can create confusion, a different type of target that is defined in relation to the strategic environment is needed. Typical external targets are relative to industry benchmarks — such as productivity, efficiency or cost; or relative to competitive position through financial and market share analysis — such as profitability, margin, sales and market position. Internal targets can be benchmarks of similar units (first among peers) or productivity and operational targets based on metrics (like cost per unit, units per hour, quality measures). Regardless of the source, relative targets are designed to dynamically change the final goal based on the environment and operating conditions.

*A business priority of continuous planning and evaluation of execution performance increases the value of integration between strategy, planning, budgeting and the core business transaction applications. This integration when implemented at a systems, process, and people level of detail — will be a core requirement for successful corporations in the future.*

### **III. Assign and Reallocate Resources Dynamically Through Initiative Management**

Strategic initiatives are specific projects or programs designed to enable an organization to create new skills, capabilities, or infrastructure. These initiatives are delineated from standard maintenance or replacement projects by their discretionary nature and are part of a strategic budget. Actions or programs in the base operational budget are designed to maintain or incrementally improve the current capabilities of the organization. In the electric utility business the operational budget is said to be necessary to “keep the lights on.” Items in the strategic budget represent a management choice to invest resources to enable future strategic success. The proper selection and management of these initiatives is a primary factor in sustaining long-term strategic success.

Strategic initiatives should be weighed against each other to compete for a specifically allocated strategic budget. While this budget is typically small, often ten percent of the total operating budget, the long-term value of these resources deserves special consideration. The prioritization criteria often will include net

financial benefits, strategic importance weighed against the scorecard, and non-financial factors such as risk, environmental impact or community relations. The combination of financial and non-financial factors ensures that proper investments are made for non-revenue generating actions that will provide long-term strategic benefits, such as training, sustainability programs, or strategic support investments. Because better decision-making requires the consideration of non-financial causes and effects, use of the SFBP framework provides integration into the balanced scorecard metrics.

While many companies find it easy to sort and evaluate initiatives using their strategic plans and scorecards, they often fail to then monitor the progress and benefits realization once these initiatives are launched. In a continuous planning environment, management must continue to re-evaluate the priority of initiatives based on their progress to date and changes in the strategic environment. Most organizations do not have a structure necessary to monitor and possibly terminate initiatives that may decline in relevance. This is another area where integration and automation enables continuous monitoring and re-ranking.

In accordance with the continuous planning mindset, the organization should not assume that all initiatives could be evaluated and planned during a single annual cycle. Time critical opportunities may present themselves throughout the annual cycle. There should be two or more opportunities throughout the year where initiatives can compete for a portion of the strategic budget.

#### **IV. Reduce Detail and Effort to Increase Planning Efficiency and Increase Value Delivered from the Process**

A primary reason that most organizations change their planning processes is to reduce the cost and resources required to execute the process. Strategy-Focused Business Planning is designed to increase the value and accuracy of management information, but will also decrease the effort associated with the overall process if properly implemented. The primary ways that efficiencies are gained are through a more consistent, integrated management process and by eliminating the detail associated with traditional budgets. Solutions such as Oracle Corporate Performance Management — that integrate the sources of budgeting information, the target applications, and the management roles along business process flows, go a long way to enabling this productivity advantage.

The majority of resources are wasted through bottoms up budgeting and the resulting management negotiation to meet with top-down strategic targets. By implementing a consistent process that starts with the articulation of the strategy and targets through the scorecard and evolves the static budget into a rolling forecast, negotiation and iteration becomes irrelevant. Not only is there always a standing full year forecast (i.e. budget), that information has been continuously updated for changes in the expected environment through quarterly revisions and relative targets.

The best and easiest way to reduce effort is to eliminate detail in the number of line items comprising the budget or forecast. The information requirements of the corporate office should be driven solely on management's ability to make decisions based on that information. The software solution must provide a natural way to allow control of detail. Managers at various levels of signature approval authority can see all the detail and only the detail responsible for their level. Natural dimensions like product line, business unit, and geography can restrict authority to view and edit or submit numbers.

It is noteworthy that expenses need not be budgeted at the lowest level line item at which they are booked. Divisional and department line items as well as expense types should be forecasted based on their materiality and likelihood to change. The lines should reflect the actual core processes of the business and not the financial categorizations used in ledger-based accounting. Overhead costs and fixed business expenses are not influenced by short-term execution decisions and thus need not be analyzed on a quarterly basis.

Revenue line items should be focused on the primary customer facing business units and the most important product or customer segments. The decision of which areas to focus on should be the result of strategic priorities and analytic methodologies to identify profitable sectors or growth markets. The use of non-financial targets, such as volume and capacity with budgeting allows revenue and fully absorbed costs to be dimensioned and tracked identically for profit and loss statements at any level of detail. Building consolidated revenue and expense targets should be a result of reviewing the product portfolio and customer focus areas that will drive spending and revenue going forward.

### **Making Decisions: The SFBP Quarterly Meeting**

The primary goal of the SFBP process is to give management the proper information to make faster and better decisions at a greater level of detail and coherence than ever before. This process culminates in the quarterly meeting. Each primary business unit or division has a meeting to review and update their forecasts followed by the consolidated corporate review. Inputs to this process include the most likely scenarios from strategic surveillance of the business environment, scorecard analysis, and existing actuals and forecasts. Outputs of this process are the updated measures, targets, and forecasts based on the most important scenarios. Also included is a review of the current initiatives for progress and their continued strategic relevance.

*This new meeting is designed around learning and decision-making, not control.*

Information should be prepared and distributed early enough so that the participants can focus on decisions rather than background and discussion. The new

management meeting is a dynamic process where true leaders show their abilities and the strategic management process results in sustained corporate performance.

The new types of integrated information and analysis that can be provided for management decision-making enable the change in attitude and results of the SFBP management meeting. Integrated technology such as Corporate Performance Management and Enterprise Planning and Budgeting helps provide the base for these meetings by providing reports and scenario justifications. With fast-reacting and adaptive systems, new strategic initiatives can be quickly tested and adopted in a time frame that allows both internal benefit realization as well as market recognition. Initiatives that do not bear measurable results are reprioritized or terminated. Since some results are non-financial performance metrics, which are upstream in the cause and effect chain, we get earlier feedback and we avoid the large lag time in justifying these initiatives.

**Strategic and operational process come together in the quarterly management meeting**

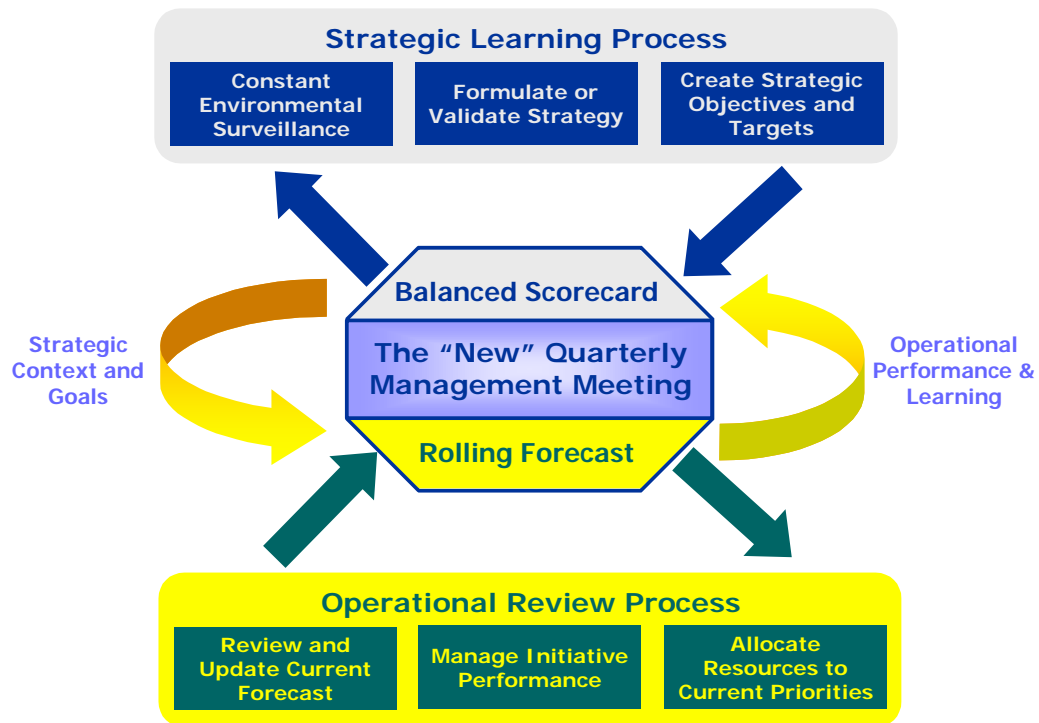


Figure 5. The SFBP management meeting provides an integration of learning, planning budgeting and the Balanced Scorecard review.

## The Current Importance of Change

The planning process has received increasing attention recently because of the behavior of investors and markets around short-term forecasts and results. This behavior has created a plague of “short-termism” at companies that focuses management attention on purely hitting the numbers, and has sometimes led to fraudulent or unethical behavior shown by recent newsworthy investigations. This has culminated in the Sarbanes-Oxley Public Company Accounting And Investor Protection Act Of 2002. Beyond the legal ramifications for corporate officers enforced by the SEC, the real damage of this short-term focus is that it ignores the drivers of long-term shareholder value. It also allows destructive change by increasing management turnover that brings new strategies and structures that are never fully realized but drain corporate resources and morale.

By implementing a good strategic management system such as Strategy-Focused Business Planning that prioritizes both medium and long-term strategic drivers while integrating with operational forecasts that increase accuracy in the short-term, organizations can be secure that their decisions will result in both immediate and sustained success.

## The Oracle Corporate Performance Management Architecture supports Strategy-Focused Business Planning Process

The Enterprise Planning and Budgeting (EPB) application is part of the CPM solution from Oracle Corporation. New functionality for EPB derives from innovative use of database technology and workflow collaboration technology and this will be used to enable the new requirements demanded by the SFBP process.

The Oracle 9i and 10g database releases provide industry standard platforms that unify system architecture across diverse hardware platforms including the low-cost LINUX platform. The Oracle E-business suite delivers a wide range of business applications that adhere to a single data model for unprecedented control, cost savings, and reporting ability. This enables a reduction in fragmentation, which allows corporations to increase their intelligence reporting capability while simultaneously lowering IT support cost and business risk associated with reconciling and synchronizing disparate application data sources and legacy systems. Oracle Daily Business Intelligence (DBI) allows predefined summaries and reports integrated and delivered on top of this single data model — with high performance and drill-to-transaction level detail. This innovation allows justification, confidence and actionable decisions to be reached directly from this operational reporting through DBI.

Oracle Balanced Scorecard (BSC) allows both internal DBI data sources and external legacy data sources while delivering industry leading scorecard capabilities. BSC allows DBI specific performance measures to be displayed on scorecards without loading any source data — another breakthrough from DBI functionality that

makes possible rapid construction of scorecard designs for companies using Oracle applications.

Oracle Enterprise Planning and budgeting (EPB) is the new generation of Financial Analyzer and Sales Analyzer products that supports planning, budgeting and forecasting. It provides all the usual planning, budgeting and forecasting flexibility, in addition to several important breakthroughs. DBI, BSC and EPB are part of Oracle's CPM solution.

EPB provides a unified technology stack, 100% web-based HTML deployment in a single applications instance to avoid the cost and insecurity of an architecture that relies on multiple OLAP cubes populated from extractions. Using OLAP services *within* the Oracle 9i database, EPB transforms relational data directly within the database into internal OLAP cubes. The performance and analysis capabilities remain, but now firms can leverage existing hardware, software and database administration skills. Organizations also avoid data transfer processes and separate access, security, permission and backup tasks.

It leverages existing structures within Oracle applications. These include hierarchies, dimensions and dimension values. Most planning and budgeting tools are open and allow new dimensions and hierarchies. EPB goes several steps further by allowing this and allowing access to predefined hierarchies and dimensions from the Oracle applications that could be running within your organization. This maintains alignment and accuracy, since hierarchies, such the organization hierarchy, experience change, and this would otherwise create additional technical workload on your OLAP administration staff. EPB can be further extended with personal calculations and metadata.

EPB also provides automated process definition and management. Business processes for submissions, approvals, clarifications (annotations are text stored into cells within the data model) and notifications and alerts for out of tolerance performance are defined in the process interface. These processes are changeable and monitored over time. Oracle workflow technology is used transparently underneath, so that users do not need to program the solution. It provides automated task definition and task management. Tasks are technical steps for loading, solving, and publishing finished reports can be listed and monitored from the task interface. The administration role for task and process management can be separated from other roles in this application.

EPB provides calculation templates. The dependencies between calculations are shown with an innovative viewing structure called a "solve map" to document the complexity of the model and allowing monitoring. Sophisticated security administration roles allow for separation user roles including access to data, metadata, security administration, and process and task management.

Using Oracle Portal, EPB reports can be juxtaposed with DBI tables and reports and Balanced Scorecard views. This allows personalization to roles within your company for a wide variety of CPM content. DBI views allow drill-to-transaction directly within the business applications data model. With one login and user id, the strategic map, the budget, and mouse-click drill into operational transaction details is possible from a single portal page. This breaks down the barriers to deploy broad-based reporting and decision support systems that can decentralize ownership and responsibility while still maintaining control and audit ability of user access to key company information.

These selected EPB features enable this SFBP integrated method for planning and budgeting in the strategic management process. By leveraging several Oracle technology innovations and unified information architecture, Oracle EPB provides a solution to enable leaders in the next decades of Corporate Performance Management.

At the center of the EPB application lays the standardized analytic data model. It provides the common analysis dimensions and calculation control that will be extended beyond planning and budgeting and into general ledger, customer profitability analysis, activity based costing, public sector budgeting and several other applications. With successful mature products in these areas, Oracle seeks to provide consolidation and integration in reporting and analysis capability through the flexible analytic data model as a means to combine analysis methods — without moving, copying and loading data wherever possible.

*Common Dimensions Enable Alignment and Comparability*

The Oracle EPB predefined common dimensions integrate with the applications data model for *Aligned* planning, budgeting, analysis and Reporting

- Customer
- Channel
- Product
- Project
- Organization
- Company
- Organization
- Entity
- Geography
- Intercompany
- Cost Center
- Natural Account
- Line Item
- Time (calendar)

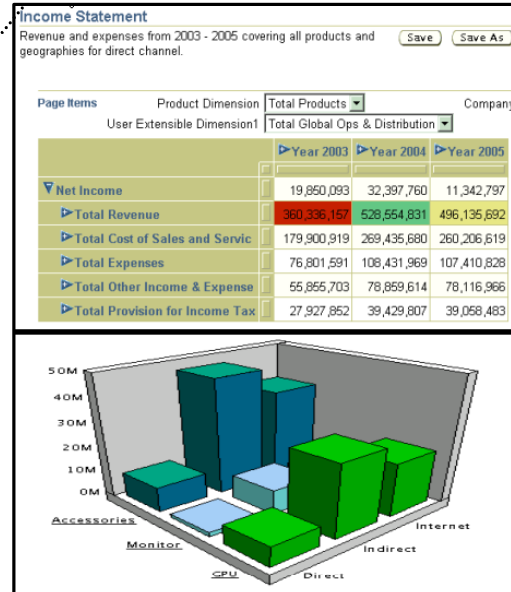
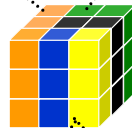
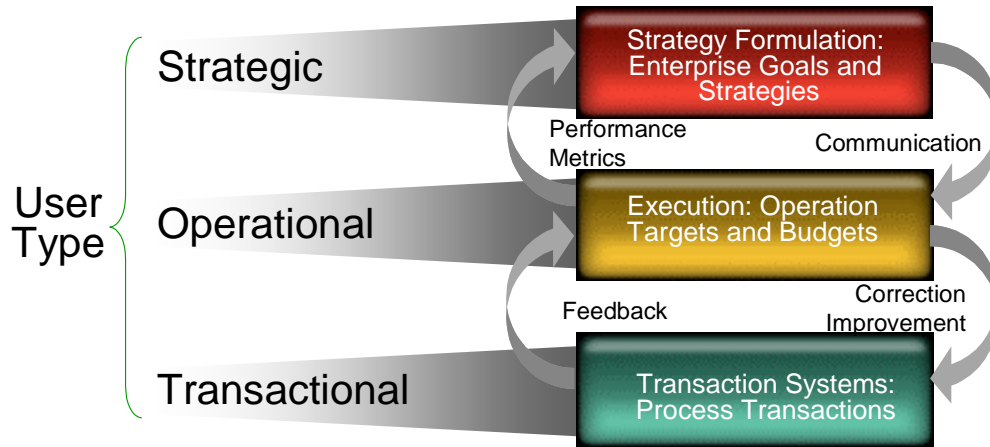


Figure 6. Oracle Enterprise Planning and Budgeting. Providing common dimensions ensures that variances across dimension values are comparable and meaningful. It allows corporate strategy to be realistic and relevant to the operational data that accumulates daily from business transactions. Having EPB common dimensions in the same data model as the transactional applications ensures the numbers reconcile to original transactions and the resulting summary data in Daily Business Intelligence (DBI) which provides operational reporting to many lines of business throughout the firm.

## CPM: Feedback Loop



Source: Gartner  
"CPM Vision" March, 2003

Figure 7. The Gartner Corporate Performance Management framework. The three areas correspond to key functionality in the Oracle CPM solution footprint: DBI for transactional reporting, EPB for targets and budgets, and BSC for Enterprise goals and strategies.

### Enterprise Planning and Budgeting: Business Process Content

EPB is the first planning and budgeting application to incorporate a mature workflow technology with a user-friendly process and task management interface. It allows the definition and packaging of business process content that can be deployed to one or more divisions, or even to separate companies that are clients of a consultancy firm.

Consulting firms struggle to implement new business processes that are repeatable and supported by software. From submission of forecasts, approvals, and integration into budgets and strategic plans, much process definition is disconnected from execution of the tasks within the business. This leads to execution risks, which fundamentally separate a good strategy from good outcome. Now, with process automation for planning and budgeting built into the product offering and the ability to accumulate rolling 12 month forecasts, firms can measure execution continually throughout the year. More importantly, they can measure the variance between target performance and actual performance for a host of financial and non-financial indicators.

This variance across indicators gives advance warning of execution risks, and highlights specific areas, functional or geographic throughout the company, that

warrants executive attention. Thresholds can provide automatic alerts to notify business owners when actuals are out of tolerance from budget or forecast numbers. Additionally, automating the alert thresholds ensures that notification of chosen people happens, regardless of source of variance. Powerful metadata and process models ensure that there is a log of alerts, annotations and approvals; these are now part of the system of record. Now, for the first time, the *application* is responsible for logging performance and threshold crossing and the audit trails accumulate without human error in the way.

Typically, consulting engagements start a strategic project with best practice in mind, and quickly implementation becomes the focus and process improvement gets left behind because the tools or systems do not support the new process design. The process design is essential to the strategy, but is ignored because of the difficulty in customizing process workflow to support the proposed change. Thus the new strategy is announced and a key means of achieving it (the process or workflow) is dropped, and of course, execution suffers. Therefore companies do not get the benefits of best practice, because they perpetuate old processes and systems, even though new goals and strategies now exist. Everyone wonders why the goals are not met.

With EPB, end users can now define and adjust process definitions and monitor submissions and approvals. A generation beyond prior tools, it allows the flow of data, alerts, notification, and approvals to be designed – and the events and cycle time to be accumulated for later detailed reporting. This enables monitoring and reporting that is automatic and comprehensive. This provides the platform to achieve success in Corporate Performance Management and SFBP.

## Summary of SFBP Framework with associated Oracle EPB benefits

SFBP Framework	Benefit	Oracle EPB Product Functionality
<b>Align</b>	Align Planning to Meet the Strategy for results that meet or exceed expectations	Predefined common dimensions across business application data sources. Forecast values for financial and non-financial measures; populate scorecards with common organizational dimensions. User defined dimensions also.
<b>Assign</b>	Define and track strategic initiatives to meet objectives with responsible owners	Built in workflow for responsibility, alerts, approvals, and responses. Predefined processes can be adjusted and new ones added.
<b>Adapt</b>	Continuous planning gives near-term updates and accuracy, avoids yearly fire drill	Using or alternative budget calendars, rolling forecasts, and notifications and alerts to preset groups or individuals. Annotations of free text are stored in the OLAP data model for long-term reference to decisions and alerts.
<b>Reduce</b>	Reduce detail to focus on important business impacts at different levels of responsibility	Alternative plans can exist at different levels of detail. Roles can be mapped to different levels of a hierarchy of budgets. Specific focus comes from plans with targets for financial and non-financial metrics assigned to right individuals. Control line item detail by organizational dimension. The right people see the right level of detail.

### Conclusion

The proposed unified framework, Strategy-Focused Business Planning, allows plans and actions to be developed from strategy and to focus execution on the strategy. The scorecard also allows the strategy to be better understood and communicated. Realization that the strategy and the plan work together requires the use of a framework and applications that share data and work across common dimensions in the data model. The synergies in strategy and planning that can now be achieved

will allow a new plateau of corporate performance management. This in turn will heighten the competitive capability of companies that choose to implement it.

Oracle Enterprise Planning and Budgeting, EPB, allows alignment with existing business applications' dimensions and data sources, offering unprecedented integration to strategic planning with operational data. It allows process templates to abstract the logic that connects various senders, approvers and receivers of budgeting, forecast values and planning reports. It also provides process collaboration interfaces to manage the state of workflow between people and tasks.

Information savvy companies must consider the SFBP approach to take the scorecard methodology to an operational level and use the benefits of integration and collaboration to achieve agility and strategic focus with financial planning for improved shareholder value. The Oracle CPM solution including Enterprise Planning and Budgeting, Balanced Scorecard and Daily Business Intelligence, provides leading functionality and integration to overcome this challenge.