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EXECUTIVE OVERVIEW

MANAGEMENT EXCELLENCE: HOW TOMORROW'S LEADERS WILL GET AHEAD

As operational excellence becomes the norm rather than the exception in business, companies need a new source of competitive differentiation. Increasingly, market leaders are creating strategic advantage through their ability to manage the performance network, rather than just transactional processes. This new imperative is called Management Excellence. To achieve it, companies need to become smart, agile and aligned.

The Strategy-to-Success (S2S) framework expands the scope of traditional performance management to offer a framework by which companies can deliver Management Excellence. Enterprise Performance Management Systems (EPMS) then enable companies to realize their management process goals by connecting disparate management activities and bringing together strategy formulation, execution and feedback.

This paper introduces Management Excellence as a new business imperative, outlines six steps in the S2S framework, and illustrates how companies are deploying EPMS to attain their management process goals.
CHAPTER 1: WHY MANAGEMENT EXCELLENCE?

A decade or two ago, a commitment to efficiency could move a company into a leadership position in its market. Today, operational excellence has become a business imperative and most companies have driven excess cost out of their operations, sped up their business processes, and optimized the quality of their products and services. If operational excellence no longer defines the winners, how will tomorrow’s leaders get ahead?

Like the paper company that moves to a single system for financial and sustainability reporting or the car manufacturer that gains insight into dealer relationships, they will derive strategic advantage from managing relationships rather than from managing processes. They will embrace a new imperative that promises to alter the competitive landscape: Management Excellence.

Management Excellence is the art of reconciling all stakeholder needs, from the outside-in as well as from the inside-out. To deliver it, companies need a process framework that accounts for all of its components, as well as a performance management solution that encompasses the entire enterprise.

In this paper, we introduce the Strategy-to-Success process framework as a model for achieving Management Excellence, and we discuss how Enterprise Performance Management Systems (EPMS) enable companies to realize their management process goals.
The Three Pillars of Management Excellence

Operationally excellent companies are built on three pillars: cost, quality and speed. Companies that stand apart from the crowd by adopting Management Excellence share three additional defining qualities: They are smart, agile and aligned.

<table>
<thead>
<tr>
<th>SMART</th>
<th>All organisations have access to the same data. The difference is in <strong>insight</strong>: deeper and faster than the competition. Call to Action: RATIONALIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGILE</td>
<td>Insight needs to be <strong>actionable</strong>: Even more important than being fast, is being agile: implementing changes throughout the organization. Call to Action: INTEGRATE</td>
</tr>
<tr>
<td>ALIGNED</td>
<td>To <strong>optimize results</strong>, alignment across the value chain is needed. Organizations must leverage the contribution of all stakeholders, while fulfilling their requirements. Call to Action: SHARE</td>
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</tbody>
</table>

Figure 2: The Three Pillars of Management Excellence

**Smart**

Internal and external data abounds in every organization. The question is how to get the most out of it. Successful companies today are able to leverage existing data derived from both internal and external sources. With better insight, these companies can move faster than the competition and gain a competitive edge.

Smart companies match the right technology with the best methodologies and processes to turn an increasing amount of data into meaningful information that supports decision-making processes across the organization.

For Christophe Mialon, chief financial officer at SAUR, a global player in water distribution and treatment, being smarter is about sharing information, a core mission for finance. “Our role at SAUR is to produce relevant insight for the group,” he says. “Our challenge is to improve our controlling activity and achieve true performance management.” Mialon is strengthening his company’s decision-making process by bringing relevant information in dashboards to all managers from both a financial and an operational standpoint, and by taking the team’s controlling activities beyond finance.

Similarly, at Stryker Endoscopy, a division of Stryker Corporation, a $5 billion medical device and orthopedic manufacturer, finding smart ways to handle data is critical to operating the business. “One of our main goals was to bring everybody under the same umbrella of data,” Glenn Boehnlein, the company’s CFO. “We started with roughly 40 systems and narrowed that number down to about 25 that all draw from a common data source. Moving forward, we will focus on making that data more accessible to the users that need it, and delivering it in real time.”
Agile

Being smart is only valuable if it leads to action. The organizations most likely to succeed are ones that can adapt to changing circumstances: Global competition and adjacent markets may bring new entrants, or new technology developments may enable new business models, and the company needs to change course.

Agile organizations need less time to understand how changes in the market affect their own operations and success. Whether they are pioneering or following in a market, they are able to identify alternative actions more easily and may even take an active role in driving change into a market.

Jacques Ndongué, group controller and head of performance at Schneider Electrics, a leader in electricity distribution and automation, is immersed in Management Excellence everyday. His challenge is to meet each year’s challenges while generating productivity gains and ensuring a high quality of service—and without increasing staffing. Performance management enables him to manage the ever-increasing workload year after year. “At each new fiscal beginning, what we learned to master the year before becomes 75 percent of what awaits us. The other 25 percent is totally unknown, and we have to be prepared to address it,” he says.

Aligned

In order to innovate and succeed, organizations throughout the value chain need to collaborate closely. Aligned companies evolve from a command-and-control approach to a collaborative model that incorporates contributions from all stakeholders and shares information through integrated systems and processes.

“Having an EPM solution aligned all along the company makes us confident that we have the same information. If we go to market with this information, everyone can be sure that this information has been shared and discussed with all the counterparts involved,” says Schneider Electronics’ Ndongué.

Alignment is a priority for Stryker Endoscopy as well. “All of our divisions, which are located in Israel, Puerto Rico, San Jose, and Dallas, feed their data into a common system and then it’s consolidated,” says Boehnlein. “Our executives and directors can use that top-level information to make decisions and know that the dissemination of information will have the same meaning across our divisions.”
How to Get from Here to There

According to Professor Richard Rumelt of Anderson School of Management at the University of California, Los Angeles, performance gains often begin with exploiting a change in the environment and riding that change with quickness and skill. It’s about understanding the contributions and requirements of stakeholders (alignment), movements in markets (agility), and superior interpretation of trends and current events (being smart). Strategic guidance from outside the organization suggests how companies should plan, execute, check, and adjust their processes. However, traditional management frameworks often look inward and do not reflect these external influences adequately. Today’s companies need a new model for achieving Management Excellence.

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CHAPTER 2: STRATEGY-TO-SUCCESS: A PROCESS FRAMEWORK FOR ACHIEVING MANAGEMENT EXCELLENCE

In the era of operational excellence, business processes became well defined. Order-to-cash, procure-to-pay, invest-to-retire and develop-to-release, among others, became reliable, uniform and predictable ways of getting the job done. In time, the management process will be defined with the same degree of clarity. But at the moment, the term means many things to many people.

Figure 3: Business Processes

When asked to define their management process, managers answer with either silence or a flurry of different activities and partial processes, such as budgeting, financial reporting, resource management, and variance analysis. The closest traditional model that people suggest is the PDCA-cycle (Plan, Do, Check, Adjust)—also sometimes called the planning and control cycle, or management cycle. But this approach falls short because of its inside-out approach.

The Strategy-to-Success (S2S) framework offers a process by which companies can achieve Management Excellence. As an extension of Porter’s concept of defining an organization’s value chain across its business processes, the framework expands the scope of performance management to include the stakeholder environment, market model and business model.

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S2S consists of six steps, in which the output from one becomes the input for the next:

1. Understand the stakeholder environment
2. Scan the market
3. Strategize about the business model
4. Manage the business plan
5. Run the business operations
6. Provide feedback on all levels by measuring business results

Figure 4: Strategy-to-Success: The Management Process Value Chain

Below, we look at each of these steps in more detail.
Stakeholder Environment: Gain to Sustain

Traditional performance management is a top-down exercise in which a management team translates strategic goals into success factors, key performance indicators and improvement initiatives. But today’s enterprise operates within a network of different stakeholders, each of which contributes to the overall performance of the organization.

Employees contribute labor and shareholders provide capital. Suppliers and partners provide materials and services to design, build and sell products, while customers provide demand, society provides an infrastructure and regulators ensure fair competition. Management can only count on those contributions if it also acknowledges stakeholder requirements. It needs to identify those contributions and requirements and use them as the basis for a performance management strategy.

For this reason, a major city unveiled a performance management system that was designed to improve transparency and customer service. The city adopted 2,500 KPIs across various agency operations and implemented a standardized reporting format across 40 agencies and all data types.

Sustainability reporting is quickly becoming an important capability for EPM solutions. Companies will need to collect, analyze and share information about the impact of their businesses in terms of economic results, social responsibility and environmental consequences. When performance management begins with stakeholder management, corporate transparency will become a much less challenging issue.

A European manufacturing company has already taken a step in this direction by implementing a single system for financial and sustainability reporting. The EPM system enables the company to automate the calculation of its energy conversions and greenhouse gas emissions. Two sets of critical data are now disclosed on the same time schedule and stored in a readily auditable format.

Gain to Sustain

Gain to Sustain is the management process for connecting corporate strategy with the interests of key stakeholders including employees, customers, suppliers, regulators, citizens and investors. The purpose of this process is to ensure that a company gains all the necessary contributions from its stakeholders to drive business performance, while meeting the required stakeholder expectations.
Market Model: Investigate to Invest

External stakeholders ask not for a budget, but for projections, forecasts and market guidance. If you miss external trends that have an impact on your business the repercussions can be serious. Stakeholders lose confidence in the capabilities of the management team, the share price may be affected, and agencies may lower your ratings, leading to an increase in the cost of capital.

Understanding market dynamics is the first crucial step in evaluating strategic alternatives and defining appropriate goals for a company’s particular situation. As new products roll out, new competitors enter the market, consumer behavior changes and the pace of business accelerates, most organizations collect sufficient external data to predict future trends. But this information resides in a competitive intelligence (CI) function, separate from internal information about resources and activities that is housed within extensive business intelligence (BI) systems. Rarely are the two combined. The Strategy-to-Success process brings them together.

Through EPM, a printing company accelerated the way it assesses and integrates acquisition targets. As a result, the company has been able to maintain a complex, long-range financial model of its business, test scenarios for their impact on financial and operational performance, and set earnings expectations for quarterly communication with financial analysts.

Similarly, when a European producer of candies wanted to better understand the effects of seasonality on demand for its products, it turned to an EPM system that has improved profitability analysis for its product and processes.

Investigate to Invest

Investigate to Invest is the management process for identifying, evaluating and creating the most attractive market opportunities for investment. The purpose of this process is to select strategic alternatives to generate the highest returns. Which existing markets to focus in, which ones to enter and which markets to retract from. This process involves combining external information such as market intelligence and competitive intelligence with internal analysis of the product or service portfolio performance as well as customer and geographic performance.

Questions for the CEO, VP of Strategic Planning, VP of Marketing, and CFO

The Investigate to Invest process introduces the following questions:

- With whom will you be competing in three to five years’ time?
- How do you assess the full range of outcomes for your potential investments?
- How do you predict the probability of success or failure of new initiatives?
- Do you understand revenue and profitability by product line, customer segment, market, channel, etc.?
- Have you fully evaluated the performance of your value chain?
Business Model: Design to Decide

Companies have many different strategic options for shaping an organization. Should they innovate and grow by creating new products or acquiring them through partners? Which activities should they outsource and which are best kept in-house? And when it comes time to downsize, should they divest a business unit or reduce capacity throughout the business? These questions cannot be answered by calculating the return on an investment; they must be aligned to the needs of the market.

The Design to Decide management process is the key to strategy formulation. It helps companies decide how to realize the highest returns for all stakeholders in the most appropriate markets. To create successful strategies, companies are applying scenario analysis, an approach that had some popularity in the 1970s and 1980s and is reemerging as a strategic performance management initiative today. Scenario analysis helps organizations to identify the most successful strategies; the ones that hold up across the greatest number of identified future scenarios.

A global management consulting firm with more than 16,000 employees needed a common tool for disseminating strategy across a distributed organization. The firm was unable to perform analysis across its business units and did not have visibility into the firm’s business metrics versus industry benchmarks. After deploying a suite of EPM applications and tools, the company gained the ability to deliver meaningful reports to its partners, covering critical measures and identifying areas that need attention. By introducing scorecards throughout the organization, the firm has improved communication and driven strategy from top management out to the frontlines of the organization.

Design to Decide

Design to Decide is the management process for designing the business infrastructure and partner network to deliver value to customers in the most profitable way. The purpose of this process is to select the optimal configuration in connecting the company’s value chain. This process involves scenario analysis to determine the company’s product portfolio, outsourcing strategy, business partners and channels, acquisition and divestment strategy as well as its financing strategy.
Business Plan: Plan to Act

At this phase of the Strategy-to-Success process framework, we return to the more traditional view of performance management, using the PDCA-cycle. Management sets goals and creates plans to reach them. It closely monitors progress against the plan and analyzes differences. The team then reports results and adjusts its goals to align with the feedback. Where S2S differs from the traditional view is frequency:

Rather than an annual financial exercise, planning becomes more operational in nature so that the company continuously balances the needs of the market and its stakeholders with the capacity of its internal resources and activities.

Rolling forecasts become an essential component of enterprise-wide performance management. Every change in the market or internal capacity leads to a new operational forecast and financial prognosis. Variance analysis is no longer based on the budget but becomes a relative comparison between the organization and the rest of the market.

For example, an Asian brewery overcame infrequent forecasting and delayed reports through EPM, resulting in a centralized planning system, rolling forecasts, P&L reports that are generated every two days, and instant online access for company management.

In another case, a pharmaceutical company wanted to implement worldwide global forecasting down to the SKU level. Its EPM system can now compare different forecasts and perform trend analysis for a variety of measures.

Plan to Act

Plan to Act is the management process for aligning the organization from the corporate level to the business units as well as across business functions in order to achieve its goals. The purpose of this process is to optimize capital and resource allocation across the organization in order to effectively execute its strategy. This process involves aligning targets from strategic to operational levels, resolving gaps between financial plans and operational constraints and continuously forecasting to keep the organization on track.
Business Operations: Analyze to Adjust

Business strategies live and die based on how well a company executes them. Insight, strategies and plans remain theoretical until someone puts them into action—and watches closely to see how they perform. But performance management needs to do more than monitor individual processes. It must overlay the various business domains and create insight into causal relationships.

For example, consider a furniture retail company. The customer places an order and a delivery date is fixed, typically a calendar week. Payment is due at delivery and becomes part of the retailer’s cash flow forecast. However, if the furniture manufacturer isn’t able to deliver as promised, customer satisfaction will likely decrease and the retailer’s actual cash flow will not meet its forecast. In addition, the customer might not buy again from this retailer and choose to buy from a competitor next time. The retailer may have to offer a discount to the customer to compensate for the delayed shipment, which further decreases the profit margin.

These types of causal relationships take place every day and generally lead to no-win situations. An integrated approach across different functions and lines of business can help manage such situations proactively and minimize the potential negative impact.

A recent Economist Intelligence Unit (EIU) study found that disparate information presents one of the primary hurdles to performance management success. To overcome this problem, leaders in performance management are implementing master data management strategies, so that all domains use the same product, customer, organization, and other reference tables. Many operational measures can be standardized, as companies do not derive competitive differentiation from a unique definition of absenteeism or DSO. Standards allow them to benchmark their operational excellence.

A manufacturing company learned this lesson firsthand when it increased customer responsiveness and improved retention by implementing business intelligence applications that empower customer-facing employees with the information they need. And a utility company gained better visibility into business
processes and the ability to proactively track and manage key drivers of revenue, cost and shareholder value.

**Analyze to Adjust**

Analyze to Adjust is the management process for analyzing deviations from a company’s goals in order to take corrective actions. The purpose of this process is to detect variances between execution and plans, analyze the causes and trends of these variations, and determine the best possible responses. This process involves actions ranging from immediate tactical responses, such as changing a customers’ credit status, to adjusting the business plan or even reevaluating the strategy, depending on the magnitude of the impact.

**Business Results: Record to Report**

Every time a company goes through the Strategy-to-Success cycle, it needs to learn from the experience. Feedback completes the process. Accordingly, companies must establish performance indicators at every step of the framework. Operational management needs real-time information, business planners need performance variance analysis, and strategists need feedback on progress made toward overarching goals and in comparison to the overall market. All stakeholders benefit from seeing how they have contributed and what requirements they have met. Dashboards and scorecards inform senior management, but they are essential for everyone involved.

For example, a global publisher consolidated more than 70 reporting charts into one and accelerated the process of closing its books from 20 days to six days by unifying its financial management. And an industrial company addressed long reporting and planning cycles by implementing a centralized financial reporting system. Companies that centralize and standardize their reporting are able to deliver results faster to teams across the organization.

**Questions for the CFO, VP of Finance, Controller, Division Controllers, Financial Reporting Director, and Functional and LOB Managers**

Use the following questions to assess your performance on the Record to Report process:

- Does your company have multiple charts of accounts across business units and systems?
- How do you perform intra-period tracking of cost center spending, billing and collections, purchasing and payables?
- Is your period-end consolidation and reporting process as efficient as it could be?
- Are external stakeholders satisfied with your financial and non-financial disclosures? Are you reporting environmental and social metrics?
- How do you handle filings with regulatory bodies? How can you streamline this process?

**Record to Report**

Record to Report is the management process for providing strategic, financial and operational feedback to understand how a business is performing. This process involves collecting, transforming and delivering relevant, timely and accurate information to all stakeholders inside and outside the organization, in order to provide insight into how their expectations have been met.
## S2S Step by Step

<table>
<thead>
<tr>
<th>Strategy-to-Success Step</th>
<th>Call to Action</th>
</tr>
</thead>
</table>
| Stakeholder Environment  | • Focus on stakeholder performance indicators  
                                • Invest in sustainable development reporting                                              |
| Market Model             | • Integrate internal and external information  
                                • Merge business intelligence and competitive intelligence functions                      |
| Business Model           | • Introduce scenario analysis                                                                                                                  |
| Business Plan            | • Implement rolling forecasts  
                                • Connect operational planning and financial budgeting  
                                • Remain focused on variance analysis                                                     |
| Business Operations      | • Introduce master data management  
                                • Focus on cross-domain analysis  
                                • Benchmark operational measures                                                          |
| Business Results         | • Create performance indicators for all S2S steps  
                                • Use scorecards and dashboards to visualize performance  
                                • Share results with all stakeholders inside and outside the organization                 |
CHAPTER 3: HOW EPM ALIGNS THE STRATEGY-TO-SUCCESS FRAMEWORK

If Management Excellence is the goal and Strategy-to-Success is the process by which companies achieve it, then EPM becomes the enabler. EPM promotes Management Excellence by following two concepts:

- It takes a systematic approach to management activities through modules operating on a common platform and provided by a single enterprise software vendor.

- It identifies and refines the key management processes necessary to manage the business.

Most management activities associated with EPM already exist within the organization; the problem is that they are often disconnected. For example, external reporting may be handled separately from internal management information. EPM connects management activities by extending the key components of traditional performance management with strategic, financial and predictive modeling—to bring together strategy formulation and strategy execution. EPM enhances strategy execution by extending its traditional financial focus to include strategic operational management. The domain of business intelligence helps organizations drive feedback for the Strategy-to-Success management framework through a wide range of technologies that support dashboarding, monitoring, querying, reporting, and analysis.

EPM is widely positioned as a management discipline of strategic importance. But it cannot serve a strategic role if it is confined to the back office. In order to be effective, EPM must be applied throughout the organization. It should support strategic decision making, not just tactical management execution. It should reach beyond providing internal management information to support stakeholder management. It should encompass operations as well as finance. And all of these steps must be taken together. In this way, EPM becomes the glue that aligns the Strategy-to-Success framework.
Each step in the Strategy-to-Success framework is guided by the previous step, but managers should have deep knowledge of all steps at the same time. A strategy is only as good as its implementation and the quality of feedback it generates. And companies only achieve results when they follow all six steps consecutively.

When a global retailer fights off a hostile bid or a beverage producer improves profitability analysis for its products and promotions, their actions can alter the competitive landscape. Businesses that match the right people with the right information at the right time set the stage for dramatic performance gains. But only a relentless commitment to Management Excellence can drive change of this magnitude.

As a fundamental business principle, Management Excellence touches every part of the organization, from the executive board to the most junior member of the workforce. Everyone has a part to play in helping the company succeed in meeting its goals. With the Strategy-to-Success framework and an EPM solution in place across the organization, companies set themselves up to win.

ABOUT ORACLE CORPORATION

Oracle is the leader in Enterprise Performance Management (EPM), unifying Performance Management and Business Intelligence (BI), supporting a broad range of strategic, financial and operational management processes. Oracle provides a complete and integrated system for managing and optimizing enterprise-wide performance. This allows organizations to achieve a state of management excellence – being smart, agile and aligned - which provides competitive advantage and leverages their operational investments.

- **Smart** – Leverage market-leading products and technologies that address enterprise-wide requirements and drive new insights into your business

- **Agile** – Enable advanced integration that improves agility and lowers costs of ownership

- **Aligned** – Drive pervasive intelligence across the enterprise by linking strategic, financial and operational management processes

For more information, go to [http://www.oracle.com/epm](http://www.oracle.com/epm).

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