Management Excellence Framework: Design to Decide
Introduction – Management Excellence Framework

In the era of operational excellence, operational 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 to get the job done. In time, the management processes will be defined with the same degree of clarity. At the moment, however, the term means many things to many people.

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) — sometimes called the planning and control cycle, or management cycle. But this approach falls short because of its inside-out approach.

The Management Excellence Framework offers a process by which companies can achieve Management Excellence by linking strategy to success. The Management Excellence 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.

The Management Excellence framework consists of six steps, in which the output from one becomes the input for the next. These steps are depicted in Figure 1 below.

Figure 1: Management Excellence: The Management Process Value Chain
The Management Excellence Framework combines several principles that are critical in driving management excellence.

First, it balances an outside-in and inside-out approach in managing performance - explicitly including external views of the business by understanding stakeholder contributions and requirements as well as market dynamics. In contrast, traditional approaches to performance management are primarily focused on understanding internal business performance only.

Second, because management processes are of strategic, financial, and operational nature, the key to success is aligning these processes across various levels as well as across business functions. Sound business results come only from the perfect execution of plans, making it imperative to connect the entire set of management processes. Traditional performance management often treats management activities such as planning, budgeting, forecasting, reporting, and analysis in isolation.

Third, the Management Excellence Framework drives management excellence by recognizing that, to create a learning organization that is agile, feedback loops between management processes are critical. This feedback allows companies to detect changes immediately, assess the impact on their plans, and quickly find alternative ways to reach their goals. These feedback loops should consist of the right key performance indicators on the operational, financial, and strategic management levels.

Last, the Management Excellence Framework organizes the various performance management processes to be aligned. Each management process has its own focus.

In this white paper, we focus on the Design to Decide management process.
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 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.

The Design to Decide process involves finding answers to the following questions:

- How good are you at assessing strategic options?
- Does your product portfolio have the right mix of mature, mid-stage and upcoming products and services to sustain the business?
- Do you have the capabilities needed to enter new markets?
• What business models should you consider for new markets?
• Do you fully understand short- and long-term cash flow requirements?
• What are the risks associated with new market opportunities?

Step by Step

The Design to Decide management process deals with determining the most profitable business structure to deliver value to all the organization’s stakeholders. Table 1 below describes inputs, best practice and outputs for the Design to Decide management process.

<table>
<thead>
<tr>
<th>INPUT</th>
<th>BEST PRACTICE STEPS</th>
<th>OUTPUT</th>
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<tbody>
<tr>
<td>• Targeted markets and market projections</td>
<td>1. Create scenarios for alternative future outcomes</td>
<td>• Business model</td>
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<tr>
<td>• Competitive benchmarking</td>
<td>2. Create strategies for addressing these alternative futures and assess applicability of strategies for multiple alternative futures</td>
<td>• Merger and acquisition targets and partnerships</td>
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<td>• Internal performance benchmark</td>
<td>3. Perform risk assessment</td>
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<tr>
<td>• Partner performance</td>
<td>4. Set goals and strategic intent</td>
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<td></td>
<td>5. Decide on a business model, including partnerships and acquisitions</td>
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The Design to Decide process starts with designing scenarios for alternative future outcomes. The process combines input from the Investigate to Invest process with internal analysis and performance benchmarks, as well as extended partner network performance. Then, the company will be able to evaluate the risks associated with certain business models and understand their impact on the business. Making the decision to invest in certain partner channels, for example, might deliver higher returns at the expense of increasing dependencies. Time to market is often a crucial aspect for strategic decisions and might inform the decision to merge or acquire versus building a portfolio in-house. Based on these trade-offs, ambitious and aspirational goals can be set and a forward moving strategy set in motion.

Design to decide ultimately combines the outside-in and inside-out approaches. Market opportunities (outside-in) need to be translated into an executable plan (inside-out). But it is important to remain flexible. The overall goal is to be prepared for any change that might happen, so that the organization can capitalize on new opportunities and resolve issues immediately.
Once the first three processes are performed, an organization will be able to navigate through the enterprise strategy decision tree outlined in Figure 2.

The enterprise strategy decision tree offers three different strategic options.

- **Growth strategies.** The first path explores the best way to expand in identified, attractive market segments - either by increasing market share with the existing portfolio and business model or by developing new models to expand horizontally or vertically.

- **Stabilization strategies.** The second path includes options to stabilize or consolidate market share. Companies typically implement these strategies to stabilize and protect the existing customer base in a market with few significant changes in demand.

- **Negative growth strategies.** The last path is the opposite of the growth strategies. This strategy involves divesting assets and resources - either by completely moving away from certain market segments or by reducing activities and introducing new business models through outsourcing or partner collaboration.

The decision tree demonstrates the importance of converging the outside-in with the inside-out perspective. One perspective alone is not sufficient.
Key Metrics

Management excellence means that organizations create competitive advantage by having superior management processes, making the organization smart, agile, and aligned. Management processes should be managed using performance indicators much as operational processes are. Table 2 below describes performance indicators that can be used for the Design to Decide management process.

<table>
<thead>
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<th>TABLE 2: DESIGN TO DECIDE PERFORMANCE INDICATORS</th>
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<tr>
<td>BUSINESS RESULTS (LAGGING)</td>
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<tr>
<td>Financial perspective</td>
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<td></td>
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<tr>
<td>Customer perspective</td>
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<td>Process perspective</td>
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<td>Growth/learning perspective</td>
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The categories in Table 2 represent the balanced scorecard perspectives. The balanced scorecard is most successful if it serves as the connection point between strategy formulation and strategy execution. It is not enough to ‘simply’ calculate the expected return on investment for each typical Design to Decide area of attention (product portfolio, outsourcing strategy, business partners and channels, acquisition and divestment strategy); they need to fit in the overall strategic concept. A balanced scorecard strategy map provides such a context.
Strategy maps assume a cause-and-effect relationship between the four perspectives of the balanced scorecard. If you keep learning and adapting, and you know how to run a good business, clients will be happy and keep coming back - which has a positive effect on the bottom line. Or conversely, if you don’t keep up with the changes in the market and the organization is not running smoothly, customers will leave - which has a negative effect on the bottom line. For each perspective there are several objectives that describe the characteristics of the strategy. Some will be unique, fitting the specific culture and values of the organization, and others will be generic, describing trends in the industry. The balanced scorecard and, even more, the strategy map can have a dramatic effect on an organization’s focus and alignment. It becomes clear which activities drive success and which don’t. The organization can focus on its value drivers with confidence. Organizational alignment is achieved when the balanced scorecard is seen as a communication and collaboration instrument (instead of a classical management information system), aimed at command and control. Discussing the cause-and-effect relationships leads to a common understanding of how the various parts of the business relate.

Strategy maps help create leading indicators instead of lagging indicators. At first thought, the term ‘leading indicator’ may look strange. Are measurements not lagging by definition, as you can only measure something once it has happened? How can indicators then be predictive or leading?

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It is when performance indicators are linked together in a cause-and-effect relationship that they become predictive. For instance, sustained customer satisfaction, revenue growth, and brand value combined with operationally excellent business processes have a positive effect on an organization’s bottom line success, including shareholder value. In turn, an efficient process, an effective channel mix, new product introductions, and a positive press on business practices lead to higher customer success. Tomorrow’s success in operations and customer recognition comes from having the right skills and competencies, well functioning IT systems, and effective ways to improve the organization’s ways of working.

We’ve added EVA and shareholder value as leading metrics for the growth and learning perspective, to show sustainable success is a virtuous cycle. Financial success allows an organization to invest in its future.

**Key methodology: Balanced Scorecard**

**Techniques and Technologies**

In support of the Design to Decide management process, an EPM system needs to begin with historical financial and operating results and layer in the impacts of key business decisions. The decisions to be made include adding new products or services to the existing portfolio, aligning channels, and adding or removing business units or divisions. The EPM system must also have the ability to project cash flow requirements and support the analysis of alternative financing strategies.

Key capabilities and techniques that support the Design to Decide process are:

- **Brand valuation.** This technique takes a long-term view of the value added to the business by a particular product, product line, or brand. This requires combining historic revenue and profit with projected revenues and profits over a future time period, adjusted with net present value calculations.

- **Product and service portfolio analysis.** Often based on the Boston Consulting Group Matrix, this technique takes a big picture approach to evaluating the current and future portfolio of products or services offered by an organization. It relies on comparative

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3 The Boston Consulting Group Matrix categorizes products or services into four groups—cash cows, stars, dogs, or question marks—to identify where a product is in its lifecycle. The tool helps executives make decisions about which products or services they should invest in versus harvest or divest.
analysis of the size and profitability of the product or service line, market share, and market growth expected for the product or service.

- **Channel assessment.** As part of the process of developing a go-to-market plan for a particular market opportunity, decisions must be made about the sales or distribution channels. To assess the business opportunity and create a business plan, data is needed about the revenues and costs associated with direct versus indirect channels. Assumptions also have to be made about alternative and future channels. Given the multidimensional nature of this analysis, it typically requires OLAP technology in combination with scenario analysis and predictive modeling.

- **Merger and acquisition analysis.** This analysis includes performing due diligence - gathering all financial, operational, and technical information about a potential acquisition target or merger partner. All the information gathered must be translated into a set of projections for the acquired company. The impact the acquisition or merger will have on the combined business entity must be understood based on various scenarios. These projections should include forward-looking financial views and key metrics like earnings per share dilution or accretion.

- **Funding strategies.** This type of analysis stems from forecasted cash flow requirements based on the strategic decisions regarding the business model. New market entry or acquisition decisions might require additional funding - such as getting a loan or issuing new debt instruments or additional stock - if the cash to support the initiative is not readily available.

- **Risk assessment and management.** Building on financial risk management techniques in the financial services industry, strategic and operational risk management are gaining popularity across all industries. Risk assessment and management techniques identify the risks inherent in each Design to Decide business decision, assign risk indicators to these issues, monitor them closely, and take action when needed. This is particularly useful when assessing various scenarios to choose from and as an exercise to counter potential major business disruptions.

Table 3 highlights the specific modules of Oracle’s EPM system that support the Design to Decide process.
### TABLE 3. ORACLE’S EPM SOLUTIONS FOR DESIGN TO DECIDE

<table>
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<th>PRODUCT</th>
<th>ALLOWS MANAGERS TO</th>
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| Oracle Hyperion Performance Scorecard | • Develop and communicate goals, objectives, and strategies across the organization including the ability to develop accountability maps  
                                          • Identify and track KPIs and metrics to monitor progress against strategic initiatives                                                              |
| Oracle Hyperion Strategic Finance | • Build an effective business model through mergers and acquisitions or strategic partnerships in the company's value chain  
                                          • Understand the long-term value of a broad portfolio of products and brands  
                                          • Determine the financing strategy based on capital requirements and available cash from operations and divestitures  
                                          • Acquire necessary external funds and optimize capital structure by selecting the optimal mix of debt and equity  
                                          • Set high-level financial goals and understand the financial risk behind various business strategies                                         |
| Oracle Crystal Ball               | • Forecast uncertain results and reduce risk by applying sensitivity analysis, correlation, and trend extrapolation  
                                          • Optimize the product and service portfolio by evaluating the most profitable product and service combinations  
                                          • Evaluate business design alternatives to reduce the effects of uncertainty in the value chain                                                                              |
| Oracle Hyperion Planning          | • Evaluate what-if scenarios for product, customer, supplier, and channel combinations  
                                          • Determine the optimal supplier and channel strategies to reach company goals                                                                                           |
| Oracle Integrated Operational Planning | • Test the operational feasibility of the financial plan  
                                          • Resolve gaps between financial goals and operational constraints  
                                          • Assess capacity expansion requirements and outsourcing opportunities                                                                                           |
Call to action

Management processes should not be viewed in isolation. Oracle’s Management Excellence Framework describes a set of six management processes that lead organizations to become smarter, more agile, and better aligned— the key attributes of management excellence. Companies implementing the framework apply a systematic approach to management activities to increase both managerial and operational effectiveness. They can visualize the impact of business decisions and understand the levers that can be adjusted to affect outcomes. However, management processes differ from operational or transactional processes, and the techniques and technologies required to support and integrate each type are different.

By unifying performance management and BI, Oracle’s EPM system supports the strategic, financial, and operational management processes described in the Management Excellence Framework. Oracle provides a complete and integrated system for managing and optimizing enterprise wide performance and supporting all of the best practices and techniques associated with the management processes. This combination of processes, techniques, and technologies allows organizations to leverage operational investments, achieve management excellence, and create competitive advantage.

Thousands of companies around the world are benefiting from Oracle’s comprehensive approach to EPM. With lower costs and less complexity than with nonintegrated point solutions, companies using Oracle’s EPM system are able to align decisions with strategic goals, reduce financial reporting and planning cycles, compare operational results to plans in real time, and drive strategy to success.4

4 For more information on Oracle’s approach to enterprise performance management, please visit oracle.com/epm.