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Management Excellence Framework: Record to Report

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.
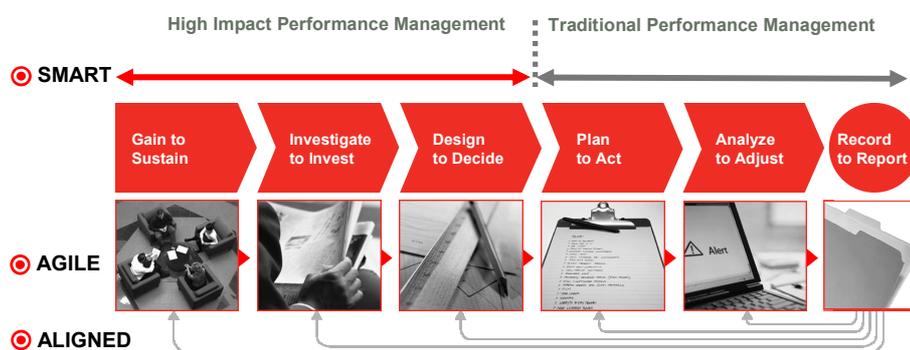

Figure 1: Management Excellence: The Management Process Value Chain

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 level.

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 Record to Report management process.

Record to Report

Every time a company goes through the Management Excellence 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 of accounts into one and accelerated the process of closing its books from 20 days to six days by unifying its financial management system. And an industrial company addressed long reporting and planning cycles by implementing a centralized financial reporting system. Companies that centralize and standardize their reporting can deliver results faster to teams across the organization.

Record to Report

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, to provide insight into how their expectations have been met.

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 nonfinancial disclosures? Are you reporting environmental and social metrics?

- How do you handle filings with regulatory bodies? How can you streamline this process?

Step by Step

The Record to Report management process provides strategic, financial, and operational feedback about how a business is performing. This process involves collecting, transforming, and delivering relevant, timely, and accurate information to stakeholders inside and outside the organization. Such feedback provides insight into whether stakeholder expectations have been met.

TABLE 1. RECORD TO REPORT INPUTS, PROCESS STEPS, AND OUTPUTS

INPUT	BEST -PRACTICE STEPS		OUTPUT
Actual and historic data from all internal systems Relevant data collected from external sources	1.	Extract data from transactional systems	Reports Scorecards Dashboards Performance indicators and metrics for every step in the strategy-to-success framework
	2.	Comply with local and international accounting standards	
	3.	Transform data into meaningful strategic, financial, and operational performance indicators for each step in the strategy-to-success framework	
	4.	Determine the best way to present information, based on type of performance indicator, users' personal preferences, and security requirements	
	5.	Share results with appropriate internal and external stakeholders in a complete, accurate, and timely fashion	
	6.	Moderate stakeholder dialogue	

Every time an organization goes through the Management Excellence cycle, it must learn from the experience. Accordingly, the Management Excellence process is not complete without feedback. Successful organizations put performance indicators in place to provide that feedback at every level of the Management Excellence process.

Operational management needs real-time information. Business planners need performance variance analysis; strategists need feedback on progress toward overall goals and on actual performance in comparison to the overall market. All stakeholders benefit from seeing how their contributions are recognized and their requirements are met.

As one of the most well-defined processes in the Management Excellence cycle, the Record to Report process might seem simple, but it requires considerable effort. It is the only process scrutinized by outside auditors who draw conclusions about the control mechanisms in place during the financial close and reporting cycle. As such, all parts of an organization must be involved.

Key Metrics

TABLE 2: RECORD TO REPORT PERFORMANCE INDICATORS

	BUSINESS DRIVERS (LEADING)	BUSINESS RESULTS (LAGGING)
Cost	Management process efficiency and cost as part of overall business cost Span of control	Sustainable success Return on assets, investments, equity Return on stakeholder
Quality	Forecast accuracy % KPIs implemented	
Speed	Forecast cycle time, time to close, time to report Management productivity	
Smart	Performance impact new initiatives, innovations, and new business models	
Agile	Response time to market changes	
Aligned	Stakeholder performance (see gain to sustain process)	

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.

The Record to Report process does two things:

- It provides feedback to all other management processes in the Management Excellence framework. This step happens last in the framework, because only if you drive strategies all the way to execution can there be a tangible business result. The metrics described in the other processes would be examples of that feedback.

- It also has its own function: managing management processes themselves. Management processes must first be efficient. A key performance indicator to express cost would be measuring the cost of management processes as part of overall business costs. They should not exceed a certain percentage. The best indicator for quality would be forecast accuracy—to which extent managers are supported by well-functioning management processes to continually keep them in touch with reality. Speed is important, too. Forecasts have a certain cycle time, and the shorter the cycle time, the higher the periodicity of a forecast can be. Other important indicators are "time to close" and "time to report"—which is the number of days needed to consolidate the figures coming from the various business systems, and subsequently being able to report them to the external world.

But efficiency is not enough. Management processes need effectiveness performance indicators as well, to ensure that the organization is smart, agile, and aligned. Organizations can prove they are smart by measuring the performance impact of new initiatives, as the business environment is continuously changing. The bottom-line metric for agility would be "time to respond." And, to complete the circle, connecting the Record to Report process with the Gain to Sustain process, the true measure of alignment between the organization and its environment is stakeholder performance.

If your strategies and business practices add value not only to your organization, but also to all stakeholders, there is a virtuous circle. Value is created for the complete ecosystem, instead of subtracted from the ecosystem as a zero-sum game. And that is the precondition for sustainable success.

Key methodology: Management Excellence Framework[1]

Techniques and Technologies

In support of the Record to Report process, an EPM system must provide integration with multiple data sources, data transformation and quality capabilities, financial consolidation that adheres to multiple accounting and reporting standards, built-in controls and audit trails, financial and statutory reporting, management reporting and analysis, and support for a variety of information delivery and visualization techniques.

Key capabilities and techniques to support the record-to-report process:

- **A virtual or fast close.** With internal and external stakeholders demanding faster access to financial and management reporting, many organizations have shortened the period-end reporting and closing process, achieving a fast close of five days or less.[2] Some organizations have achieved a virtual close, allowing them to close the books in a few hours—or even daily, if needed.

- **Flash reporting.** In addition to completing performance overviews on a monthly or quarterly basis, companies need reports on key metrics to be generated on a daily or weekly basis. Flash reports provide management with a sense of how the business is performing and what the period-end results might look like, so management can make corrections where needed. The key revenue metrics highlighted in flash reports include orders,

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1 "Management Excellence: How Tomorrow's Leaders Will Get Ahead," An Oracle Thought Leadership White Paper, September 2008, http://www.oracle.com/solutions/business_intelligence/index.html (under "White Papers").
2 The Fast Close: Are We There Yet? Oracle white paper (2008).

shipments, backlog, sales, and pipeline. Key expense metrics include cost of goods sold, head count and hiring, advertising, and other expenses.

- **Sustainability reporting and analytics.** As we discuss in the "Gain to Sustain" white paper in this series, organizations are delivering information regarding environmental, social, and economic metrics to both internal and external stakeholders. Companies want to reduce their carbon footprints and improve the management of sustainability initiatives—such as those that aim to reduce energy and fuel usage and costs—both internally and within the extended supply chain. This type of information can be delivered through standard reports and sustainability dashboards, or it can be incorporated into the performance scorecard process.

- **XBRL-based regulatory filings and reporting.** Extensible Business Reporting Language (XBRL) has been adopted by several regulatory bodies around the world to make it easier to produce, share, and consume financial information. The U.S. Securities and Exchange Commission will begin mandating XBRL filings in 2010. Filing in this format improves the ability to analyze and compare financial results across different organizations.

- **Dashboards and scorecards.** Dashboards and scorecards are popular ways to personalize information, deliver critical KPIs, and track progress against operational, financial, and strategic goals and objectives. These techniques support the delivery of information in whatever format the user prefers, such as tables, graphs, and charts. They also provide the user the ability to drill down quickly into a chart or report to gain insights into the underlying details and trends. Business users have the information they need to quickly take actions that can positively impact the business.

Table 3 highlights the specific modules of Oracle's EPM system that support the Record to Report process.

TABLE 3. THESE ORACLE PRODUCTS SUPPORT THE RECORD TO REPORT MANAGEMENT PROCESS

PRODUCT	ALLOWS MANAGERS TO
Oracle Hyperion Financial Management	Integrate and validate financial and nonfinancial data from source systems into a single reporting environment
	Perform complex financial consolidations, comply with regulations, and ensure the quality of financial information
	Report financial and nonfinancial information—including sustainability results—to management and stakeholders in a complete, timely, and accurate manner
	Deliver financial results in electronic formats such as XBRL
	Provide internal controls, visibility, and transparency into the financial close and reporting cycle that gives upper management confidence in the numbers they report to stakeholders
Oracle Hyperion Financial Data Quality Management	Integrate and validate financial and nonfinancial data from source systems into financial consolidation and other EPM modules
	Perform data transformation and cleansing
	Map chart of accounts from multiple source systems to target systems
	Support text and supporting document archiving
	Provide audit trails and reconciliation capabilities with data lineage and drill-through to details
Oracle Hyperion Performance Scorecard	Track progress against individual, departmental, and corporate goals and initiatives
	Create a consolidated, strategic view of the business' financial and operational metrics
	Communicate to management, employees, and stakeholders how effective strategy has been executed and expectations have been met
	Support management discussion and collaboration
Oracle Business Intelligence applications	Access an integrated view of enterprise information that enables greater insight and alignment across business functions
	Report at all levels of the organization and for each function how the business is performing
	Access prebuilt dashboards, reports, and metrics that can be leveraged out of the box or customized to meet specific industry or company requirements

Output from the Record to Report process includes reports, scorecards, dashboards, and gadgets, including performance indicators and metrics required to provide feedback to every step in the Management Excellence framework.

Call to Action

Management processes cannot be seen 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 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 enterprisewide 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 reduced costs and less complexity than with nonintegrated point solutions, companies using Oracle's EPM system can align decisions with strategic goals, reduce financial reporting and planning cycles, compare operational results to plans in real time, and drive Management Excellence.[3]

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

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