Journal of Management Excellence: Enterprise Performance Management Innovations
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Letter from the Editor

Welcome to this special edition of the Journal of Management Excellence dedicated to Enterprise Performance Management (EPM) innovations. We appreciate you taking the time to read our thought-provoking content, and value any feedback that you would like to share with us.

In this issue, we are covering aspects of recent EPM innovation. In his first article, John O’Rourke talks about Smart EPM Strategies for 2011 and beyond, and how organizations are finally able to focus on economic recovery rather than cost cutting.

Raj Chhabra, Deloitte Consulting LLP, discusses the importance of an integrated close process. In his second article, O’Rourke discusses transitioning to International Financial Reporting Standards (IFRS); the challenges and best practices, and a four phased approach to IFRS adoption.

Integration among legacy systems, as well as ERP, CRM, and others, would be very difficult without managing Enterprise dimensions. Craig Schiff, BPM Partners, discusses the challenges associated with managing those dimensions. VJ Lal reiterates the need for profitability and cost management, and why it is now critical to understand the full costs of products, services and customers. Finally, I will introduce Round 2 of the EPM Index research, and the improvement in the index results.

We pack as much topical information as we can into each JME issue, but there is always so much more available. For example, in March 2011, Gartner recently published their latest Magic Quadrant for EPM (called CPM in the study) Suites with many interesting observations, like:

- Gartner still estimates that 40% of large enterprises and as much as 75% of midsize businesses are using spreadsheets or legacy applications for budgeting and financial consolidation.
- Most CPM suite implementations have focused on improving the financial functions (primarily BP&F), and less on the strategic aspects of CPM (such as strategy management and profitability modeling).

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Toby


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Smart EPM Strategies for 2011 and Beyond

The recession of the past few years has been challenging for all companies and organizations globally. The reduction in demand, and uncertainty it presented, caused many organizations to resort to cost-cutting to minimize losses and retain profitability. However, some organizations took advantage of the downturn to rethink their business strategies and re-tool so that they would be in a better position when the economy rebounds. Some examples of the strategies organizations employed to endure the recession include:

- Conserving cash and improving cash forecasting capabilities, investing and divesting wisely.
- Reducing costs of goods sold and rethinking supply chains and “go to market” strategies
- Understanding profitability by product and customer segment and focusing on customer loyalty and retention
- Analyzing employee productivity and investing in employee training and development programs to retain valuable staff
- Integrating risk management into planning and performance management processes

Now that the recession appears to be winding down, what challenges are organizations facing in 2011 and what strategies are they adopting? Based on recent surveys, and feedback from customers and partners on this question, here are some of the key trends and strategies organizations are adopting. First, organizations are beginning to plan for the recovery. With the global economy rebounding and demand increasing, Finance executives are shifting their focus from cost-cutting to growth. They are interested in forecasting and planning more accurately to understand which parts of their business are expected to grow, when growth will occur and where they need to allocate resources to stay ahead. Best practices like rolling forecasts and driver-based planning are gaining in adoption, providing more flexibility and agility in planning.

From a reporting standpoint Finance executives are under increasing pressure to build trust, or re-built trust with key stakeholders including investors, employees, customers, suppliers and society in general. There is an increasing demand for transparency from organizations in terms of the details behind the financial results as well as non-financial information such as energy usage, carbon footprint, workforce diversity and compensation practices. There are also some regulatory changes impacting Finance executives in 2011 and beyond. The transition to IFRS has already begun for companies in Canada, Mexico and other South American countries and the United States is expected to transition from US GAAP to IFRS for SEC reporting by 2015. The SEC mandate for XBRL-based filings has already impacted over 1,500 medium to large filers and will impact another 7,000 companies starting with the June 2011 quarter end. Finance executives need to understand and plan for the impact of these new requirements and must ensure they have software systems in place to address them.
Enterprise Performance Management Trends

Awareness is increasing in the industry as to how enterprise performance management (EPM) processes and systems can help organizations link strategies to plans and execution in a continuous cycle that improves agility and responsiveness to changes in the business environment. At Oracle, we also like to think about EPM as enabling organizations to achieve management excellence. Most medium to large organizations have invested in ERP, CRM, SCM and other systems designed to improve operational processes and achieve operational excellence as a way of gaining competitive advantage. But we are now seeing more interest and investments in the management systems that leverage the data generated by operational systems to help achieve Management Excellence. This includes EPM applications and Business Intelligence (BI) tools and applications that help organizations become smart, agile, and aligned – key tenets of ME. In addition, to help organizations better harness their data – there is increasing recognition of the need to automate and integrate the management processes as part of an EPM strategy.

In most organizations the management processes (i.e. stakeholder engagement, assessing market opportunities, business modeling, business planning, monitoring and analysis, reporting etc.) are fragmented and are supported either by spreadsheets or point solutions. Very few organizations have thought about these processes holistically and adopted a suite of applications and a platform to integrate the management processes. This is clearly an opportunity for improvement – by gaining better alignment of goals across the organizations, increasing business predictability and improving the quality of decision-making. Oracle’s Management Excellence Framework defines the management processes, identifies best practices, metrics for success, and guidelines for how EPM and BI technologies and applications can be used to automate and integrate the management processes.

Enterprise Performance Management Innovations

If you look at the business challenges for 2011, and the EPM market trends highlighted earlier, four key points really jump out:

- Organizations need more flexibility in planning and forecasting, replacing spreadsheets with process-based applications that support best practices improve business predictability
- Planning challenges in public sector organizations are especially acute due to fiscal constraints, increased regulatory oversight, and accountability especially as stimulus funds are allocated
- Ensuring the timeliness and accuracy of financial reporting is more important than ever in building or re-building trust with key stakeholders. Organizations need software solutions that can help them easily meet new regulatory requirements such as IFRS and XBRL-based filings.
- From an EPM adoption perspective, organizations are thinking about EPM more holistically, looking for solutions that automate and integrate the management processes, provide integration with operational processes and offer the lowest possible cost of ownership
In light of these trends, in 2010 Oracle delivered a number of innovations to its EPM System designed to help organizations plan for growth, improve stakeholder communications, and deliver EPM solutions faster to their users.

There are a number of new capabilities designed to enhance planning and budget management and improve profitability. Included here was a major release of the core planning application, including more flexible workflow and process management, improvements to the web interface and web data entry forms, and extensive new functionality available through Microsoft Office. Oracle also introduced a new public sector planning and budgeting application designed to address the specific needs of federal agencies, state and local governments, higher education and healthcare organizations such as position-level budgeting and high quality budget books. Oracle also rolled out enhancements to its profitability and cost management application, including expanded cost drivers, improved navigation, and performance improvements to help organizations understand profitability by products, services or customer segments and better allocate resources.

In 2010 Oracle delivered new innovations designed to improve the timeliness and confidence in financial reporting. Included here is a new financial close management application designed to help organizations manage and streamline the extended financial close process from the closing of sub-ledgers and GLs, to the collection and consolidation of financial results, management and financial reporting, as well as regulatory filings. Oracle also introduced a new disclosure management module designed to help organizations create regulatory filings, using Microsoft Word as an authoring tool, and create XBRL instance documents for submission to the SEC and other regulatory bodies. This application is being extended with iXBRL support in 2011. Oracle also introduced new starter kits for IFRS and Japan Statutory reporting, as well as new integrations with Oracle GRC solutions to improve financial governance and segregation of duties across EPM and ERP applications. Watch for a sustainability reporting starter kit in 2011.

The other major area of focus is on helping organizations deliver EPM value faster to their users, and with a lower cost of ownership. Included here are new integrations with Oracle ERP and HR systems, and a major upgrade to Oracle’s enterprise dimension management solution – which provides a single point of maintenance and management of rapidly-changing analytic dimensions and hierarchies. Oracle is also introducing improvements to its innovative EPM application management module, and to its market-leading multidimensional analysis platform designed to make life easier for the technical staff deploying and supporting EPM solutions.

Feedback from customers and partners who have adopted the new innovations Oracle delivered in 2010 has been very positive. This release has helped customers streamline the financial close and filing process, reduce planning and budgeting cycles, and reduce costs of ownership – especially for customers with multiple applications deployed.”

For more information about what’s new in Oracle’s EPM System and how Oracle and our partners can help your organization achieve management excellence follow the link to the EPM home page at www.oracle.com/epm.
Financial Close & Reporting: Navigate the Storm

The Finance Organizations face multiple priorities that include the oversight of financial transactions, management of enterprise performance, attestation of financial reporting, and timely close and consolidation of financial data. To grapple with these issues, CFOs are always seeking ways to increase the efficiency and timeliness of their financial close and compliance processes. However, improving the speed of the financial close process is not enough as there is a competing demand for improved governance and increased transparency and reliability. The pace of regulatory changes also continues to increase and is the result of the current economic challenges as well as on-going regulatory initiatives such as the mandate of eXtensible Business Reporting Language (XBRL) as the reporting standard format and the likely move to International Financial Reporting Standards.

The Finance Organizations need to proactively manage the challenges of data quality and prepare for the upcoming regulatory requirements to avoid creating a “Perfect Storm” for their financial close and consolidation processes.

Over the last decade, the financial reporting landscape has seen significant change. Finance executives face mounting pressure to increase the accuracy of financial reporting while decreasing turnaround time. Costs are being highly scrutinized as the longest recession in US history continues. Regulatory agencies have introduced a host of new standards and accounting rules changing materiality thresholds, detail schedules and disclosure requirements for public filings.

To complicate matters, many Finance organizations are being asked to do more with less, as headcounts are reduced in response to economic pressures.

Examples of the challenges faced by Finance organizations today include:

- Typical public filings have grown from 10-15 pages to up to 75. Regulators and agencies continue to require more detailed explanations of public filings.
- Regulators have shortened the timeframe for filing requirements while increasing the demand for detail. Quarterly submissions are due within 40 days (down from 45) and annual filings due within 75 days (down from 90).
- The convergence of US GAAP, IFRS, along with XBRL requirements requires new definitions for financial statements. Compliance has taken on a life of its own - requiring more time and expense for technical accounting and financial reporting.
- Faced with reduced staffs and high burn, employee turnover continues to be very high as many CFO’s have determined the stress and risks outweigh the benefits of the role.

Finance leaders find themselves squeezed between meeting public demands, attempting to ease the burden on over-worked staff, and meeting the technical requirement of regulators. With limited resources, how can Finance organizations deliver accurate, useful, and timely data to an
increasing number of stakeholders? What effective practices do organizations follow to streamline processes while meeting regulatory obligations and increasing transparency?

Financial close is a set of sequential steps requiring alignment and a clear direction across the organization. Each step in the process has dependencies on others, and delays result in a domino effect, pushing each subsequent activity back and resulting in more manual efforts and decreased transparency. Organizations that are able to monitor and react during the close cycle can reduce the impact of a breakdown in the process.

Plotting the Course: Phase I – Ledger Close

Effective Finance organizations are faced with a similar set of challenges during the ledger close phase. While some accounting processes vary between industries, the underlying themes remain the same. Finance organizations address these issues by establishing a ledger close governance framework. Central components of this governance include:

- Policies and procedures – establishing rules and defining requirements for accounting activities can lead to standardized processes and helps mitigate the risk of accounting errors. Creating policy and procedure manuals is a good way to help achieve knowledge transfer.
- Roles and responsibilities – defining tasks and dependencies when ambiguities exist between functional areas can help clarify key activities and decision points. This can help increase the efficiency of a close process by reducing duplication of efforts.
- Ledger Close calendar – developing a close calendar provides Finance with the ability to identify dependent sources of information for key activities and track progress against milestones. Additionally, assigning ownership to individual tasks can help status reporting and accountability.
- Ledger Close scorecard – defining and tracking key close metrics can enable organizations to more easily identify improvement opportunities and facilitate target setting for future initiatives.

If you don’t have a plan, you typically won’t reach your destination on time. An effective ledger close governance framework should provide the tools to develop the plan, communicate it globally, and reinforce the roles and responsibilities that lead to greater accountability. Additionally, it should help encourage a proactive environment where more issues can be solved.

Create Pieces to One Puzzle Not Many: Phase II – Consolidation

Close and Consolidation of financial books is the process that corporations use on monthly or quarterly basis to reconcile, translate, eliminate, consolidate, and report financial information. Each company has their own recipe of closing and consolidating their financials with varying degrees of efficiency and standardization.

What if:

- Business unit source ledgers had been absorbed over time and account structures have not been aligned?
- Transaction data required manual intervention in order to provide reporting and analysis?
• The US dollar was not the currency supported in field ledgers?

• Segment and legal entity structures differ?

These are some common questions raised by stakeholders about the challenges of transforming transactional data into high-quality information. Often, the answers leave Finance leaders in a position of having to explain why it takes so long to produce “multiple versions of the truth”. This can result in increased risk, more time required to reconcile data, and less time available to analyze it.

Unlike the ledger close phase, consolidation does not have a simple blueprint to provide financial executives with a framework for improvement. However, there are guidelines that effective Finance organizations follow to make all the pieces fit together better:

• Define Commonality – defining a common chart of accounts is typically the first step toward aligning local ledger data. Requiring field ledgers to map to a common set of data elements speeds consolidation can improve accuracy and help establish the skeleton of financial statements and supportive schedules.

• Create Flexibility – creating flexible hierarchy structures can enable the consolidation tool to serve as the central repository for financial data. Establishing a multi-dimensional, multi-scenario solution can provide financial reporting a single platform to develop financial statements and schedules to help meet accounting and compliance requirements.

• Combine Process and Technology – before implementing technology, process owners and the technical design team need to collaborate on business requirements to better understand the current state. Combined efforts can result in a solution that will help reduce manual data entry, improve controls and move the organization toward standardization.

The overall goal of consolidation is to collect and transform data into financial presentations. Leveraging the principles listed above will help Finance leaders in their efforts to provide tools and data to the growing number of stakeholders who rely on accurate and timely financial results to evaluate and measure performance, devise business strategy, and meet regulatory requirements.

Communicate With Your Stakeholders through Reporting: Phase III – Reporting

Financial reporting standards are under constant modification. The investment community and regulators continue to require more organized and systematic exchanges of financial information. This impacts both how and when financial data is distributed and communicated. In recent years, organizational and regulatory changes have increased both the level of effort and technology required to meet an ever increasing demand for more standardized data, quicker access to financial data, and visibility into financial reports and disclosures.

Reporting was once considered an outcome of the consolidation, however effective financial organizations now drive design of technology solutions by first defining the financial data detail requirements of compliance reports and schedules. Given today's landscape, reporting
requirements must be fully understood and taken into consideration when designing policies and procedures for all aspects of the financial close process.

What is being asked of financial reports and disclosure schedules?

Effective organizations are taking steps to automate this function to control versions, improve communication and ensure accuracy. To address these challenges, Finance leaders turn to new technological solutions such as XBRL. Regulatory mandates are driving the implementation of XBRL based reporting as it is rapidly emerging as the standard for the reporting and exchange of financial information.

Effective organizations seek to:

- Align XBRL taxonomies with the current multi-dimensional hierarchies that are the backbone for financial statements and supportive schedules
- Increase the internal capabilities of XBRL reporting to help reduce the costs and gaps in information sharing that are associated with outsourcing
- Improve efficiency in reporting by monitoring who is responsible for data and when, similar to close process management
- Reduce the number of current versions and streamline the review, approval and update cycles by developing a control document and origination ownership

Financial results have never been more scrutinized. The traditional requests for transparency and improved accuracy are being taken to new levels by the likes of SOX, IFRS, and XBRL. Quality results need to be provided timely, accurately, and to multiple stakeholders in regulatory agencies and the investment community. Effective Finance organizations consider reporting the most critical component of the financial close, and therefore let reporting requirements drive the design of the entire process.

Conclusions

An integrated close that links financial numbers with workflow, relevant controls, disclosure, reconciliations, and close tasks can help improve transparency, predictability, and flexibility for the finance organizations. Improved processes with optimized technology can help increase productivity, improve cycle time and governance. Finance organizations can more effectively navigate the “Perfect Storm” resulting from their close activities by optimizing their processes and implementing appropriate technology.

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Transitioning to IFRS: What’s Your Roadmap?

The march towards a global set of accounting and reporting standards has been underway for a number of years with Europe, most of Asia and other countries adopting International Financial Reporting Standards (IFRS). Now Canada and the United States (US) are getting on board with the transition to IFRS taking place over the next five years. While moving to IFRS will make life easier for analysts and investors in comparing and analyzing the financial health of global companies, the transition will cause challenges for accounting and finance staff who must report results in local GAAP and IFRS during the transition period. This article highlights a four-phased approach and key technologies that will ensure a successful transition to IFRS.

IFRS: “Coming to America”

In the “Roadmap for IFRS” proposal of November 14, 2008, the Securities and Exchange Commission (SEC) estimated that larger U.S. companies will spend about $32 million over three years specifically for the transition to international financial reporting standards. According to the SEC, this incremental cost is due in part, to the assumption that companies will want to keep “two sets of books as a result of the proposed reconciliation requirement” between IFRS and US GAAP. Keeping two sets of books might be straightforward for a small company with a single accounting system, but for a large multi-national, the transition could be more complex than implementing Sarbanes-Oxley requirements.

Under the SEC’s latest proposed timeline, large publicly traded U.S. companies would be required to use IFRS by 2015. But the SEC will also require three full years of IFRS-prepared financial statements at the transition date, for example 2013, and 2014, in addition to 2015. It’s certainly possible that SEC Chairman Shapiro could delay or stop the proposal, but not likely given that the European Union (EU) plus 113 other countries including our major U.S. trading partners China, India, Mexico and Canada are using or adopting IFRS.

So when will this be mandatory for U.S. companies? With IFRS, accountants know that to get comparatives for 2013, they’ll need opening balances going into 2013. So the “true” IFRS transition year for the U.S. is actually 2012. And that’s not far away.

IFRS Benefits – What’s in it for the U.S.?

The shift from rules-based US GAAP to the principles-based IFRS is intended to improve transparency and comparability in global markets while delivering higher quality. For example, it will be tougher under IFRS to justify “cookie jar reserves” for restructuring costs, warranties, litigation, etc., that could be reversed in tough years.

Research also shows that IFRS has boosted income, investment returns, and other financial measures for European-based companies. A Citigroup study from 2007 focused on 73 European
companies analyzing the differences between IFRS and US GAAP, provided in annual reports for the 2005 and 2006 financial years. The study found that more than 80 percent had higher net income under IFRS and returns on equity were also higher.

The key is that IFRS does a better job of recognizing the fair value of corporate assets – essentially “unlocking value” of the corporation by recognizing previously unrecognized, cash generating assets under US GAAP.

IFRS Challenges – Getting Over the Hurdles

The Institute of Chartered Accountants of England & Wales estimated that the typical cost incurred by an EU company in year one of IFRS was 0.05 percent of revenue. Based on this, the SEC estimated year one costs would be about 0.13 percent or slightly more than $1 million per $1 billion of annual revenue. The SEC more than doubles the expected cost because of the three-year comparatives requirement plus the more stringent internal control documentation requirements on accounting policies thanks to Sarbanes-Oxley and related regulations in the U.S.

The cost components include identifying differences, determining accounting policies, maintaining multi-GAAP financial reporting systems for three years, implementing new accounting systems and associated changes in internal controls, and drafting the multi-GAAP financial statements themselves.

The first two items -- identifying differences and determining accounting policies -- will require training employees as well as the development and execution of project plans. These efforts could possibly be augmented by the employment of professional services firms. A full-time IFRS “Project Office” is typical in large, complex organizations.

Financial reporting, accounting systems, and financial statements are the subject of the remainder of this article.

Best Practices: A Four-Phased Approach to IFRS Adoption

Based on Oracle’s extensive experience helping our EU customers transition to IFRS, we recommend this four-phased approach to adoption.

• Phase 1 – Study Impact and Determine Strategy
• Phase 2 – Enable Top End Reporting
• Phase 3 – Record Transactions in Both GAAPs
• Phase 4 – Transform the Business, Win with IFRS

Each of these phases should be monitored and controlled to ensure compliance with company policy and internal control policies. Let’s look at each in detail:

Phase 1 – Study Impact and Determine Strategy

Many U.S. companies are in the Study phase now. They are establishing their IFRS Project Offices, Steering Committees, etc. They are evaluating IFRS with respect to their current financial reporting policies, practices and technologies to identify differences and software upgrade strategies leading to 2012 multi-GAAP reporting. They are hiring and training as well as engaging with professional services firms. This process often takes weeks or months to complete.

Phase 2 – Enable Top End Reporting

A few of Oracle’s U.S. customers are doing multi-GAAP reporting already, typically because they are listed on a secondary IFRS exchange like the London Stock Exchange in addition to their primary U.S. exchange. Typically, transactions are recognized and measured under US GAAP, then adjusted to IFRS on consolidation to create a separate “set of books.” Reconciliation reports are also provided which clearly identify the differences in compliance with IFRS.

As many of the IFRS impacted accounts are “headquarters-only” accounts - for example share options, intangibles, tax reserve accounts, pensions, financial instruments, etc. – organizations are able to handle a majority of the IFRS accounting on a “top-end” basis. Given the probable requirement for 2012 IFRS closing balances, the best practice recommendation for Top-End reporting is to run parallel throughout 2011 so that IFRS financial statements can be reviewed and approved internally prior to 2012. Starting in 2012, companies would then start building their prior year IFRS history so that when 2015 first reporting date arrives, they are ready.

From a technology standpoint, the best practice here is to leverage best of breed financial consolidation applications that can collect financial results from multiple general ledgers using different accounting standards. These applications support the necessary adjustments and audit trails to consolidate under multiple standards such as IFRS and US GAAP, and also handle the reporting and reconciliation requirements.

Phase 3 – Record Transactions in Both GAAPs

IFRS accounting for certain accounts are best handled in the underlying subsystems. For example, companies moving to IFRS typically need to break-down or “componentize” a single asset like a building into multiple asset types like building versus HVAC equipment versus elevators/escalators, etc., then assign each with a different useful life or fair value. They will then want to consolidate the individual asset types for a single view of the total building. Multi-GAAP fixed asset books are the best practice approach in these cases – they can recognize component-specific depreciation based on fair-value concepts or traditional straight line depreciation on the total building in compliance with US-GAAP in a simultaneous fashion. Typically, customers will want to activate multi-ledger accounting in 2011, run parallel for a few quarters, and then begin storing the IFRS alternative accounting in 2012.
Phase 4 – Transform the Business, Win with IFRS

Once Phase 2 and 3 are complete, management can begin to leverage IFRS to possibly help transform the business. As we saw earlier, many companies’ results were quite different under IFRS. Deals are structured to reflect the way in their results are measured, and will be restructured to reflect IFRS valuation. New product development, for example, might be capitalized. Leases might be rewritten either as financing or as monthly rentals.

Customers will also look to optimize their IT and accounting systems in a world sharing reporting standards.

Throughout all 4 phases, customers will need to track and monitor compliance with the new regulations. They will benefit from a single documentation repository for all financial policies and procedures, date-effective audit trails that track the “who, what and when” of changes to internal controls, and automated controls to ensure ongoing compliance with policies and procedures.

The key technologies for supporting a successful, phased transition to IFRS include:

- Robust financial consolidation applications for multi-GAAP, top-end IFRS reporting
- Global transactional accounting systems with multi-GAAP subledger and general ledger accounting
- Governance Risk and Compliance applications to manage changes to policies and enforce internal controls

Customer Example

Pearson PLC, a global publisher of textbooks for the education, business information, and consumer publishing markets, made the transition to IFRS leveraging Oracle software. Andrew Midgley, Head of Financial Reporting at Pearson, said: “We had total visibility into the process and could instantly see the effect of changes posted anywhere in the group. There were fewer adjustments at the reporting unit level than we had expected, and they tended to be relatively minor. Adjustments at headquarters were more significant and more complex relating to pensions, share option expenses, deferred tax, and financial instruments. Given this relatively straightforward framework, the group was able to quickly establish a unified chart of accounts UK GAAP, US GAAP, and IFRS, and post the adjustments against these accounts as required.”

Conclusion

In the popular media, IFRS is now being cast as “the next Sarbanes-Oxley” because of its broad impact and expected cost. But companies who get ahead of the issue by investing in training and technology now could gain significant competitive advantage down the road. Like it or not, a new era of global accounting is upon us and businesses that ignore the IFRS will fall behind.
Enterprise Dimension Management: A Powerful Solution to Managing Multiple Charts of Accounts

The chart of accounts (COA) is the enterprise’s key financial information asset. It should be clean and consistent throughout the enterprise to enable the organization to summarize and report performance accurately. Most companies find themselves burdened with multiple charts of accounts, whether by acquisition or because departments and subsidiaries went down their own path. Multiple COAs are trouble: they create never-ending and costly problems. Reports don’t match up, drilldown analysis is next to impossible, and there just isn’t any data consistency.

There is no question that every medium- or large-sized enterprise needs standardization across all its COAs. Without standardization, a full-company report or view is hard to attain. Data will get out of synch, and line item detail will not match from one business unit to another. Inconsistencies between COAs make accurate financial reporting extremely difficult. Reconciling disparate COAs also keeps IT and finance unhappily busy.

Most companies try to stem the pain by standardizing their multiple charts of accounts, finding a way to line them up to each other. There are several typical approaches to standardize COAs, usually done as part of implementing data warehouses, analytic applications and consolidation systems. Each has its own drawbacks; and since each unit of the company tends to modify its own COA over time, perpetual busywork is a sure thing.

Metadata Challenge

This isn’t just an issue of disparate accounting categories. It is a metadata challenge, more than an issue of how the charts are broken out. Metadata is the data about your data; and the chart of accounts is data about the organization and structure of your financial data. If in one chart of accounts line item 100 represents revenues from car sales and in another chart the same line item represents revenues from truck sales, what do you have when you look at line 100 at the consolidated company level? A mess. Metadata management is, therefore, essential if your goal is one set of consistent and accurate information company-wide.

The Meta-Problem

Most organizations look at mismatched charts of accounts and don’t see the meta-problem behind them. Accordingly, they try to fix the symptom – the COA – with one of the following:

- Forced compliance with a master COA, the “central command” approach
• The all-inclusive “permissive parent” chart of accounts

• Multiple mapped charts of accounts

These approaches are superficial. They all require perpetual, year-round reconciliation-plus-consolidation labor, and while they can work for a time, they are not true solutions.

First, the “central command” approach: you compel operating units to align their COAs with a centrally dictated chart of accounts. It is difficult to enforce and uncomfortable for independent units. It becomes unwieldy when the number of general ledgers (GLs) rises. Headquarters can demand compliance with the master COA, but if there are a dozen GLs in use, it’s ragged compliance at best.

One hundred-eighty degrees away is the all-encompassing “liberal parent” chart of accounts, which accepts any line item that departments and subsidiaries want to toss in. Your department decides to make a new widget? Just tell the entire company to make a line item for that little newcomer on their chart of accounts. The number of line items balloons over time, which can create performance problems, and minor changes affect everyone across the company. How do you continually adjust reports to the new line items? Your year-over-year reports may need to re-written. It’s a big price to pay for consistency among COAs.

Some companies try an approach called multiple mapped COAs. With this method, each business is free to evolve its own idiosyncratic chart of accounts, but is beholden to map the summary data correctly – hopefully correctly – back to the master COA. This results in a master COA where the number of line items is under control and avoids the politics of making everyone do it one way. However, if every department is responsible for synching its summary data to the corporate COA, you know they aren’t all going to do so with complete consistency. When looking at a company report, the one thing you can be sure of is that some business unit numbers are creating inaccuracies.

Having covered what doesn’t work well to straighten out the challenge of multiple COAs, what does work?

Enterprise Dimension Management (or Master Data Management)

Enterprise dimension management, or EDM, addresses the underlying problem. EDM allows continuous standardization of multiple charts of accounts. EDM is accomplished through software that controls the metadata and who has access to modify it. Your data handling systems, including GLs, subscribe to the EDM system, and thereby allow it to keep tabs on dimension changes. This not only keeps different COAs in synch, but also keeps reports in synch, as well as other databases and applications. EDM handles the metadata of an enterprise, giving users with the right privilege level the ability to control and make changes in how data is organized.

EDM provides “a dimension of record” that goes beyond each general ledger and allows change management of the dimensions used in accounting and reporting. EDM also unifies the data
structures of the chart of accounts, reports and data repositories such as data warehouses and
data marts.

There’s another big positive of EDM: by unifying the data management, it allows company-wide
views of performance that are so important to business performance management (BPM).

Conflicting COAs are only one face of metadata inconsistency. When dealing with business
performance systems, there are challenges around hierarchy/roll-up structures, product and
customer dimensions, and the list goes on. With institution of an EDM system, a company can
ensure that metadata for all areas of BPM stays in synch.

Enterprise dimension management provides a good solution to the problem of mismatched
charts of accounts. It does this with a central point of control, low maintenance and flexibility.
EDM lets the local branches have multiple line items per widget if they find it necessary, but the
data still rolls up just the way headquarters wants it to. With EDM, local systems go on as they
are and keep their account structures, while the enterprise can have the collaboration and
consistency that it wants.

EDM incorporates security to keep employees from getting too creative with report dimensions;
role privileges are assigned and changes are tracked, making it difficult to tamper with report
structures.

An Effective Approach

Because the challenges of consistent report structures, enforcing data consistency in how line
items are rolled up and standardizing the charts of accounts are all parts of the same challenge,
one solution that addresses all three problems is preferable. EDM is an effective approach to the
struggle that most companies have with standardizing the multiple charts of accounts.

A jumble of different charts of accounts weighs directly on IT systems. If the underlying data is
organized in many different ways, it is disorganized – unless the metadata is correct. Enterprise
dimension management systems keep the metadata organized. More precisely, enterprise
dimension management systems allow designated administrators and managers to keep metadata
organized.

When you set up a metadata management system, such as EDM, you help ensure correct
reporting, aid Sarbanes-Oxley compliance and allow the company to prevent confusion caused
by disparate charts of accounts. Once fully implemented you are in a position to achieve the holy
grail of business performance management systems: one version of the truth.
The Need for Profitability Management

Profitability and Cost Management (PCM) is at the core of management excellence, as it represents the bottom-line for every company. Profitability and Cost Management is not a new discipline. Its predecessors include activity-based costing (ABC), that became popular in the late 1980s and early 1990s.

Although Profitability Management comprises both the revenue and cost side of the business, there is usually a stronger focus on cost management, particularly indirect costs. Indirect costs are all costs not directly associated with the production and sales of products and services, such as marketing, finance, and HR. It is usually clear which product was sold to which customer, and can be counted as revenue in which particular period. However, it is harder to attribute revenue to organizational divisions, business units or departments and to allocate overhead and other forms of indirect costs to business processes.

PCM is a key methodology for linking financial and operational management processes. This allows operational managers to get insight in the financial consequences of their operational business. Further, it allows financial managers to increase financial control and predictability of financial results. PCM is often needed to calculate the right performance indicators that organizations track in their (balanced) scorecards, particularly when scorecards need to be cascaded deeper into the organization. PCM is also a key methodology when introducing rolling forecasts as part of the budgeting and planning processes. Rolling forecasts tend to be operational in nature and translate changes in an organization’s activities and available resources into new financial results.

PCM is more relevant than ever. There are multiple reasons for this, both on the tactical side – responding to internal and external pressures, and from a strategic point of view – increasing the organization’s competitiveness.

Indirect costs are increasing

Despite modern systems to track all kinds of data, the amount of indirect costs is increasing. For instance, many organizations are introducing shared service centers, centralizing certain operations, either in the front or in the back office. The economies of scale outweigh the overhead of such centralized operations, but the overhead and other types of indirect costs still need to be allocated. PCM helps ensure the business relevance of shared service centers. PCM can also help establish whether these shared service centers should be placed within the
organization, or should be outsourced. In such an exercise, the burden of internal indirect costs can be compared and benchmarked against external services.

Competing on service, portfolio and brand

In many industries the quality of individual products does not make a competitive difference anymore. It is the service that comes with the product that makes the difference. Whereas ABC had a strong focus on the back-office, being an analytical tool to optimize processes, PCM can be used for service pricing, where the relationship between resources, activities and revenues is not always easy to make. In many cases, products and services are only competitive as part of an overall portfolio. Current innovation often comes from product integration. Think of a telecom offering ‘triple play’ services, integrating telephony, internet and television. Or consider a financial institution offering a package of banking products and insurance for start-up entrepreneurs, to make it easier to start a business. Or a European railway introducing a ‘mobility concept’ involving public transportation, taxi pickups and bicycle rental. The examples can be found across many industries worldwide. Increasingly, these portfolios of products and services do not come from a single organization, but are the result of collaboration across an ecosystem of partners. PCM helps allocating the right costs and revenues.

Customer self-service business models

Most modern business models rely on a high degree of customer self-service. Consumers check themselves in via the web, a call center or machines at the airport. Consumers provide their own specifications to tailor their own sports-shoes, cars, insurances, music collections and many other services, and can change their preferences until the last possible moment. Through mass customization principles, customers have taken over business processes. They provide the specifications, where every single transaction is potentially different, and they choose the customer contact channels, such as the Web, the call center, the shops, at the times and in the order they wish. This impacts all dimensions of profitability, such as customer, product and channel profitability. In fact, it calls for tight monitoring and dynamic pricing to ensure transaction profitability. PCM provides a framework to introduce such a level of control.

Business pressures

Stakeholders such as customers, suppliers, shareholders, regulators and society at large demand more transparency. Executives cannot allow surprises regarding their profitability. They need to ensure that both cost and revenue are managed in alignment throughout the organization. A solid set of processes, a comprehensive methodology and a robust system is needed to meet these requirements. In fact, if executives do not ensure such a level of control in a transparent and regulated world, it will cost them dearly. Next to regulatory pressures, increased transparent competition also pressures margins. Business processes and operations need to be continuously
monitored. Moreover, with current economic uncertainty, there is an increased focus on understanding profitability and costs to drive business efficiency.

The Profitability Life Cycle

Introducing profitability and cost management (PCM) is a comprehensive initiative. It involves mastering a methodology, understanding the business drivers, changing business processes, and introducing a system. Most organizations go through a maturity lifecycle for PCM. This Profitability Maturity lifecycle is largely implicit – organizations go through an evolution without realizing they are moving from one stage to another. The stages, however, are distinct. In the first stage, at the macro level, profitability is simple, easy to measure and evaluate: Revenue – Cost – Expenses = Profit. But quickly the need for deeper understanding emerges. In this stage, the organization start reporting the profitability KPIs that drive their business, such as cost of goods sold, service and support cost and product margins. Then the question “why” emerges. Why are some customers profitable and others not? Why do the costs of service go up for certain products? A deeper analysis is needed, requiring a more robust analytical system. In the next stage of the Profitability Maturity lifecycle of an organization begins with developing a plan of action for improving the profitability of its underperforming assets – those customers and products that fall below the line. Profitability optimization and profitability planning are introduced. Organizations that have fully matured see PCM not as an after-the-fact analysis, or a top-down plan. Instead, it is incorporated into every single transaction, built in the core business processes.

Conclusion

Organizations should start by assessing their ‘as is’ situation, by identifying their position in the maturity life cycle. Then they should define their particular business case. This can be tactical of nature, by focusing on cost management. PCM can also be strategic of nature, by using it to enhance the business model, enabling portfolio management, customer self-service and value chain integration through horizontal alignment. Organizations should not focus on PCM as single discipline, it should be seen as a foundational part of an overall EPM system.
EPM Index Round 2

Monitoring, measuring and reporting on the financial health of an organization is a basic need that requires effective tools and processes to optimize the end result. In addition, there is a requirement for operational and financial planning, scenario and what if analysis with simulations, and other forward looking capabilities. Enterprise Performance Management (EPM) is the underlying approach to carry this out, marrying how a business models, plans, implements and measures its strategy, along with how it includes strategic stakeholders (such as employees, customers, suppliers and shareholders) into the various processes involved.

Oracle commissioned independent analyst firm Quocirca to create a regular research report, tracking the awareness, understanding, and adoption of EPM. The result is an Index that indicates the progress of businesses towards Management Excellence. In November 2009, Oracle conducted the second round of the Oracle Enterprise Performance Management (EPM) Index II.

Some History

In the first study, conducted in March of 2009, Quocirca carried out 800 interviews within a senior targeted audience from large European and North American companies to understand their attitude towards EPM, and to gain an overall perspective of the progress these businesses are making towards adoption of its principles. The research questioned companies about what they observed in support of the six key processes (which became sub-indices) of the "Management Excellence". Those processes are:

- Stakeholder Environment (Gain to Sustain)
- Market Model (Investigate to Invest)
- Business Model (Design to Decide)
- Business Plan (Plan to Act)
- Business Operations (Analyze to Adjust)
- Business Results (Record to Report)

Results from Oracle EPM Index Round 1

By combining answers to the first survey, a single index number was calculated - The Oracle EPM Index - that expresses a snapshot of the state of EPM in the surveyed markets. Calculated on a scale of 0 to 10, the EPM index result was 5.13 in the first study. This indicates moderate achievement for Europe and the US in the field of Enterprise Performance Management.

The key findings of the inaugural Oracle EPM Index show that:
• Many organizations have work to do in the drive to achieve management excellence
• Most organizations do not have the flexibility to respond to changes in the market and their business
• The level of competitive insight is low

Overall, there was a lack of integration between processes and systems, reporting standards vary widely and few organizations have a consistent and consolidated view across the business as a whole. Frank Buytendijk, of Oracle Corporation, did comment that he felt the index may have been a little low due to the relatively poor economic climate, and that many companies were likely being conservative in their EPM observations because of it.

Results from Oracle EPM Index Round 2
Again, 800 organizations in Europe and North America were interviewed and the results show that the recession may have actually had a positive effect on firms - forcing them to integrate and improve enterprise performance management processes and recognize the benefits of treating key management performance processes as a whole, and not as disparate parts.

The overall Index for the surveyed countries leapt by 38% from 5.13 in the first report, to 7.04 in the second report. The increase may reflect an improvement in performance management confidence across all geographies, sizes of organizations, and all verticals. Or it could be due, in part, to a correction to the previous index because of the improving economic conditions.

“Overall, it is very encouraging to see that businesses are making good progress in their quest for Management Excellence. The research really highlights the value of improving the integration between all of the various EPM processes.”
- Alain Blanc, Senior Vice President, Oracle EMEA EPM/BI, Western Europe Applications

Along with increased confidence about progress towards Management Excellence, results from the six key areas assessed in EPM Index II reveal that businesses:
• Increasingly accept the need to adhere to the principles of enterprise performance management
• Perceive significant improvements in their strategic planning and reporting processes
• Are still too internally focused, at the expense of wide-ranging stakeholder expectations, and have comparatively weak levels of integration between the operational areas
• Have an increased focus on customer loyalty to drive growth as opposed to new products, services or geographies
• Now generally acknowledge the importance of Business Intelligence as a key reporting tool

The findings from the Oracle EPM index II reveal that businesses now feel more confident in how to handle the reality of today’s economy. The improved index doesn’t signal any material advances, but does demonstrate a renewed confidence – creating the pre-conditions for real improvements to take place. Comparing it to a rise in consumer confidence preceding a spending increase, this increase in performance confidence will precede new projects and improved ways
of working. Finance departments spent 2009 fixing broken processes and the flow of information. Findings from the Oracle EPM Index II reveal that businesses now understand better that key management performance processes need to be integrated.”

Another interesting finding is that of the six management processes in the Oracle “Management Excellence” framework, the Stakeholder Environment (or Gain to Sustain) index was the lowest in the first index measurement, and lower still in the second. By sharing information about performance, goals, and results, organizations can make stakeholders feel involved and valued, which can have a very positive impact on the organization. Effective stakeholder engagement can help minimize investor turnover, inspire employees (to be effective, efficient, and innovative), keep customers informed, and show partners how great you are with which to do business. In turn, stakeholders become motivated to contribute more to business success, and the virtuous circle continues.

The Oracle EPM Index II report concluded that “While there has been some significant progress made in individual Management Excellent processes (or sub-indices), particularly in planning and reporting, the Oracle EPM Index II also clearly makes the case for paying consistent attention to all six processes”.

“What we are seeing is part of an overall EPM journey - from a siloed approach last March, through to a better understanding of the need now. Quocirca believes that with the right tools in place, organizations can now build on this and move forward into a far more cohesive and coherent set of EPM processes.”

Clive Longbottom, Research Director, Quocirca.

For a copy of the complete Oracle EPM Index II report, please visit http://www.epmtv.eu/Login/?ReturnUrl=%2fCommon%2fDownloads%2fOracle-EPM-booklet.pdf.