“Finance Modernization - adopting a finance systems architecture fit for the networked economy”

A FSN & Oracle White Paper
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Introduction

It is often said that, "The only thing predictable about life is its unpredictability." Change is also a feature of business life – it’s what drives businesses forward – it acts as a spur to organizations to achieve even greater heights. But the last decade has seen unbridled change and volatility on a scale that is unprecedented, punctuated every so often by a mixture of man-made and natural events of breathtaking proportions.

The 2011 Japan earthquake and tsunami disrupted supply chains and the manufacture of essential components in the car industry and electronics sector across the world in a matter of hours. Unprecedented political events in the Middle East have thrown oil prices, exchange rates, inflation and economic forecasts into confusion. Sovereign debt has brought countries to the brink of default and threatened contagion across western economies and business reputations are seemingly built or shredded in a matter of days as communications whip across social networks.

But not all changes are so dramatic. Regulation has steadily added to the burden of change, especially for multinationals facing different regulatory requirements in different regions. Constant impositions from regulators and global standard setters such as revisions to IFRS, the introduction of mandatory XBRL-based filings, new sustainability reporting requirements and a raft of anti-fraud and corruption regulations have piled change upon change, adding to systems complexity and the breadth of information that organization need to absorb and synthesize.

Finally, technology itself is fueling change. The networked economy, hastened by mobile devices and Cloud computing, brings opportunities and process challenges in equal measure. The ease with which companies can trade across borders is welcome but brings with it obligations for the ethical and sustainable management of elongated supply chains.

In these circumstances, it is important that systems architectures are malleable, yet robust, so that business information and processes can be adapted on the fly, and delivered to decision makers irrespective of the changes they face. Yet many systems in use today were designed for a different era and a more benign business environment leaving organizations unable to respond to today’s more pressing demands. So how should companies respond and what systems architecture will enhance their competitiveness, financial performance, productivity and responsiveness in a period of constant change? How does management execute on its strategies, accelerate decision making and maintain performance when everything around it is changing at Twitter-speed?

The last decade has seen significant consolidation in the applications software market. A succession of mergers and acquisitions has reduced the number of globally deployable ERP systems under separate ownership from around fifty ten years ago to a handful in 2011. Business Intelligence and Performance Management systems have followed suit as the leading software vendors sought to assemble complete application suites of ERP, EPM (Enterprise Performance Management) and GRC (Governance, Risk and Compliance) software capable of satisfying the diverse needs of their customer base. But now that the building blocks are in place there is little sense that businesses are taking full advantage of the availability of integrated suites and the benefits that they bring.

So what has been holding back progress? In practice there are varied reasons, for example, lack of visionary skills, the complexity of existing infrastructure, perceived risk in changing technology platforms and a lack of understanding of the potential benefits. Added to which there has been a reluctance to invest in additional infrastructure during a soft patch in the economy.

But there has also been little incentive to re-invest in new systems. The application suites of the last 10 years have grown largely by ‘grafting’ on new functionality (often via acquisitions) to existing offerings rather than the wholesale re-engineering of what is on offer. It often needs a step-change in capability to persuade organizations to migrate to new offerings.

So companies have made judicious additions to their software portfolios, launching discrete improvement projects and making piecemeal additions at the margins where feasible, i.e. building on what they have already have in place. Such pragmatism has enabled organizations to successfully navigate many of the challenges in the short term but it has left fragmented, costly and inefficient systems architectures in its wake. More importantly it has rendered them incapable of responding to the competitive pressures of the digital economy.
Despite patchy investment in financial systems, significant strides have been made in understanding and formalizing some of the core financial processes that may have been neglected in the past. In fact it could be argued that the slight pause in investment has given the finance function much needed time to reflect on what it does, better engineer its processes and pave the way for more agile and finely honed finance systems architectures.

“When combined with improved and efficient processes, innovative technologies have the ability to deliver quick and simple advantages. For example the continual integration of operational and finance systems with redefined processes can greatly enhance the speed at which information flows throughout the organization and may enable the CFO to better manage inefficiencies or regulatory penalties.”

A number of finance transformation initiatives stand out as particularly successful and productive, such as investments in Financial Close & Reporting; Integrated Business Planning; Compliance & Risk Management, and Shared Services.

**Financial Close & Reporting**

The group (corporate) financial reporting process has been in a constant state of flux since the introduction of the Sarbanes Oxley Act in 2002. Regulation and compliance have been in the ‘driving seat’, stretching the breadth of reporting, accelerating reporting deadlines, introducing new information requirements and ushering in a new era of electronic filing based on the global XBRL standard.

Over the last decade, tremendous progress has been made in the financial reporting supply chain, for example, the ease with which data can be harvested from subsidiaries and submitted to group. The ability to readily capture information from integrated ERP systems together with financial data quality management and advanced analytical and reporting tools has led to a step-change in financial integrity and the ability to respond easily to new information requirements.

**Cutting financial close times in half has allowed Pearson to respond to changing market conditions.**

Pearson, an international media company, in the world of education, business information, and consumer publishing has businesses in over 60 countries. Pearson knew it had to gain a single, centralized environment of business knowledge, as well as streamline and integrate processes for management and statutory reporting.

Pearson Reporting and Information Management Environment (PRIME), the company’s collection, consolidation, and reporting enterprise performance management (EPM) portal, went live in 2004 on a single global instance of Oracle’s Hyperion Financial Management. Some 300 managers in 60 locations use it to consolidate 80 enterprise resource planning (ERP) environments for compliance, regulatory, and stockholder filings. Standardized group policies and key performance indicators give business managers and analysts near-real-time visibility of financial performance across the full reporting cycle which enables them to identify anomalies and identify opportunities much earlier.

Since implementation, processes have been simplified, bottlenecks identified rapidly and the number of sub-consolidation points have been reduced. As a result, Pearson has more than halved the monthly close time by consolidating financial reporting for its three global businesses on Hyperion Financial Management. Migrating from legacy software has cut licensing costs and ensured a continuous reduction in support costs.

“PRIME has enabled us to achieve a progressive reduction in submission times. We have rapid performance visibility which improves our ability to move quickly in response to changing market conditions and customer needs to be able to meet competitors head on,” says Michael Benjamin, senior vice president and controller (Americas).

**Integrated Business Planning**

Historically, organizations have built up their budgets and plans along functional lines – simply because that is the way that people are usually organized. But business processes do not respect...
functional boundaries. The true costs of sourcing a product, delivering it to a customer and getting paid are driven by the process – not by functions. This means that plans in one area need to be consistent with projections in another if resources are to be allocated efficiently and satisfying a performance objective in one place is not to have unforeseen consequences in another.

Enlightened companies are seeing the benefits of a cross-functional capability in which the planning effort is aligned with core business processes and integrated so that planning assumptions are normalized across the enterprise. An integrated business planning system provides a platform in which planning models are inextricably linked and can be shared by users in different functional areas. Technology such as this not only supports real-time analysis, reporting and decision making around operational plans but also binds them tightly into financial and strategic plans. The outcome of this is broad consensus around predicted outcomes and greater assurance that operational performance is technically, strategically and financially feasible. Yet despite the obvious advantages of specialised tools 96% of organizations still rely on spreadsheets and manual processes for key parts of the planning cycle.

**Cabot Microelectronics reduced its forecasting cycle time by 50%**

Cabot Microelectronics is a leading global supplier of consumables to the semiconductor industry. But in this fast moving sector its planning cycle was too slow and inaccurate so the business embarked on a project to integrate its sales and operational planning in real time. By replacing its existing demand planning system, Cabot Microelectronics found it could reduce its demand forecasting and planning cycle time by almost 50 percent as well as reduce forecast error rates.

Liberating valuable time from the planning cycle has allowed Cabot Microelectronics to quickly respond to changing business conditions and swings in demand while gaining better control of its global planning and forecasting processes. Previously, the forecasting process was highly manual and time intensive. The new, tightly integrated system allows Cabot Microelectronics to design long-range plans in Oracle Hyperion Planning which are then translated into annual plans and synchronized with Oracle Real Time Sales and Operations Planning for execution across sales, inventory and forecasting. As a result, the company has seen a 50 percent reduction in forecast error rates at the item number level.

“Oracle’s Real Time Sales and Operations Planning solution and the integration to Oracle Hyperion Planning has had a valuable impact on our entire organization,” said Cabot Microelectronics Director of Global Customer Service and Sales Operations, James Dillon. “We’ve streamlined and automated demand forecasting and improved our ability to deliver timely plans. Our finance team can now focus on analysis and planning instead of data gathering. Also, our sales force benefits from a much more intuitive, user-friendly interface and is now able to forecast price changes in Demantra. Overall, the transparency we’ve gained promotes better collaboration across our global operations.”

**Governance, Risk and Compliance (GRC)**

GRC is an umbrella term which brings all of the control strands together providing an integrated repository in which (i) enterprise risks can be documented, quantified, prioritized and managed (ii) governance procedures, such as, board and management activities, oversight structures, strategy setting, performance monitoring and reporting can be recorded (iii) there is a documented controls environment for the evaluation, monitoring, and reporting of the controls that facilitate compliance with regulatory requirements as well as corporate policies and procedures.

Rampant growth in transaction volumes, technical complexity, growth in regulation and an ever increasing variety of deployment options all play a part in laying organizations open to business risk, non-compliance, fraud and error. The growth in volumes makes it hugely difficult to identify errant transactions. Manual controls and the traditional operations of internal audit are blunt instruments in the face of terabytes of corporate data.

Fortunately, there has been a step-change in technology which has enabled the rapid development of potent GRC platforms in which there is constant surveillance of the controls environment. Modern systems of Governance, Risk and Compliance offer a much more holistic and integrated approach compared to the scatter-gun approach adopted by many organizations. New capabilities such as automated controls monitoring and surveillance of transactions coupled with advanced analytics and reporting offer enhanced prospects for protection against non-compliance, mistakes and fraud.
A.M. Castle & Co. steps up process controls and compliance with a GRC solution

A.M. Castle & Co. is a distributor of specialty metals and plastics products and supply chain solutions in more than 60 locations spread across the United States, Europe and Asia. Managing controls and compliance is demanding for any multinational operation but acquisitions and rapid global expansion presented A.M. Castle & Co. with additional challenges in finance and administration.

For A.M. Castle & Co. the ‘quote to cash’ cycle came under particular strain. It became inefficient and error prone and poor order tracking caused service issues. Additionally, the special needs of the metal distribution business required a number of additional data fields and keystrokes which were not always performed completely and accurately. The company relied heavily on manual controls such as extensive exception reporting to ‘trap’ erroneous entries and transactions that were outside of corporate policy. This system of manual surveillance was supplemented by numerous custom audits, but the CFO and Board sought a more robust controls environment and decided to implement Oracle Fusion Governance, Risk, and Compliance on top of its Oracle E-Business Suite.

By instituting a system of automated controls that could reduce and correct orders at source, the company managed to reduce order entry time by 20 percent. The new regime also improved customer service through more accurate order information which ensured that the company shipped and invoiced goods correctly from day one. The availability of automated alerts and exceptions by email helped the sales department resolve order queries with customers before they became an issue. The net effect of all of these improvements greatly enhanced operational performance and user confidence in the ‘quote to cash’ process.

Shared Services

‘Shared Services’ is one of the resounding successes of the last decade and it’s not difficult to understand why. Earlier decades had seen the introduction of ERP systems and business process re-engineering initiatives on a grand scale. These projects successfully drove down the cost of transaction processing at a time when businesses almost everywhere in the west were experiencing high levels of annual growth. Now in more restrained times organizations have found that there are additional economies of scale to be had by combining these processes into shared services centers (SSC). According to a recent survey 34 percent of organizations have had one or more SSC’s for three years or less. Cost reduction is the main driver in 87 percent of cases and finance continues to be the process area most often moved into Shared Services (93 percent of SSC’s).

However, the benefits extend well beyond driving cost out of the business. “Streamlining and simplifying core financial processes have widespread advantages. The honing of complex processes in centers of excellence allows organizations to standardize on a single supplier platform, strip out wasteful ‘non-value’ added tasks, concentrate resources on the essentials, improve process visibility, reduce error rates and enhance management controls.”
Experian plc deployed ERP in regional shared services centers to support global expansion and improve efficiency

Experian plc, a global information services company, provides data, analytical tools, and marketing services to clients in more than 65 countries. It provides businesses with decision-making support—helping them to manage credit risk and prevent fraud—and assists consumers with checking credit reports.

It turned to a shared services approach to create a scalable platform to support rapid expansion and enable it to deploy new core financial and human resources functionality quickly to additional countries. As part of the initiative it upgraded its enterprise resource planning system (ERP) to a single global instance of Oracle E-Business Suite Release 12 in 21 countries and created three regional service centers.

It completed the upgrade in five months, while supporting concurrent country deployments. It enabled Experian to establish a global chart of accounts, and complete its financial close to agreed service levels. Business managers benefitted from improved visibility of operations and greater reporting capabilities.

It also created an extensive, stable ERP foundation that offered new functionality and enables rapid integration of new businesses into its financial information services network.

According to Collin Markwell, Senior Vice President, Global Corporate Systems, Experian plc “Oracle E-Business Suite Release 12 applications provided a solid foundation on which to deploy value-added functionality across the business. It enables Experian to be agile as we continue to grow and expand our network of credit and financial information services around the globe.”

Connecting the dots

The foregoing paragraphs illustrate the individual progress that has been made in financial reporting, integrated business planning, compliance and risk management, and shared services but many of these initiatives are pursued in isolation from each other. Improvements in one area do not necessarily benefit another and the full value of investments cannot be realized across the enterprise because of fragmented systems architectures. So is there a better way? What principles should guide the development of modern finance systems?

Preparing for the future

ERP systems represent the most trustworthy source of corporate information about customers, suppliers, products and employees and these applications ‘touch’ virtually every functional area of the business. So the idea that ERP systems should occupy the center ground of business systems architectures has largely gone unchallenged for the last 20 years.

But the focus of ERP systems has been on accumulating functionality; i.e. assembling and integrating applications with broader coverage enabling a richer experience across all industries while absorbing the specialist requirements of so called ‘vertical’ markets. In the last decade these have been complemented by Business Intelligence, Performance Management, and Governance, Risk and Compliance suites that have leveraged the core capability of ERP systems.

This approach has served organizations very well in the past, but we are entering a new era in which a process view of an organization, with and beyond its strict borders is usurping the traditional functional view of its operations. This is because the process view of an organization is more reflective of how it works in practice and how resources are deployed. In this new paradigm there is also a greater understanding of how application design critically affects user productivity and responsiveness to change.

So what are the best practices in the design of modern finance systems?
Roles-Based Processing
Accompanying a process are the roles that people play individually and collectively in guiding its progress. Roles-based processing acknowledges that although people are generally organized into functional groups, for example, “sales”, “credit control”, and “inventory”, in reality the business is transacted in a process that transcends all of these artificial functional boundaries - in this case “order to cash”. Roles-based processing identifies all of the key roles within an organization and then assembles set pieces of user functionality and information appropriate to a particular user’s role in the business. Essentially, it is a complete environment, almost portal-like in concept, where information from different data sources can be brought together with relevant functionality on the same page.

Embedding Information Management and Analytics
The modern finance system seeks to embed information management within the application itself, reconnecting users with the business processes they are expected to operate, allowing them to derive business insight from the thousands of transactions they process and provide a single platform for more efficient roles-based processing. The idea is that users should be presented with the right information at the point of transaction, rather than having to wait for a separate report.

Since many organizations have roles in common there is also a place for pre-packaged analytics that, based on best practices, can provide a foundation of information appropriate to a particular role, pulling relevant information as needed from multiple business applications. According to one survey, approximately 61% of executives cite the importance of Business Intelligence in helping them make strategic decisions and react in real time to market events.

Enabling Collaboration
Collaboration is a theme that should weave its way through every aspect of a modern finance system. In the past users had to log into multiple application environments (usually Microsoft Office) to communicate with others. Collaboration envisions a much more intimate and immediate connection between processes, so that information (reports, process steps, issues and tasks) can be dispatched from one user to others through shared workspaces without ever leaving the application or cutting and pasting between applications.

Simplifying the 'User Experience'
Historically, financial systems have been relatively difficult to navigate learn and use, stifling initiative, discouraging staff mobility and making information difficult to find. However, considerable progress has been made in application design over the past decade, making finance systems easier and more intuitive to use. A key consideration in newer finance architectures is to make applications more appealing to the ‘Facebook’ generation. (Facebook now has over 650 million users, and Twitter’s volume of visitors is rising at over 80% a year.)

But what kind of finance systems architecture is needed to support the transition to a more joined up environment? What would target architecture look like?

The target architecture
Open Standards
The assembly of the full breadth of application software is crucial to an effective finance systems strategy. But what constitutes the full breadth? In the past 20 years the scope of finance systems has grown well beyond its humble origins in financial accounting. ERP marked the first serious efforts to offer core business processes in a single integrated suite and the trend has continued with the blurring of the boundaries between business intelligence applications and performance management applications integrated into popular ERP platforms. In more recent times, governance, risk management and compliance (GRC) have coalesced so that the current position is that a fully fledged finance architecture consists of GRC, Enterprise Performance Management (EPM) and ERP.

However, the breadth of applications continues to expand. For example, the introduction of XBRL and digital reporting continues to challenge the boundaries. What we learn from this is that whatever architecture is designed for an organization it must have open standards at its core to allow for additions in the future.
Centralized Data Model
The growth in applications, data diversity and data volumes has created significant challenges for data quality management. Organizations have found it difficult to preserve data integrity (completeness and accuracy) when items of standing data (metadata such as cost centers, products, business units) are duplicated between applications – often using different coding structures and nomenclature. The proliferation of inconsistent data undermines reporting, performance management and confidence, so it is vital that a modern finance system maintains a centralized repository of metadata which is shared by all applications and can be updated as the business changes shape.

Adaptable Business Processes
Processes are the fundamental building blocks of a modern finance systems architecture. Yet they are inevitably susceptible to change. Modern finance systems have to be able to absorb process changes, for example additional steps, workflow tasks and routings without resorting to coding, hours of consulting support and without jeopardizing upgrade paths. Furthermore, in a finance setting, process changes should be capable of being implemented by finance personnel without the need for support from IT specialists.

User Interface for the Facebook Generation
The quality of the user interface is possibly one of the most undervalued aspects of business applications but the influence of the ‘Facebook’ generation which is entering the workplace for the first time is likely to force the pace of change. Young people expect the immediacy and accessibility of applications that they encounter in their private lives to be mirrored in their working lives. So applications in a modern finance setting must be simple to navigate, communications need to leverage social media and be supported by Instant Messenger style capability and speed.

Multiple Deployment and Delivery Methods
Advances in Cloud computing, mobile devices and operating systems have created choice in the way that applications are deployed and delivered to end users. The modern architecture has to accommodate a mixture of delivery models without compromising security or simplicity, for example, ‘single sign-on’. Mobile computing is seen as essential to business prosperity. Improvements in application design and mobile devices (including cameras) means that they can be used for, say, capturing images of receipts, updating workflows, responding to alerts and delivering KPIs. According to a recent global survey of C-Suite executives 57% say that mobile technologies will have the greatest positive impact on their business over the next five years.

Cloud computing is well established as a regular feature of modern finance systems architectures alongside the more traditional on-premise approach. It is widely appreciated that private, public and hybrid clouds can offer significant advantages in terms of, the availability, accessibility and scalability, of ERP, BI, GRC and other applications enabling organizations (especially those with mobile workforces) to respond even more flexibly to changing market conditions. At the same time, reducing the scope of in-house infrastructures by deploying to the Cloud can help businesses reduce their costs and improve the returns from their IT assets.

Modular – No Need for ‘Big Bang’
Of course not all organizations are in a position to take up the latest advances in applications and delivery methods straight away. Others may not need the latest capability. The ‘ideal’ architecture allows businesses to transition to new methods of working at a pace which suits their operations rather than being forced to accept a big bang approach which has been common practice in the past. Modern architectures should anticipate partial migrations and manage the consequences of upgrades in a way that minimizes business disruption.

How Oracle responds
Thousands of organizations globally use Oracle’s Financial Management solutions to manage their day to day financial processes, to plan for the future and to support changing regulatory and business requirements. Oracle’s Financial Management Solutions include packaged applications for core financial processing; governance risk and compliance; and enterprise performance management. The core financial applications, which include Oracle E-Business Suite, PeopleSoft
and JD Edwards Financials can be deployed on a distributed or centralized basis to support a shared services model and cost efficiency.

Oracle has also recently introduced Fusion Applications, a 100% open-standards based business application suite designed to set a new standard for the way organizations innovate, work and adopt technology. Oracle Fusion Applications provide flexible deployment options including on-premise, public clouds, private clouds and software as a service (SaaS). Delivered as a complete suite of modular applications, Oracle Fusion Applications are designed to co-exist with current application investments. Two modules are especially relevant for Finance systems - Oracle Fusion Financials and Oracle Fusion Governance, Risk, and Compliance.

Oracle Fusion Financials is a set of integrated financials modules with a role-based user interface that supports collaborative business processes. Unlike traditional financial systems that consider decision support and intelligence as an afterthought, Oracle Fusion Financials places business insight at the fingertips of all users. Its advanced reporting platform and native business intelligence can fundamentally change the way finance professionals work.

Oracle Fusion Governance, Risk, and Compliance is a platform for enterprise risk management, multi-regulatory compliance, and controls enforcement. Unlike niche products that focus either solely on documenting policies or on monitoring system controls, Oracle Fusion Governance, Risk, and Compliance combines vital risk and compliance oversight with automated controls enforcement. This tight integration allows firms not only to meet current regulatory requirements but also to embed control, predictability, and efficiency into the very fabric of the business.

Finally, Oracle’s Hyperion Enterprise Performance Management applications provide an effective solution for integrating strategy, planning, and execution into a seamless process. Oracle’s Hyperion Performance Management applications are a modular suite of integrated applications that integrate with both Oracle and non-Oracle transactional systems. Although each application can be deployed independently to deliver a high degree of value, they work better together, integrating strategic, financial, and operational management processes.

Summary

Organizations are facing unprecedented levels of change and volatility, fueled by globalization, social media, geo-political upheaval, macro-economics (sovereign debt), technological innovation and regulation. While change has always been a feature of the business landscape, the scale and velocity of what is happening now sets a different tone. Against this background organizations have to be extremely fleet-footed if they are to remain competitive. In turn, this has profound implications for the systems and processes that support management decision making and, more broadly, everything that the enterprise does, from sourcing supplies to delivering products and services.

The ERP systems which formed the foundation of business systems architectures for the last 20 years have served multinationals very well. Over time significant strides have been made in Business Intelligence, Performance Management, Governance Risk and Compliance which have added to the richness of what is on offer. Furthermore, finance transformation initiatives around financial reporting, shared services and integrated business planning have delivered considerable value. But the demands of the 21st century require the support of a new kind of systems agility and a modern finance systems architecture.

A preoccupation with functionality has given way to a process oriented view of the way that business is conducted in which best practices, business roles and analytics are deeply embedded in the applications. The impact of intuitive user interfaces and the need to share common, standardized and controlled information across the enterprise is much better understood. This new thinking and flexible process capability is exposing a yawning gap between the systems currently deployed and a new generation of more agile, flexible systems better suited to the rapidly changing markets that most businesses now face. Indeed the case for change – finance modernization - is now more compelling than ever before.

The good news is that unlike in the past, when systems innovation required a wholesale change in approach, the so called ‘big-bang’, the new paradigm allows new capability to be introduced much more in sympathy with business needs. This means that organizations can equip themselves for the new reality with minimum business disruption.
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