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Management Excellence Framework: Plan to Act

ORACLE

Introduction – Management Excellence Framework

In the era of operational excellence, operational processes became well defined. Order to Cash, Procure to Pay, Invest to Retire, and Develop to Release, among others, became reliable, uniform, and predictable ways to get the job done. In time, the management processes will be defined with the same degree of clarity. At the moment, however, the term means many things to many people.

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

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

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

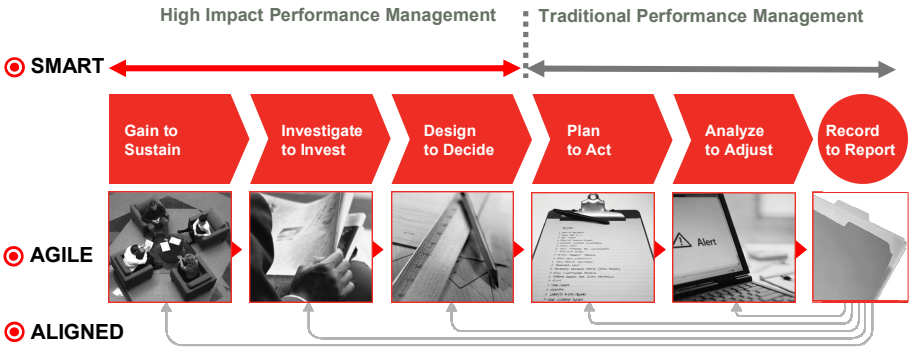

Figure 1: Management Excellence: The Management Process Value Chain

The Management Excellence Framework combines several principles that are critical in driving management excellence.

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

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

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

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

In this white paper, we focus on the Plan to Act management process.

Plan to Act

At this phase of the Management Excellence Framework, we return to the more traditional view of performance management, using the PDCA-cycle. Management sets goals and creates plans to reach them. It closely monitors progress against the plan and analyzes differences. The team then reports results and adjusts its goals to align with the feedback. Where the Management Excellence Framework differs from the traditional view is frequency. Rather than an annual financial exercise, planning becomes more operational in nature so that the company continuously balances the needs of the market and its stakeholders with the capacity of its internal resources and activities.

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

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

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

Plan to Act

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

The Plan to Act process helps organizations answer the following questions with confidence:

- Are line managers compensated according to their contributions toward achieving corporate goals and objectives?
- Are strategic goals linked to financial budgets and operational plans?
- Are your goals and objectives achievable given the organization's constraints? If not, how will you address gaps?

- How will you analyze the causes behind variances?
- How will you update your plans and budgets to reflect changes in the market and business environment?

Step by Step

The Plan to Act management process deals with the optimization of capital and resource allocation to ensure the effective execution of an organization's strategy. Table 1 below describes inputs, best practice and outputs for the Plan to Act management process.

TABLE 1. PLAN TO ACT INPUTS, PROCESS STEPS, AND OUTPUTS

INPUT	BEST PRACTICE STEPS	OUTPUT
Business model Stakeholder requirements Long-term and short-term goals	Agree on an enterprisewide planning framework Align resources and activities across business functions Commit managers to short-term goals. Efficiently allocate resources Test and experiment continuously for better ways to reach goals	Short-term targets, aligned across organization Drivers Constraints Assumptions Executable plans and budgets

In preparation, management assesses the feasibility of how stakeholder requirements, assumptions about the target market, and business model objectives can be transformed into executable goals for the organization. The team must analyze risks, review investments, and evaluate finance options. Based on the projections of potential outcomes and results in different operational scenarios, the organization will identify constraints, gaps, and drivers. All planning activity must then fit into this framework.

Organizations must also prepare contingency plans for potential deviations, such as higher than expected demand. If production capacity cannot scale with an increase in demand, the outcome (not enough units) could have negative repercussions for the company. For example, one of the leading car manufacturers in Germany recently released a new SUV model. Within a few months, the entire planned production capacity for the first year was sold. Undoubtedly, this was a profitable business decision in the short term. But if demand exceeded all previously planned scenarios and there were no reasonable alternatives to increasing the number of units produced, buyers might choose to buy from a competitor.

Based on the company's strategic goals, management performs a number of financial and operational planning cycles in parallel. It evaluates constraints, optimizes planning models and structures, and assigns targets across the organization. The resulting plans are distributed to all

decision-makers and later collected, consolidated, and analyzed for gaps or deviations. Finally, the organization allocates resources and commits to the budgets and its goals. These actions result in internal alignment.

In today's business performance networks, this commitment can only be achieved when plans are shared with business partners. For this reason, many organizations have started to move away from fixed periodic budgets and are adopting rolling budgeting and forecasting activities. This is an important step toward increasing agility. Companies not only react to changes, but they are also able to drive change. Organizations should continuously look into different and better ways to drive business performance. Ultimately, the Plan to Act process helps organizations "stick to reality," instead of "sticking to the plan."

Key Metrics

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

TABLE 2: PLAN TO ACT PERFORMANCE INDICATORS

	BUSINESS RESULTS (LAGGING)	BUSINESS DRIVERS (LEADING)
Vertical alignment (hierarchic approach)	• Realized contribution to company goals	• Vertical alignment (hierarchic approach)
Horizontal alignment (value chain approach)	• Realized contribution to other business domains	• Planned contribution to other business domains
Local optimization	• Productivity	• Asset utilization rate (people, facilities)

The balanced scorecard helps link performance indicators on the strategic level, but every part of the organization needs to understand its own contribution. For the most part, performance indicators are structured to conform with the organizational hierarchy and various functional domains (sales, marketing, logistics, finance, HR), geographies (Americas, EMEA, AsiaPac) or product divisions. Each organization needs to understand its contribution to the organization's

overall success, and preferably understand its contribution to overall profitability[1]. In order to do that, each part of the organization needs to run an efficient shop. With the available resources, productivity (output) needs to be maximized. The associated leading performance indicator is the asset utilization rate - to which extent the resources available can be used in an efficient manner. For people, it is important to track absenteeism; for facilities and machinery it is production time as part of overall available time.

However, there is a danger associated with vertical alignment (each part of the organization maximizing its use of resources): local optimizations. The question of whether redistribution of resources will lead to higher overall results is only asked on the executive level, and may be challenged fiercely by middle management. Next to vertical alignment, horizontal alignment is needed. Every part of the organization should also know what it contributes to the other parts of the organization, upstream and downstream of the value chain. It is peculiar that often this is not the case, as most value drivers are more process-oriented than hierarchy-oriented. Take, for instance, one of the most important drivers for customer satisfaction in an insurance company: processing speed of claims. A claim that is rejected quickly leads to fewer customer satisfaction issues than a claim rewarded after months. However, the claims department only partly controls this performance indicator. It depends on the skills and training of the people, the quality of the IT systems, and the underwriting department accepting the right risks. Or think of 'triple play' offerings (telephony, internet, TV) from telecoms. The most important performance indicator is 'first time right', making sure the installation of the offering is flawless. This requires tight integration of planning processes between the various product pillars within the telecom company. Whereas normally they would optimize their operation by planning large batches, in this integrated environment the unit of optimization is each single installation. Lastly, consider the aerospace industry, where 'zero defect' is a dominant performance indicator. Every single business function is involved in achieving this target. It starts with the design function, making sure every part only fits in one particular way, and it ends with rigorous tests and quality checks. Everyone is responsible.

Every department needs to understand its contribution and impact on other departments. Taking this value chain approach, defining performance indicators per business domain may not bring optimized results. Most delays, quality problems, and associated costs occur between business domains - handing over work from one function to the next. These handovers are called business interfaces and they need metrics as well. What is the average waiting time of transactions between business domains? What percentage of transactions flows flawlessly through the various processes and systems?

[1] "The Need for Profitability Management," An Oracle Thought Leadership White Paper (September 2008), http://www.oracle.com/solutions/business_intelligence/index.html (under "White Papers").

Management reporting using vertical alignment improves an organization's accountability. It is clear whether managers make their assigned targets or not. Horizontal alignment improves an organization's responsibility. Managers need to keep an eye on what they achieve for others, and know their contribution to the goals of the customer.

Key methodology: Performance Leadership Framework[2]

Techniques and Technologies

In support of the Plan to Act process, an EPM system needs to enable the development of strategic targets and goals - cascading these targets across the organization and through all management levels. It also includes the development of bottom-up operational budgets and plans; an understanding of cost and profitability drivers across various lines of business; periodic updates of plans and forecasts; and ongoing variance reporting among budgets, forecasts, and actual results.

Key capabilities and techniques required to support the Plan to Act process are

- **Strategy and accountability mapping.** Strategy maps are diagrams that describe how an organization can create value by connecting strategic objectives in explicit cause-and-effect relationships with each other. Accountability maps allow the teams, departments, committees, and individuals responsible for tasks to understand how their actions are aligned with strategic goals.
- **Top-down planning.** This type of planning involves setting corporate financial goals and targets for revenue, expenses, head count, and capital expenditures. These goals and targets must then be cascaded or allocated throughout the various departments and divisions of the organization. They also become the starting point for the financial and operational budgeting activities that occur throughout the organization.
- **Bottom-up budgeting.** This type of planning involves the detailed buildup of financial and operational assumptions by cost center, department, division, or business unit in an organization. Rolled up at a corporate level, they are matched against the original financial objectives or targets set by senior management and external stakeholders. To align top-down and bottom-up budgets and plans, the bottom-up budgeting process must go through several iterations throughout the annual budget process.

[2] Frank Buytendijk (2008), *Performance Leadership*, McGraw-Hill, New York.

- **Workforce, capital, and project-level planning.** This more-detailed budgeting can add time to the budgeting process, but it provides an additional level of granularity that many companies need to ensure a high level of confidence in the final budget or plan.
- **Rolling forecasts.** Many companies update the annual budget with a rolling forecast. This technique involves replacing budgeted revenue and expense numbers with actual results by month or quarter as the year progresses. In many cases, companies will reforecast expected results for the remaining periods based on the actual numbers. This forecast can extend out one quarter, the remainder of the fiscal year, or for a number of quarters beyond the fiscal year. An emerging trend is to eliminate the annual budget completely and run the business entirely on this rolling forecast concept.
- **Operational planning and modeling.** Operational planning and modeling relies on modeling revenues and costs based on various business drivers such as unit forecasts for sales, changing material costs, and shifting sales prices. The key is matching changing input assumptions to operational and financial constraints to ensure that the operational plans are achievable and will deliver the desired financial results. Some companies are beginning to evaluate not only the costs associated with their supply and production chains, but also the environmental impacts - such as carbon footprint and resource consumption - across the entire value chain.
- **Activity-based costing and other allocation methods.** Matching direct costs with revenues provides only a partial picture of the profit contribution from a product or service line. Other operational costs must be fully allocated to understand the true profitability of a particular line of business. Activity-based costing and other allocation methods can be used to understand which products, services, or customers are more or less profitable.

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

TABLE 3. ORACLE'S EPM SOLUTIONS FOR PLAN TO ACT

PRODUCT	ALLOWS MANAGERS TO
Oracle Hyperion Planning	• Align high-level goals to detailed operational levels by matching the bottom-up plan with top-down targets • Break down the long-term plan into an annual operating plan • Allocate capital and resources across the organization to ensure achievement of company goals • Create rolling forecasts to continuously keep track of market changes and adjust plans accordingly • Provide detailed workforce and capital asset planning
Oracle Integrated Operational Planning	• Align all business functions by allowing collaboration on the overall business plan • Connect the financial plan with operational plans to ensure financial goals as well as capacity and material requirements are met • Insert the correct operational assumptions into the financial plan to increase forecasting accuracy
Oracle Hyperion Profitability and Cost Management	• Determine true customer and product profitability to plan for the most profitable segments • Define actions to improve or abandon unprofitable products and services • Gain insight into cost structures and drivers to create plans for increasing efficiencies and improving profit margins
Oracle Hyperion Performance Scorecard	• Align corporate strategy to operational levels with strategy and accountability maps • Assign KPIs, strategic initiatives, and accountability to business units, departments, and individuals • Track performance against key initiatives and support collaboration across functions

The budgets and plans that emerge from the Plan to Act process become the basis for monitoring business operations during the Analyze to Adjust process.

Call to action

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

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

Thousands of companies around the world are benefiting from Oracle's comprehensive approach to EPM. With lower costs and less complexity than with nonintegrated point solutions, companies using Oracle's EPM system are able to align decisions with strategic goals, reduce financial reporting and planning cycles, compare operational results to plans in real time, and drive Management Excellence.[3]

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

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