Enterprise Performance Management

A comparative index across 8 geographies

March 2009

Monitoring, measuring and reporting on the financial health of an organisation is a basic need that requires effective tools and processes to optimise the end result. Underpinning this is the requirement for planning capabilities, utilising scenario and what if analysis with simulations and other forward looking capabilities. However, the research within this report shows that much still needs to be done.

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How an organisation is performing is a basic need, requiring full visibility of various processes and workflows across an organisation, its partners and other stakeholders, as well as the correct means of monitoring and measuring how effective these variables work to a required end result. The research behind this report shows that there remains much to be done, with disconnects between key steps and a lack of inclusion for essential stakeholders across processes.

- **The overall EPM index for the geographies covered if 5.13 out of a maximum score of 10**
  There seems to be much to do for organisations in ensuring that they look at empirical data while creating the capability to extrapolate forwards with tools such as scenario and "what if" analysis, and in involving internal and external stakeholders in the organisation's core management processes
- **A high number of respondents did not see any close alignment or dependencies in the sub-indices making up the EPM index**
  Without a core set of plans that build upon each other, the chances of creating a coherent and effective overall strategy will be critically flawed. It is strongly recommended that organisations ensure that plans are fully integrated and that process flows are fully understood before enacting an EPM strategy
- **Geographies with "soft-touch" governance expect to see the most change in regulatory loads over the coming 24 months – but also do well in the EPM index**
  The research points towards geographies with the lowest regulatory loads currently being able to meet these needs far more than those in more heavily regulated geographies. However, these same geographies do expect to see regulation change far more than others – and this could well mean that the same research run in six months' time could see certain geographies move backwards in their index scores
- **Mid-sized organisations score less well than very large organisations**
  Although the difference is relatively low (generally less than 0.2 points difference), mid-sized organisation can learn from this report and from how larger organisations codify and automate key processes, and how different stakeholder groups are embraced and included to create more effective value chains
- **Few organisations are looking to new geographies or new channels for growth**
  This is probably down to the current financial climate, where higher-risk strategies are not being embraced. Most organisations see that concentrating on attracting new customer, bringing new products or services to market or reducing customer churn offer better possible returns that attempting to break into new markets - which may be suffering equally as badly as the organisation's home market
- **Business intelligence (BI) is not seen as a critical tool in the EPM toolbox**
  Many respondents did not see BI as a major business tool. A quarter of respondents were not sure what their views on BI were, with a further 15% seeing BI as an expensive tool for visualising data. Only 12% saw BI as being a major means of monitoring, measuring and reporting on the overall health of a business. However, those who see BI as a critical tool scored better in the overall index than those who saw it as being an expensive data reporting tool, or a means of looking only to past performance.

Conclusions

Enterprise performance management is still effectively in its early days, with the majority of organisations having non-integrated pieces of functionality in place. However, if organisations could pull together the various strands of the sub-processes together, an effective and flexible strategic platform could be built from which organisations will be well positioned for survival through the current market conditions and be well positioned for rapid growth when the conditions improve.

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1. Introduction

In difficult times, it is far more important to have a deep understanding of exactly how well or badly an organisation is performing, such that steps can be taken to bring about the requisite changes to bring the organisation's performance back in line. But, historical reporting can only take a business so far, and it is increasingly important to ensure that forward looking capabilities are implemented to maximise opportunities while minimising the cost of failure or poor performance. 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.

Although much of EPM revolves around the financial health of an organisation, the impact of operational and strategic processes can be massive. Future states have to be understood so that variances can be identified at the earliest possible stage, enabling small tactical alterations to processes to be made, enabling the various stakeholders to better support the overall, longer-term strategy. This approach also provides a platform for flexibility – as the market conditions change, the organisation will be best placed to identify these changes at the earliest possible point, and to respond through well thought out and implemented approaches. By gaining a current state and forward looking view of the various aspects of the management processes involved across the complete value chains of a business, an organisation can create an environment of management excellence, where the variables of cost, quality and speed are closely linked and managed to the overall benefit of the organisation.

To operate within a management excellence environment, an organisation has to ensure that it is:

- **Smart:** The data that is shared across an organisation has to be the same, successful organisations will have the means to best leverage existing data from internal and external sources to gain better insight, and so to be able to move and respond faster in the competitive markets.
- **Agile:** Current markets are fragile and changing, and unless an organisation can use effective management processes to rapidly implement decisions made around information gained from a smart platform, opportunities will be missed. An agile organisation can respond rapidly to market changes, as they need less time to assimilate the impact that incoming data on competitive moves will have on their own position. Using flexible process capabilities, actionable decisions can ensure that an organisation can maintain and build on its own competitive edge in a continuous manner.
- **Aligned:** An organisation can no longer be constrained within the four walls of the organisation itself. It has to ensure that it includes and embraces its constituents across the value chain – the suppliers and customers, the employees and contractors, as well as the investors and shareholders. Each group has their own needs that have to be pulled together so that the organisation can leverage their contributions: after all, each stakeholder has their own interest in the overall success of the organisation. Approaches and supporting technologies must be in place to ensure that stakeholder inputs can be sought out and encouraged, and that feedback loops include these important resources to maintain flexibility and effectiveness across the value chain.

EPM should provide the information, processes, tools and capabilities for organisations to become smart, agile and aligned. However, how can this be measured, and how is EPM perceived in the market itself?

This report draws on interviews with senior influencers and decision makers in the finance function within large and medium sized organisations across 8 geographies (North America, UK, France, Iberia, Nordics, Benelux, Germany/Switzerland, Italy) and a range of verticals. Their views were solicited across a range of different areas, enabling a relatively simple measure to be taken which indicates an organisation's readiness for embracing, using and maximising the impact of an EPM approach.

The survey has been split down into discrete sections (described in section 2 below), which allows for a granular set of measurements to be taken, enabling greater analysis of where various organisations should be focusing more of their energy in ensuring that EPM works for them.

This report provides analysis of the results from this research, and aims to provide information to the reader on how they can help position their own organisation for management excellence through the use of EPM. The report should be of interest to anyone within a n organisation who is a direct part of a process where understanding the impact of any action on the overall health of the business is seen as being important.

2. Research notes

The research included in this report consists of 800 interviews carried out via telephone in February 2009. The individuals interviewed were profiled as being part of the financial reporting function within their organisation, as well as being involved in the measurement of the effectiveness of business processes within the organisation. The research was carried out across 13 countries, which were then aggregated into 8 geographies. Interviews were carried out in English where English is acceptable as a working language, but native language was used wherever appropriate. A range of vertical markets were also targeted.

Interviewees were reminded that the research responses should not just reflect their own process group, but should reflect their view of the overall business, including the various stakeholders who could be involved. Therefore, the research attempts to reflect the overall reach and effectiveness of the various areas across an organisation and its value chains.

The research concentrates on the "perceptional" responses of the interviewees. By this, Quocirca means that the research did not set out to uncover any actual, defined capabilities of an organisation at either a technical or business process level, but to uncover how individuals perceived the capabilities of their organisation to address the areas raised in the research. Each question was capable of being scored on a scale between 1 and 10 (with a 0 denoting a "don't know" answer). Guideline statements for the lower and upper scores were provided, with the interviewee then choosing a point on the scale that they believed best reflected the position of their own organisation.

This approach will, by its very nature, lead to a comparative set of results that are built upon perceptions which may not be fully reflected in reality. This perception/reality gap is, in itself, incredibly important, in that many individuals within organisations have misaligned perceptions around their own business' capabilities. Much other research has been carried out looking closer at the actual technical capabilities of organisations to meet the basics of an EPM strategy, but such research can also miss the fact that there is often a significant gap between the capability to carry out an action or process, and the manner in which it is carried out.

A straight forward 1-10 scoring system as used here will also tend to receive responses that are bunched towards the middle. Throughout the research, the analysis shows that responses have been as "bell curves" (the highest number of responses occur in the mid-scoring ranges, with a general drop off in responses towards the extremes). However, by using a wide range of possible response score, the research can pick up on relatively small differences (in the range of 0.01 points) while still maintaining a high degree of statistical relevance.

Throughout the analysis, Quocirca has split responses into "strong" responses (scores of 7-10) and "weak" responses (scores of 1-4). This enables the core of the bell (scores of 5 and 6) to be effectively discounted while still creating groups of scoring enabling comparisons to be effectively drawn.

Finally, the approach has not been normalised in any way to reflect local artefacts. By this, Quocirca means that some regions may respond in a different manner to others – for example, one country may be found to score less often towards the extremes of a scoring response than another, and one country may consistently score higher for the same actual perception than another. Although it is possible to theoretically adapt scores to reflect these issues and so create a more directly comparable data set, the decision has been made here to leave all data in its "raw" form so as to avoid any form of analytical skewing.

The approach allows a baseline to be created, and for trending to be measured as the index evolves over time. It should not be seen as providing a solid view of any organisation's actual EPM "readiness" at a technical or full process level, but it can be used to indicate how well any grouping within the analysis perceives itself against the broader picture.

3. The Enterprise Performance Management (EPM) Index

Main Findings:

- The index has been created to provide a baseline against which future progress can be measured.
- The index consists of six sub-indices, each covering a different area of an organisation's performance workflows.
- The EPM processes covered are inter-related and there are linkages within and across these processes within the sub-indices enabling a coherent and effective EPM strategy to be built up.

Quocirca, in conjunction with Oracle, has created the EPM Index. The purpose of the index is to provide a baseline against which future trends and improvements in how well organisations perceive that they are dealing with the various aspects of EPM can be measured.

The overall index is based on an average of six sub-indices, each of which concentrates on a specific area critical to the overall business health of an organisation. These sub-indices cover the following areas:

- **Stakeholder environment:** An organisation will have a range of stakeholders. As well as the obvious financial stakeholders (individual shareholders, institutional shareholders, venture capitalists, angels), there are also employees,, customers, partners and suppliers, regulators and society at large. Each of these will have their own agenda as to what they expect to get out of their relationship with the organisation, but all will have a vested interest in its success. Understanding the various needs of each type of stakeholder, and ensuring that these needs can be met within financial and legal constraints is an imperative if management excellence is to be attained. Stakeholders also have a role to play as inputs to an organisation's strategy, and the means of capturing, acting upon and reporting back to such stakeholder inputs must be in place.
- **Market model**: Today's markets are ephemeral, changing on a constant basis as external forces create new needs. Without a full view of what these dynamics are, an organisation's market model cannot be effective. To create a market model that can be fully responsive to market changes, while also predicting and being proactive wherever possible requires a full in-depth knowledge of what your competitors are doing, what trends there are within the market, and how new and proposed product offerings will impact existing products. Within the market model, there should also be the means to evaluate merger and acquisition targets, along with the capability to test various product and organisational scenarios as to their impact on the organisation itself.
- **Business model:** The business model is a strategic level model describing how an organisation plans to grow and thrive. This covers areas such as organic v. inorganic growth, outsourcing, divestment of non-core or failing business units and growth through penetration of new geographies. The main means of ensuring that a business model supports the needs of all stakeholders is through the use of scenario analysis, enabling the most successful potential scenarios to be rapidly identified and implemented.
- **Business plan:** Within business planning, the capability to forecast and report on a near-real-time basis becomes important. Changes within the market may cause massive impact on the business model, unless these changes can be identified and dealt with as soon as possible. Making small changes through the business plan at this stage avoids the need to re-strategise at the business model level at a later date. The use of variance analysis enables such micro-changes to be identified at an early stage, especially when used to compare the organisation against others in the same market, rather than just focusing purely on internal factors.
- **Business operations:** Once an organisation has provided details of the market and business models, and has codified these as a plan that meets the needs of the stakeholders, it then requires operational excellence to ensure that the models and plans are effectively followed. The information uncovered through operational analysis has to be fed back into the overall system, impacting the business and market plans. Again, provided an agile system is in place, the changes required to ensure that the business operations continue to fulfil the requirements of the stakeholder environment and the business model should be minimal. Underpinning business operational excellence is the presence of effective processes that cross the organisational boundaries to include the various stakeholders in the exchange of information, and enabling effective collaboration up and down the value chain.
- **Business results:** The aim of all the above actions is to ensure that the business results meet or exceed the expectations of the stakeholders. Again, measurement of the results, whether these be of product sold, margins attained or success of a new campaign has a direct impact back into previous steps, and the need for individuals and groups to have instant views of what is happening across multiple environments and data sets means that flexible yet integrated tools are required to ensure that decisions made are made against the "big

picture", and that decisions made against aggregated events can be made with full knowledge of causal effects and any up- and downstream impacts that any change may cause.

Through devising a questionnaire that asks respondents to rank their perceptions of how well they see their own organisation dealing with the various aspects of each area, Quocirca has created a set of sub-indices. By averaging the results of these sub-indices, we then create an overall index score, which can then be broken down by geography, by size of organisation and by vertical market to compare and contrast where various organisations are in their quest for management excellence through EPM.

The index has a maximum score of 10 – at this level, organisations would be reporting that they have fully described and codified plans and models covering the six areas detailed above, and would have the integrated processes and tools in place to ensure that there is a full exchange of inputs and required information across all stakeholders and regulatory bodies involved.

However, as we will see, in this first iteration of the cycle, the overall and sub-level scores indicate that the majority of respondents perceive that much remains to be done.

4. Overall Index Findings

Main Findings:

- This first cycle of the EPM index shows an average score across the geographies covered of 5.13.
- The sub-index scores are highly variable, indicating that the majority of organisations do not believe that they have solid plans, processes and workflows in place for EPM.
- Large organisations fare better than mid-market organisations. This is, on the whole, to be expected, with the difference in resource availability and regulatory workloads involved.
- France leads the index, with Italy second. At the lower end of the index are Iberia and the Nordics. In general, this indicates that lighter-touch regulatory environments score higher than more regulated environments.

The overall score for the EPM index is 5.13 out of 10. However, this figure hides a high degree of differences in the underlying sub-indices, across different sizes of organisations, geographies and verticals.

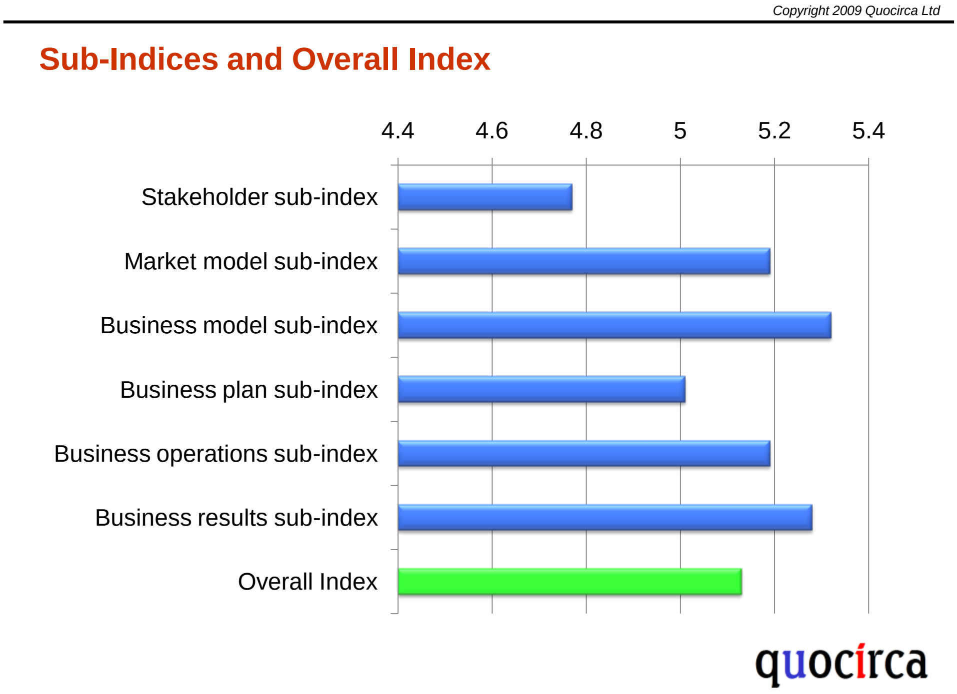


Figure 1

Looking across the various sub-index scores (see Figure 1), it can be seen that the business model (5.32) and business results (5.28) scores are markedly ahead of the others. The stakeholder sub index (4.77) lags considerably, with the business plan (5.01) also being low.

With the respondent profile being based around financial directors, controllers and other senior personnel involved in the financial processes for an organisation, the results are, in themselves, not beyond expectations. The respondents will be heavily involved in the creation of the business models, and will be intricately involved in the creation of reports around business results. Although they will be involved with investors and regulatory bodies, they will tend to be less involved with customers, employees and other stakeholders, and will tend to be removed from the "coal face" of direct business operations. Similarly, the business plan itself will be seen as being far more operational, with the CEO and COO taking the main responsibility for these areas. However, without those involved in the financial management processes having a full view of operational processes, and being able to include inputs from stakeholders within these processes, as well as being able to act as direct inputs to the operational processes themselves, and aligned organisation will not be possible.

This graph shows where the main focus for organisations needs to be at this early stage of EPM – firstly, there is little to show that the various stages of EPM are seen as needing to be dealt with in any coherent or consolidated manner and that although respondents see themselves as being reasonable at modelling the business and gaining specific results, the more granular and "coal face" areas such as planning and operations are not seen as needing great focus. That the focus may well be provided elsewhere in the business should not be taken as a positive, without joined up thinking, an organisation can soon find itself in a chaotic state, with little coherence in overall strategy and the more tactical processes required to attain and maintain that strategy.

The poor stakeholder sub-index score is very disappointing: this indicates that respondents are concentrating far more on what happens within an organisation, rather than across its value chains. This can lead to disaffected stakeholders, who can then cause downstream issues that could take a great deal of time and resource to sort out their problems and provide them with the information they need.

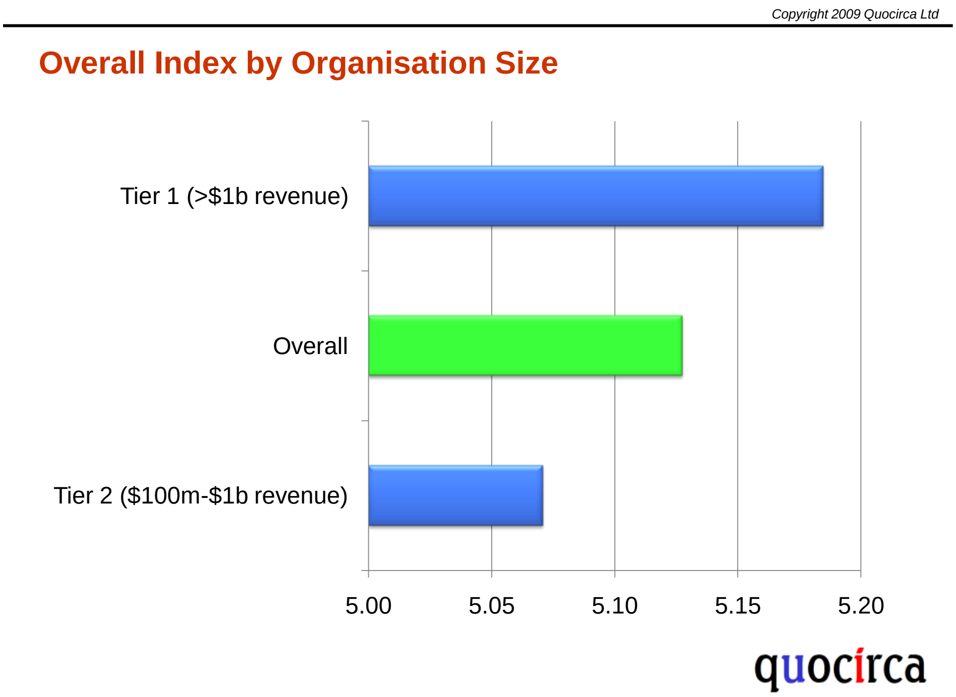


Figure 2

Throughout this report, we will see that there is a marked difference between the perceptions and actions of very large and mid-sized organisations. For very large organisations, respondents were invariably higher scoring than their smaller organisational equivalents. At the overall level (see Figure 2), we see that very large organisations score at 5.18, against the mid-market respondents at 5.07.

Overall, this should not be too surprising. Very large organisations tend to have more processes in place, have more resource available to monitor and measure what is happening across value chains, and also are constrained by more regulations, both at the global level and with the needs to report information through to specific stakeholders, such as shareholders and institutional investors.

At a geographic level, there is a reasonable spread of responses. In Figure 3, we see that France (5.40) and Italy (5.26) lead the pack, with Iberia (4.75) being the lowest scoring geography. Somewhat surprisingly for a geography that is normally seen as being at the forefront of business/technology integration, the Nordics do not score well at 4.98. Indeed, many may see that the scores do not reflect what would be expected from a "gut feel" point of view. This may well reflect regional variations in how respondents tend to score against such research, but also tends to point to underlying reasons for such variations. Further analysis, as drawn out through the various sub-indices demonstrates why many of these scores are as they are.

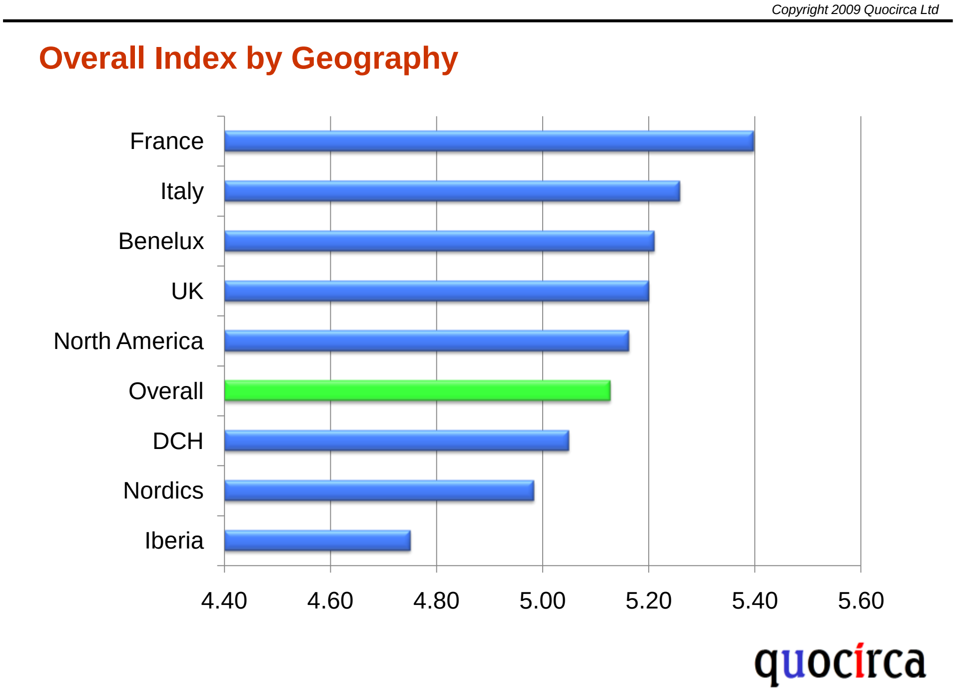


Figure 3

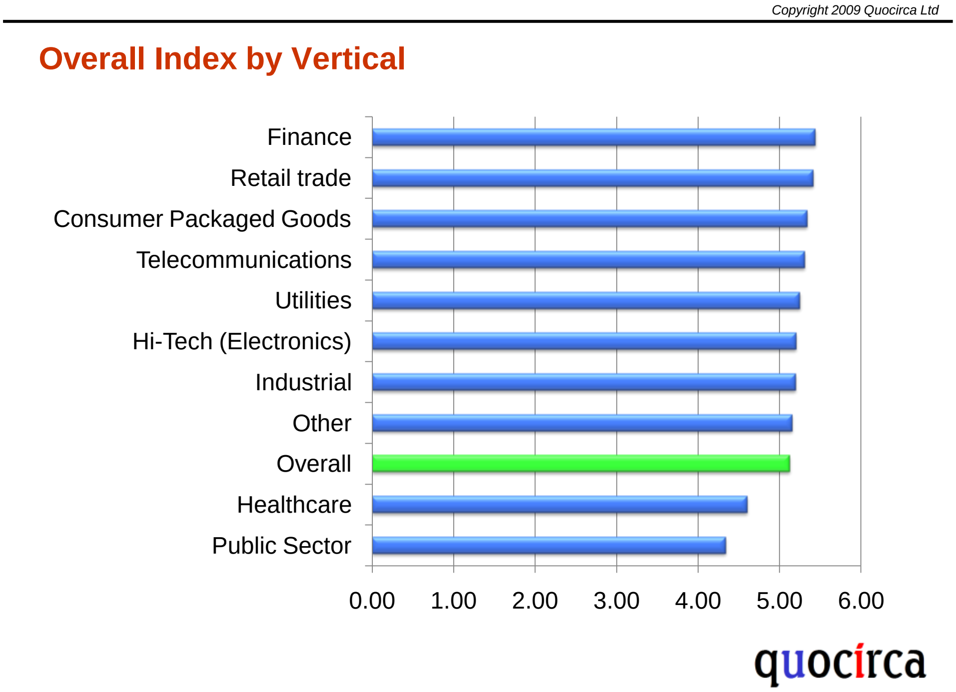


Figure 4

At the vertical level, we see that the overall index is pulled down through the two very low-scoring groups of healthcare (4.60) and public sector (4.34). In many areas of Europe, healthcare is essentially a function of public sector, and historically, public sector has been slower in adopting newer approaches. However, EPM is an approach where monitoring and measuring process and results is a key capability, and with public sector being so heavily monitored in their dealings with central governments, it is a bad sign that EPM approaches have not been adopted widely here. Further, Public Sector has to become more responsive to change, responding to and reflecting the stresses of movements in geodemographics, of an aging population, of the impact of global financial and climate change issues. EPM can provide the capability to analyse future states and to be better prepared to deal with these.

At the other end of the scale, we have finance (5.44) and retail (5.42). Finance has been one of the most heavily regulated verticals of the past few years, and it is likely to see massive changes and further increases in regulation as governments try to find a way out of the current global financial woes. With single deals capable of making or losing very large amounts of money, EPM makes a great deal of sense to the financial vertical. Unlike many other organisations that are struggling to come to turns with regulatory loads that have been foisted upon them in the last few years, finance has had to deal with such problems for a much longer time, and has tended to become very process driven and risk averse in many of its dealings. Indeed, many of today's issues in the financial sector can be brought back to how these organisations have become slaves to process, and if the overarching business rules are changed for the worse, the underlying processes just carry out instructions – very effectively, to the detriment of the organisation and its direct and indirect stakeholders. Therefore, although the perception here is that the financial sector is well placed to maximise the benefits of EPM across their organisations, underlying issues with predicting, monitoring and modelling future state issues are manifestly apparent here.

We hear a lot about the lightness of touch in different geographies when it comes to financial services: for example, the United Kingdom is deemed to have had too light a touch in its dealings with the financial services markets. Again, this has tended to be at a business decision level, yet the amount of reporting that a financial services organisation in the UK has to go through to meet Financial Services Authority (FSA), Companies House, Stock Exchange and shareholder needs (amongst others) is a heavy burden. Therefore, we must be sure not to confuse the use of light touch regulation in the financial services space with the overall lightness or heaviness of regulatory burden across the broader organisational spectrum within any geography. Here, the research shows that those countries that have an overall heaviness of current regulation perceive themselves of having a lower capability in dealing with EPM issues, whereas those in lighter touch geographies perceive themselves as being capable of dealing with what will be lighter processes more effectively. However, those in the lighter touch geographies are the ones who expect to see the biggest changes in regulatory load going forwards.

For retail, it really comes down to that here we are dealing with massively distributed organisations, where accurate and timely feed through of information can be the lifeblood of the organisation. With little IT skill in the retail outlets, being able to monitor and measure what is happening from a central point and to report in near-real time on this is rapidly becoming an imperative. Also, the capability to respond rapidly to market needs defines the successful retailer – ensuring that the latest fashions will be in stock 3 to 6 months in advance of the actual fashion season requires complex scenario modelling capabilities, as does plotting the geographic consumption of short-life consumables such as soft fruits within the food retailing industry.

The following sections now drill down through to the sub-indices, picking out those areas that best indicate where readers should focus to create an organisation that benefits the most from EPM.

5. Stakeholder Environment

Main Findings:

- The stakeholder sub-index gains the lowest score of any of the sub-indices. This indicates that the involvement of stakeholders in the performance of the organisation is not being optimised.
- There was a high number of "don't know" responses in this section, indicating that respondents were not even considering the needs of the stakeholders in their planning processes
- The correlation between overall index score and the perception of how much regulatory change is expected is strong

The stakeholder sub-index is made up from a set of questions around how an organisation perceives the effectiveness of its dealings with the various stakeholders in the organisation. By "stakeholder", respondents were asked to consider employees (including contractors and consultants), partners (including suppliers), customers, shareholders, regulators and society at large. The questions asked in this section focused on how well or badly respondents believed their organisation interacted with these various groups, and how well or badly they shared required information with them.

Less than a quarter of respondents felt that they had effective processes in place to engage stakeholders in discussions, and Quocirca's other research indicates that newer means of communication and collaboration, such as social networking, have yet to reach any levels of mainstream use in the majority of organisations – at least for business use.

Similarly, only a little over 15% felt that investors and regulators had a transparent view on an organisation's strategy.

At a supplier level, only 13% of respondents effectively share performance feedback with their suppliers, so optimising the capabilities for the suppliers to respond and provide better performance, or change processes in conjunction with the organisation.

Although "Green" has been a hot issue, only 13% stated that they created an adequate report covering the economical, environmental and social aspects of their sustainability strategy.

Overall, this points to stakeholders being a "forgotten" community. However, it is far more likely that this is an artefact of the respondent profile, with stakeholder communications being seen as belonging to others in the organisation. Outside of regulatory and investment stakeholders, individuals involved within the main management financial processes of an organisation have not had the need to deal directly with stakeholders such as employees, suppliers and customers. However, the new world demands new approaches, and an agile organisation has to be able to embrace the inputs of stakeholders at any stage of their management processes, and to be able to respond to such external forces rapidly with the knowledge that the various "what ifs" and future state scenarios have been modelled sufficiently to assure a level of success.

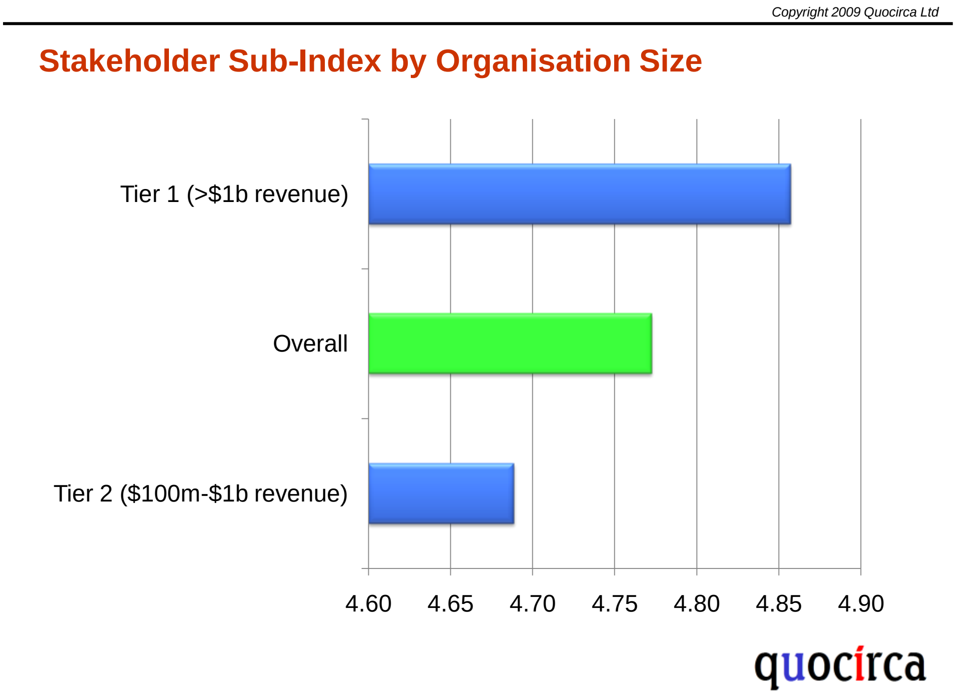


Figure 5

This sub-index received the lowest score by a considerable margin. At only 4.77, Quocirca found that the score had been pulled down by a large number of "don't know" scores. Across the questions asked, approximately 10% of respondents provided such a "don't know" answer – far higher than anywhere else in the survey. Although this reflects the historical position of the finance role within an organisation, this should raise flags for anyone reading this report. If those who are closely involved in dealing with the processes that define the performance of an organisation do not fully understand what the various stakeholders are looking for through their association with an organisation, it becomes impossible to successfully define and operate the processes that are required to meet their needs. Further, if the same people are not close enough to stakeholders to solicit input or to accept direct input from them, the underlying processes will remain essentially internally focused, and the organisation will not be best placed to demonstrate all the aspects of management excellence.

As before, very large organisations have a higher score than those in the mid-market (see Figure 5). This, in itself, is not surprising, due to the different types and numbers of stakeholders that these very different organisation types are dealing with. For example, very large organisation will generally tend to be publically quoted on the stock exchange, will tend to be more geographically dispersed, and will have a higher number of external resources being utilised in the day-to-day operations of the business. However, mid-sized organisation should not take this as an excuse not to have suitable processes and tools in place to ensure that they can deal with their stakeholders effectively, and just as much effort may be required to identify the different stakeholder groups as there would be in a very large organisation. Indeed, the input from external stakeholders can help smaller organisations to gain a better understanding of what needs addressing in their existing processes and also in identifying external influences at an earlier stage.

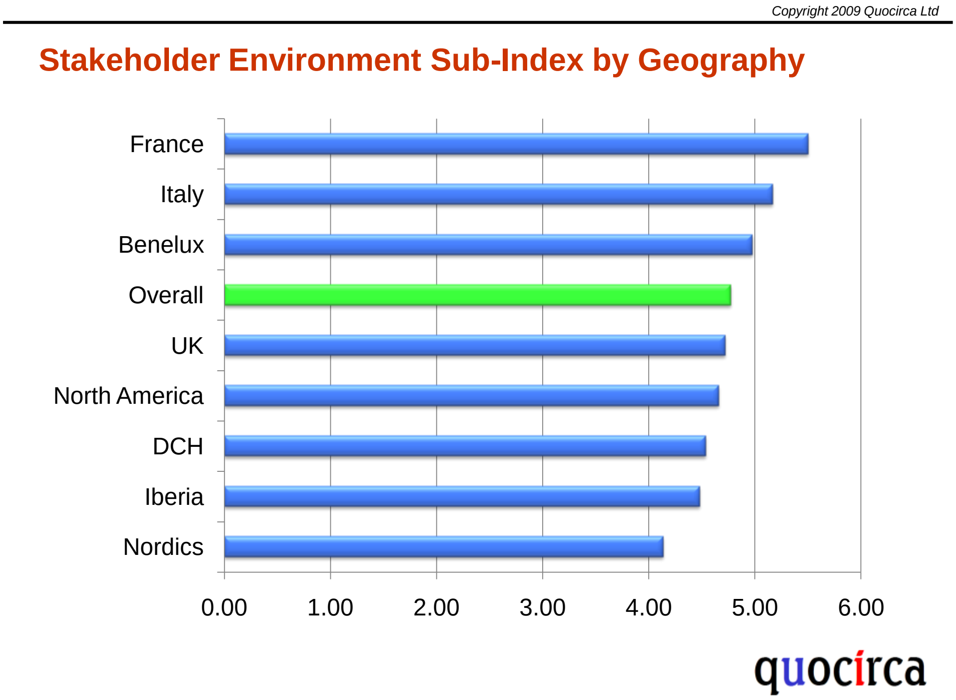


Figure 6

At the geographic level, we see that France and Italy lead the way, while the Nordics and Iberia lag (see Figure 6). Surprisingly, the Nordics see themselves as being well off the curve, with a very low score of 4.14. This is not down to a poor score in any one single question response in this section – the Nordics performed badly across the board in this section. There would seem to be no simple explanation to this, as generally speaking, organisations in the Nordic region are run well using strong processes and in a relatively open manner. It is possible that the generally high levels of technical knowledge within line of business employees in the Nordics means that they are more aware of the technical issues they face in ensuring a highly effective inclusive stakeholder environment, and score themselves down accordingly.

An interesting correlation between the overall index and one area within the stakeholder sub-index can be seen when we compare the amount of expected change in regulatory load with the overall index (see Figure 7). Here, we see that the more change in regulation expected by a respondent, the higher the overall EPM index is. With the likes of France and Italy being at the upper end of the EPM index, this could indicate that the lighter-touch regulation economies have been more able to meet a less complex level of monitoring, measurement and reporting than is seen as possible in more highly regulated economies, such as the US and Germany/Switzerland. It would then make sense for the already regulated economies to expect less overall change than those in the less regulated space – the current market situation does look as if global requirements will force large changes in these markets. If this is the case, then Quocirca expects that the next iteration of the EPM index could well show that some geographies could have lower index scores than now, as they struggle to adapt to more stringent measurement and reporting needs.

Further, such regulatory change will provide opportunities and threats in the market, and could well create further instabilities in markets which will require solid EPM process capabilities in place to manage them effectively. For example, a move to a more regulated environment may uncover major issues for an organisation, making them more of an acquisition target. However, are they a suitable acquisition target, or will their problems infect the acquiring organisation? Only solid competitive analysis capabilities, combined with scenario analysis and future state modelling can ensure that such decisions are made in an optimum manner.

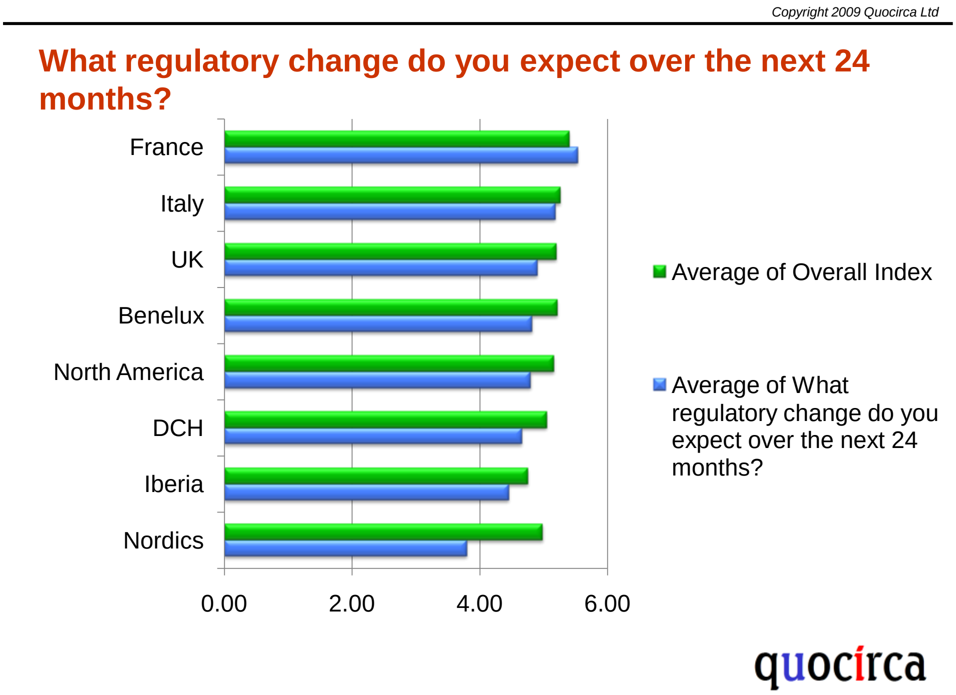


Figure 7

6. Market Model

Main Findings:

- Although most organisations state that they have a competitive intelligence function, the results from this do not seem to meet the organisation's needs.
- The more complex competitive environment of mid-market organisations hits the sub-index score for these organisations.
- Most respondents expect to see a high degree of change in the competitive environment over the coming 24 months – yet few feel ready to deal with such changes.

The market model sub-index is built around a set of questions covering how organisations feel they are prepared for dealing with competition in the markets, for example through the use of competitive analysis, visibility of profitability by product line, customer segment and so on, and the capability to benchmark performance of such areas against the competition.

With an overall score of 5.19, the market model sub-index provides the third highest score within the sub-indices, slightly ahead of the business operations sub-index, but behind the business model and business results sub-indices.

Within this area, there was an overall view that the competitive environment would undergo a degree of change over the coming 24 months, with North America, Germany/Switzerland and Iberia being the only geographies seeing less change than the overall average score.

Most organisations had some capability for competitive intelligence, but only 17% felt that the capability provided them with sufficient information to have enough knowledge of their competition. This indicates the need for better tooling, enabling information to be looked at from different viewpoints, for events and alerts to be used to automate processes to deal with threats and opportunities both before and as they happen, and for a platform to be in place that will enable such processes to be optimised and changes in a highly flexible manner.

Only 12% of respondents felt that they had strong capabilities in assessing the possible level of success for a new product or service in the market – with no respondents scoring higher than 8 out of 10 for this area. Such lack of visibility into even the near term future indicates that many organisations are just hoping for the best when launching new products – again, this may well be an artefact of the research profile, but shows that the finance function is not being included within the product planning processes.

The capability for organisation to gain visibility across product lines, customer segments, different markets and channels, as well as any capability to benchmark such information was limited, with only 12% feeling that they had a high capability to gain visibility of such information.

Overall, though, the bell curves for each response demonstrated a slightly more positive than average distribution, leading to the sub-index score of 5.19.

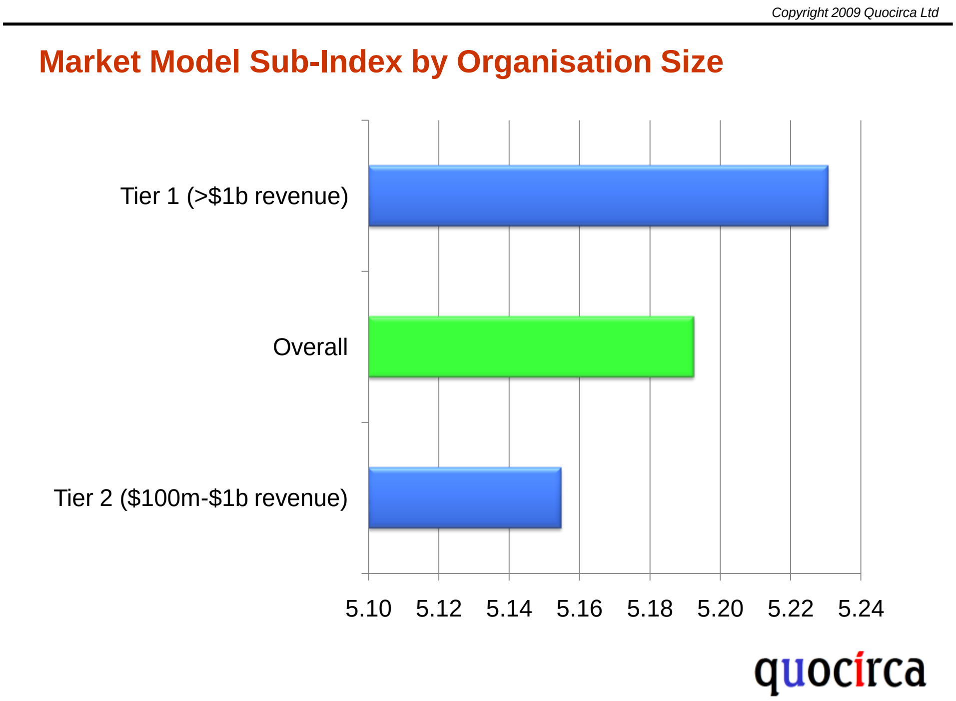


Figure 8

Again, in Figure 8, we can see a difference between very large organisations and mid-market ones. Very large organisations tend to have highly defined competition in the market – other very large organisations where there will be multiple sources of in-depth information available on them, such as central regulatory filings, financial analyst reports and so on. Such focus on the "easy" competitive targets, however, can lead to issues where an organisation not on the radar suddenly grows and becomes a major competitor.

For the mid-market organisations, the situation is far more complex – there may be many more organisations of the same size that need to be covered, and there is less room for any one new product or service to not be successful in the market.

With these results, the indication is that although very large organisations may feel that they have the situation under control, more may need to be done, and for mid-sized organisations, gaining a greater depth of visibility, knowledge and understanding of these key areas has to be an ongoing focus.

In Figure 9, we see that Benelux, Italy and France head the sub-index, with Iberia trailing heavily again, and Germany/Switzerland and the Nordics having relatively poor perceptions of their capabilities in this space.

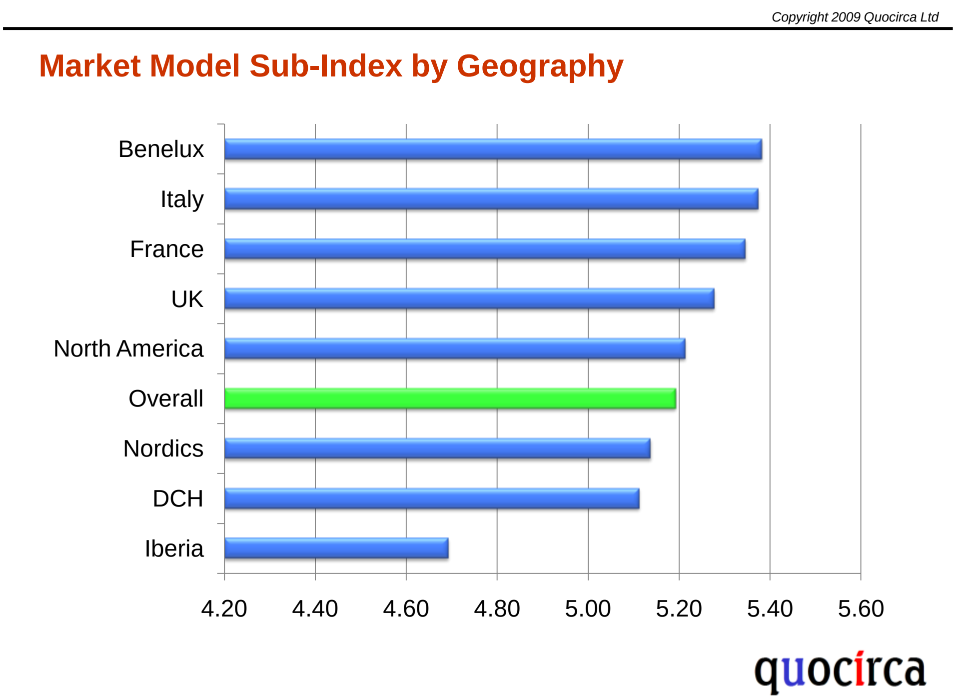


Figure 9

7. Business Model

Main Findings:

- Growth strategies revolve around new customers and new products/services, with new geographies and channels being seen as too risky in the current economic climate.
- Better scenario analysis capabilities will be needed to ensure that new products, services and strategies such as merger and acquisitions will work as expected.
- Customer churn remains a perennial problem, indicating that respondents have not yet managed to create effective customer relationship management (CRM) strategies.

At 5.32, the business model sub-index score is the highest sub-index score in this first cycle of the EPM index. Within this sub-index, questions covered perceptions around the overall forward planning capability in the organisation – areas such as the capability to effectively carry out multi-scenario analysis, tracking opportunities for mergers and acquisitions, how well the business strategy is understood by employees, and so on. One area also looked at how important organisations saw different key drivers in generating growth in the market (see Figure 10).

Here, we can see that gaining new customers was seen as the most important focus for respondents, followed by new products and services. Managing customer churn continues to tax many.

However, the current market conditions seem to be turning people away from the larger steps of looking to new channels and new geographies for growth – it seems that the focus is to be on existing known environments, trying to get new products and services out to existing and new customers at the lowest possible risk. This does, however, mean that organisations will need to ensure that they can carry out the necessary scenario and competitive analysis required to maximise the impact of any such new strategies.

By creating such an underpinning, organisations will then find themselves well positioned for carrying out such analysis of more major strategies to break in to new markets when the time is right – and as such be able to beat the competition to such considerable growth opportunities when the markets start to recover.

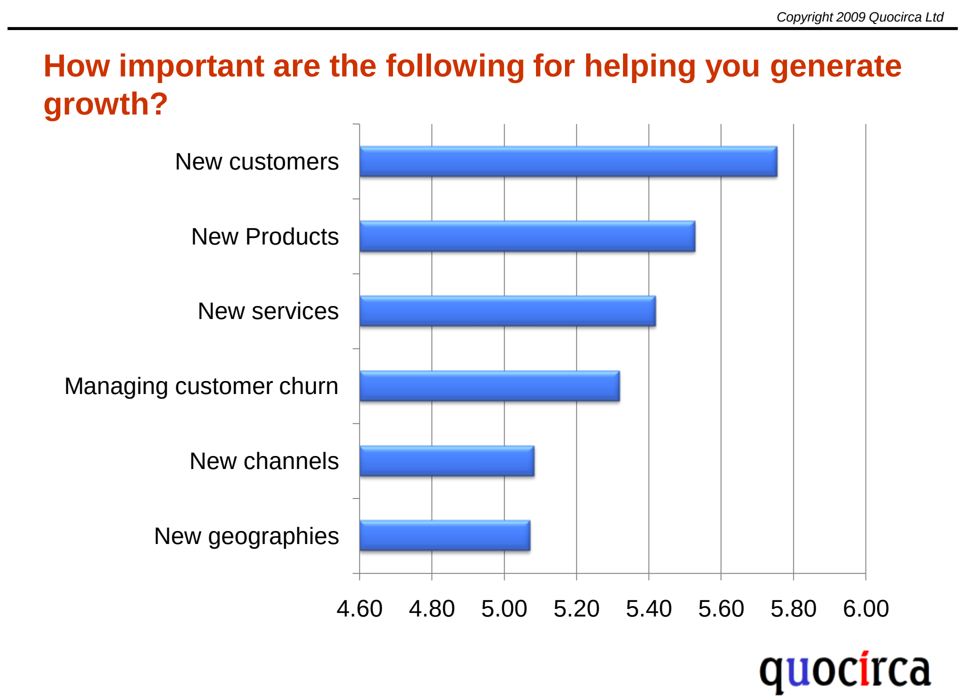


Figure 10

Only 11% of respondents stated that they are tracking M&A opportunities and competitive threats in the markets to any great extent. Over three quarters were relatively ambivalent in this area – yet in a downturning market, M&A activity is likely to increase rapidly, and new competitors may appear from such new entities. The capability to track and react in near-real time against such changes in the market should not be overlooked.

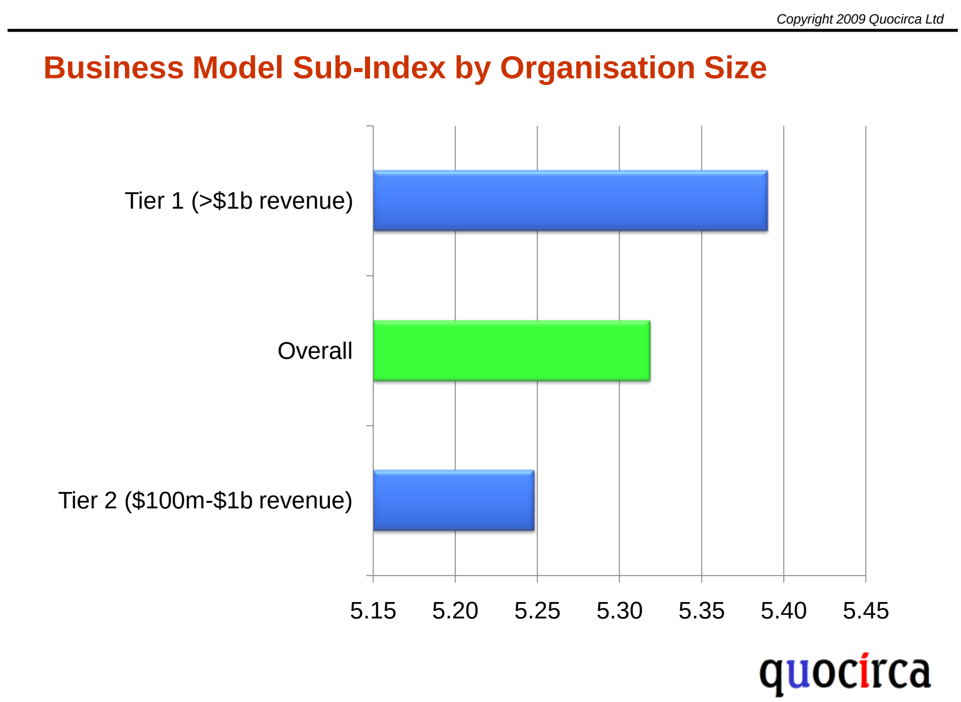


Figure 11

At an organisational size level (see Figure 11), mid-sized organisations are less likely to want to break in to new geographies, and may already find dealing with existing channels overly complex and time consuming. However, Quocirca expects many in this space to start to look at what merger and acquisition opportunities exist if the poor financial conditions continue and to ensure that any M&A activity is successful, there will be a stronger need for analysing different scenarios. However, at the M&A tracking capability level, large and small organisations show little difference in average responses.

Sadly, 22% of respondents did not feel that their strategy was well understood by their employees – yet, without such understanding, it is difficult to see how these employees can feel that they are helping the business in its aims, and to align their own aims with those of the organisation. Indeed, less than 28% believe that their strategy is well understood by their employees, leaving over half sitting on the fence. Quocirca believes that a mid-range score in this case will generally translate into a poor real understanding of strategy at the grass roots level, making the overall figure for a poor understanding of an organisation's strategy over 72% - and even if an employee does understand some parts of the strategy, this has to be aligned with the total strategy to be effective.

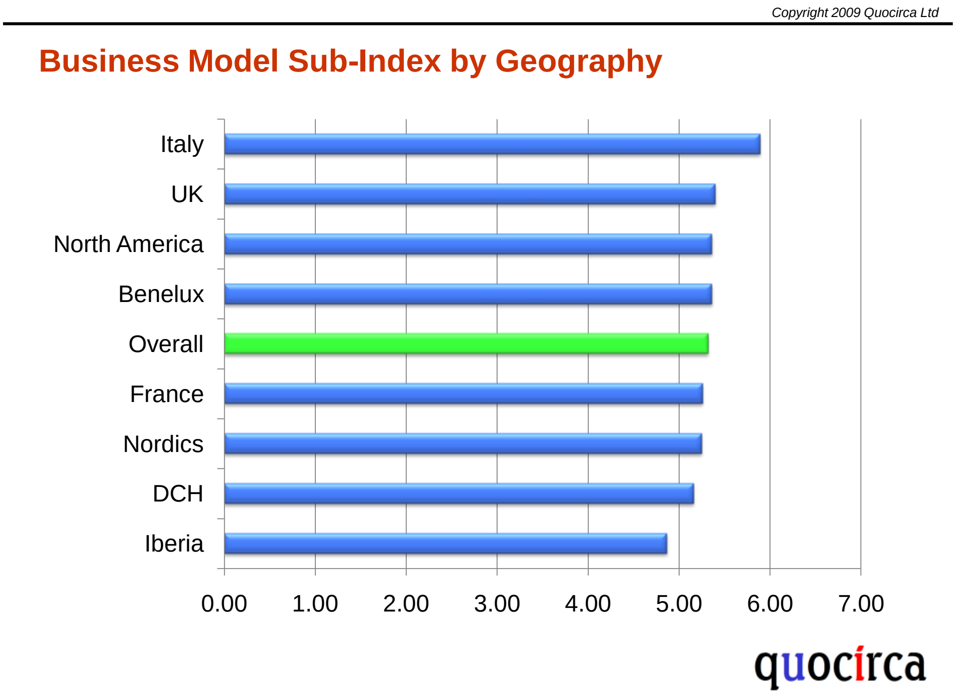


Figure 12

At a geographic level (see Figure 12), we see that Italy positions itself well ahead of the rest of the geographies. This is predominantly driven by high scores in the importance Italy sees in the various aspects for growth generation – with exceptionally high scores in the new geographies and new channels areas. Indeed, Italian respondents topped the response scores for how strongly they perceived different areas for growth across the board. From this, it would seem that Italy sees recovery occurring not through growth within its own market, but through leveraging its borders and nearness to markets such as those across the Adriatic, where EU and other inward investment money was available before the current financial situation hit. However, with this money drying up, such markets may not be a fertile growth opportunity for some time. Again, the lack of forward looking tools for scenario analysis and modelling may well lead to major issues if such organisations try to make a move into new markets too soon.

The UK is also relatively well placed, but this is far more through respondents' wanting to drive new products and services while managing customer churn, and to monitoring merger and acquisition activity.

At a vertical level (see Figure 13), we see finance and CPG leading the way. Finance sees growth through new products and services along with new customers, but does not see such opportunities in new channels or geographies. However, finance does gain the highest score by some distance in how well it believes it is tracking M&A activity and competitive threats in the market. Although "other" tops those wanting to manage customer churn, finance also sees this as a threat to its continued growth. Hi-tech tops the board when looking at new geographies, with industrial leading for new channels.

Utilities and hi-tech believe that their employees understand the organisation's strategy the most, with CPG claiming the greatest capability to analyse different scenarios, as well as the belief in being well positioned to enter new markets.

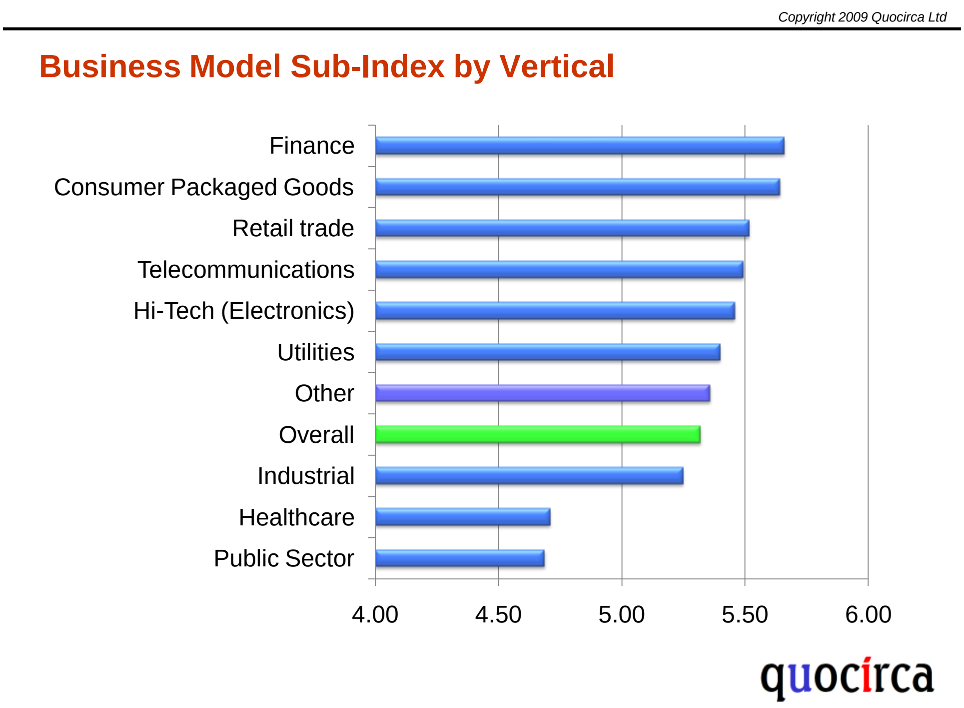


Figure 13

8. Business Plan

Main Findings:

- Larger organisations do not, on the whole, attempt to align the organisation's needs with the stakeholder's or individual employee's.
- Mid-market organisations are more likely to align employee compensation with corporate performance than their large counterparts.
- Italy and Iberia are way off the average in this sub-index, indicating poor capabilities to look at the business at a granular level, and in having a more "command and control" approach to how their organisations are run.

The business plan starts to look at a greater granularity of capability, focusing far more on day-to-day capabilities and strategies in matching the financial performance of an organisation with the performance and needs of individual employees. Here, respondents were asked for their views on areas including how employees were compensated against their individual contribution to corporate goals, how well corporate plans matched an individual's own business goals, to what extent risk and performance were considered when setting goals and targets, and whether plans and budgets had the flexibility to be changed to meet changes in the markets.

There is very little difference in the scores gained by different sizes of organisations here (see Figure 14). With less than 0.01 between the different sized organisations, there is little on the surface to choose between them. However, there are differences within the responses given to certain questions within this section. For example one question focused on how well a respondent's organisation is positioned to be able to change plans and budgets to reflect changes in the market and business environment. Here, mid-market organisations scored on average 5, with very large organisations scoring 5.08. Conversely, a question looking at how line of business managers are compensated according to their contribution to corporate goals gained a mid-market scored 5.06 against the very large organisations scored 4.99. In the first case, this shows less flexibility on behalf of the mid-market organisations, while in the second, it demonstrates less capability in how the large organisations interact and encourage the workforce to see the organisation's goals as aligning with the individual's, with the smaller organisations seemingly valuing their core employees to a greater extent.

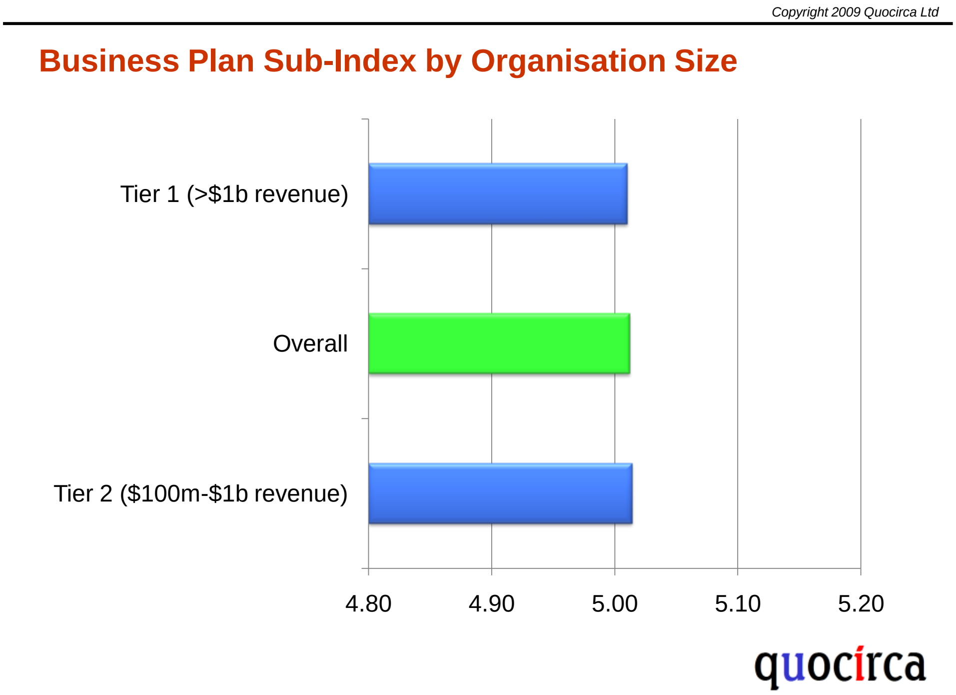


Figure 14

At the line of business compensation level, fewer than 13% of respondents reported that there was a strong alignment between performance and pay. Retail scored the highest, with many line of business managers being on solid targets for sales. Finance came second, with the "bonus culture" probably driving much of this. At the bottom end, public sector and healthcare scored lowest – probably to the relief of many who would not want to see primary healthcare professionals being paid according to results.

Similarly, under 14% of respondents state that strategic goals are linked directly to financial budgets and operational plans, indicating a massive gap in the capabilities for planning to be able to carried out to "nudge" things in the right direction at an early stage to ensure that the strategic goals are always aligned with day-to-day operations. Again, this may be down to a perception gap, with other areas within the business being responsible for ensuring that operational plans maintained the link with financial plans. However, financial personnel within an organisation need to have a more real-time view of what is happening so that budgets can be balanced against changing priorities and that any major issues can be dealt with through changes to budgets as fast as possible.

Only 9% of respondents stated that they assess both risk and performance at the same time when setting goals and targets, with 30% indicating that they paid little attention to these areas in their planning. Without a coordinated approach to risk and performance, organisations may chase high performance results at too high a level of risk, or may take a far too conservative approach to opportunities when the risk/reward equation could show that a degree more risk is warranted.

Only 13% felt that they had sufficient flexibility in their plans and budgets to be able to meet changes in the markets and the business environment, with nearly one in three respondents feeling that this was an area of concern for them.

At a geographic level, we see North America and the Nordics in the upper half of the index – a rarity in this research (see Figure 15). However, Quocirca has found through this and other research that North America is a highly driven work environment, with employees being seen as individuals who should strive to bring work and personal aims together, whereas the Nordics demonstrate a very close alignment between the lines of business and individuals across the board.

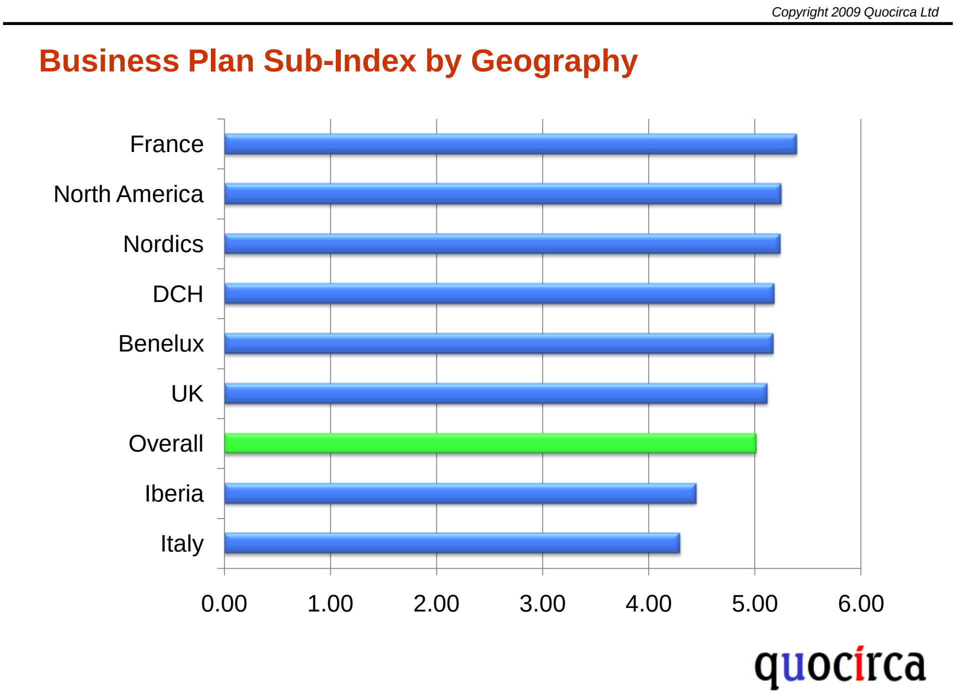


Figure 15

Indeed, the low scores from Italy, which has been in the upper two of the previous sub-indices, indicates that Italian organisations tend to run far more on a command-and-control basis, with little integration of stakeholder's expectations and needs into the needs of the organisation.

9. Business Operations

Main Findings:

- Few organisations make use of key performance indicators (KPIs) matched with cause-and-effect diagrams.
- Common data models and master data repositories are still being used in a piecemeal manner, with islands of capability diluting the overall effectiveness of such approaches.

The business operations sub-index looks at how a business believes it is positioned to deal with events created from within its processes, and how well it is set up to deal with the information across its value chains. Here, the survey asked questions covering whether organisations are reactive or proactive in the manner in which alerts from events in critical business processes are dealt with, how key performance indicators (KPIs) are linked to cause-and-effect diagrams, and whether an organisation uses a common data model or a master data repository.

Over 40% of respondents either did not have or did not know if they had any master data repository or common data model. However, 56% had a common data model or master data repository against specific discrete data sets. This indicates that the majority of organisations will not have a full capability to access all possible information sources in an integrated and meaningful manner, so compromising their decision making capabilities. The use of master data models is encouraging, though, and Quocirca expects consolidation across multiple data sets as time progresses, leading to far better capabilities.

Again, there is a correlation between those who use a master data repository or common data model. Against an average overall index score of 5.13, those using such an approach to any extent score 5.36, with those using a single repository scoring 5.82, although this is a small sample size of 5 respondents.

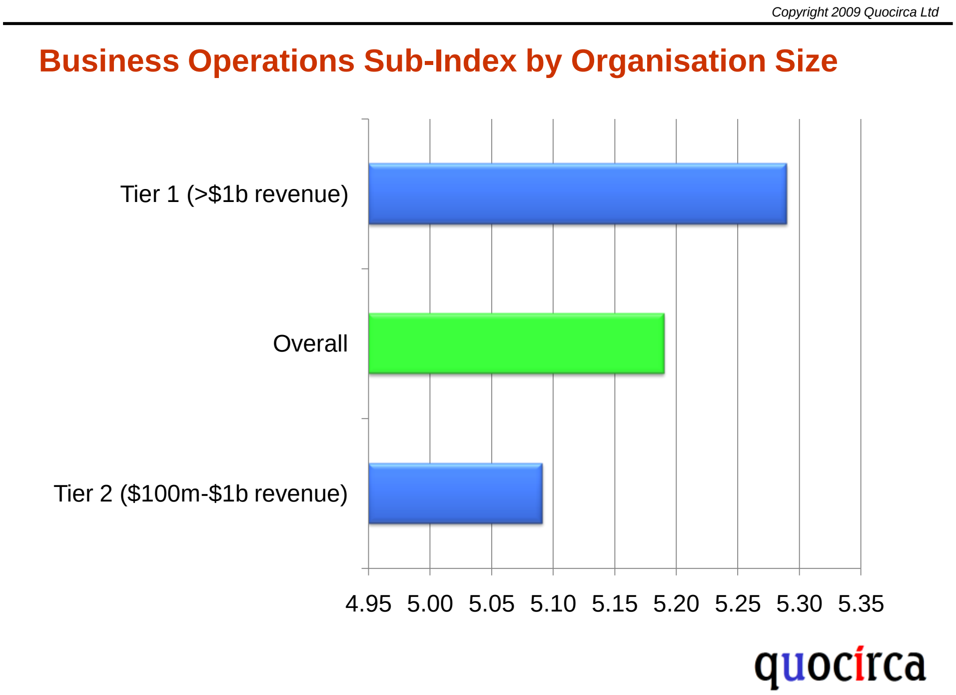


Figure 16

At the organisational size level (see Figure 16), again, it is not overly surprising to see that larger organisations will have more control over their data and will make more use of KPIs and master data models. Master data modelling is a relatively new approach, and many mid-sized organisations will, at best, be still evaluating its use, where many larger organisations will already have seen how such an approach can provide competitive advantage to their business strategy. However, overall usage of master data models is still piecemeal, and Quocirca believes that much more could be achieved by organisations taking a more inclusive view of its usage across the organisation and its value chains.

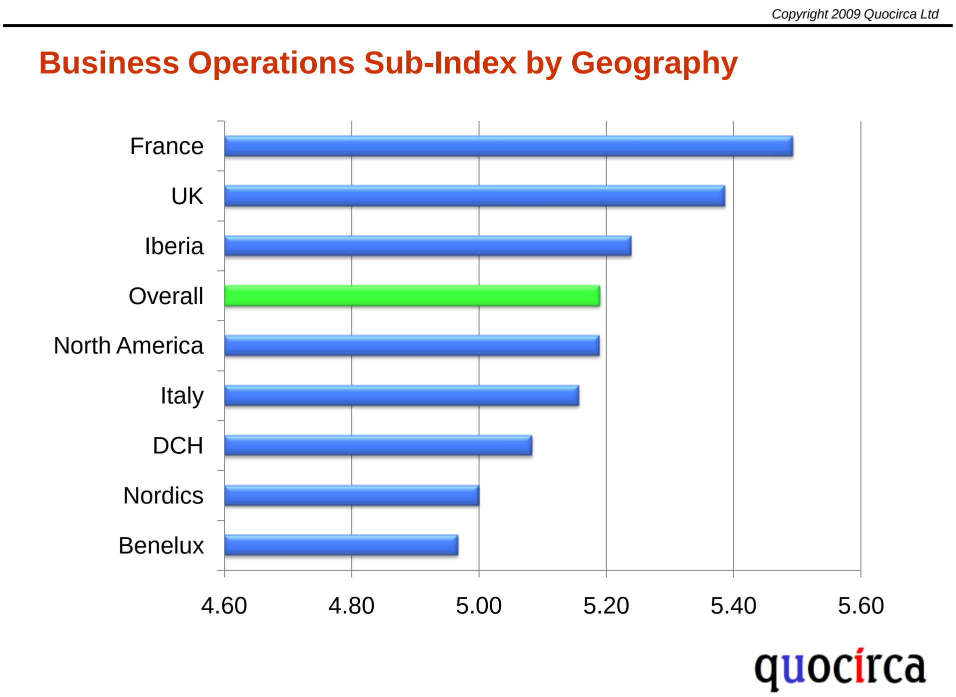


Figure 17

At the geographic level (see Figure 17), the UK comes high up in the list, primarily due to a very high score in how it sees itself dealing with alerts from events in critical business processes. Overall, nearly one in 5 respondents felt that they were well positioned in dealing with such alerts.

10.Business Results

Main Findings:

- The business results sub-index gets the second highest score in the research. However, this reflects responses showing that essentially manual means are generally utilised, which could be made far more effective through EPM processes.
- The vast majority of organisations state that they can consolidate accounts within 10 days,
- 25% of respondents believe that their external stakeholders are not happy with the disclosures made to them.

The business results sub-index looks to the end results of the various workflows involved in the EPM processes – how well an organisation can pull together the data and information created by the various processes involved in carrying out its business. Within this sub-index, questions were asked covering areas such as how interlinked reporting is across the organisation, how rapidly financial reports can be consolidated and closed, how satisfied external stakeholders are with speed of response to their needs and so on.

Over 25% of respondents stated that they had poor capability for charting their accounts in any meaningful manner, severely compromising their capabilities to monitor the financial health of the organisation. Nearly one in 3 respondents are still using essentially manual processes to perform intra-period tracking of financial events.

However, even though there is an overall poor capability to automate financial processes, the vast majority (75%) of respondents stated that they can complete and close consolidation of accounts at a financial review period within 10 working days. The stress that this must place on manual processes, and the number of errors and issues that must be present was not questioned, but must be considerable.

Nearly one in 4 respondents felt that their external stakeholders would be dissatisfied with their financial and non-financial disclosures, which could lead to expensive misunderstandings and demands for personalised information to meet individual stakeholder's needs.

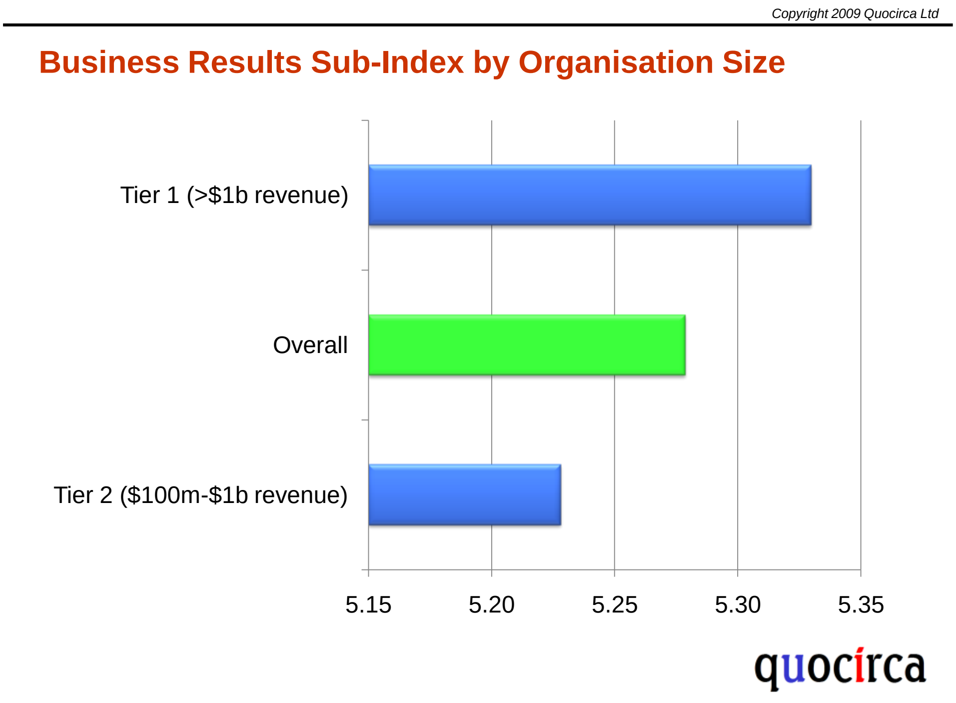


Figure 18

In some ways, this sub-index would be where it could be expected that mid-sized organisations could out-perform their larger counterparts. With less data to deal with, and often shorter process paths, the consolidation and reporting of information could be faster than within larger organisations constrained by more rigid processes. However, across the board, larger organisations still outperformed the mid-market organisations (see Figure 18), indicating that the mid-market still struggles in pulling together information in a meaningful and effective manner to meet their internal and external needs.

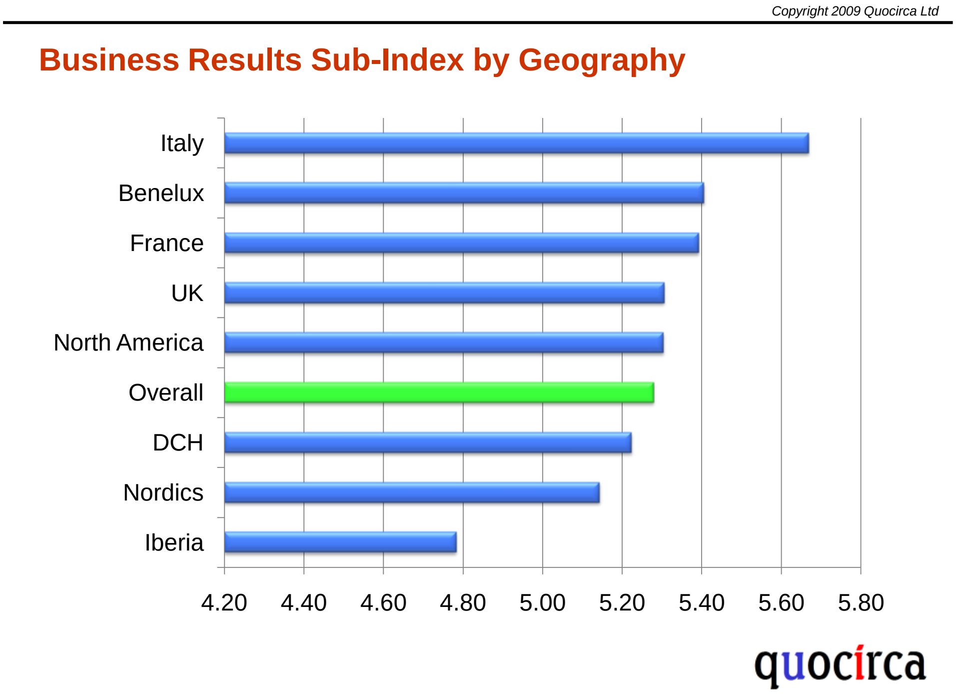


Figure 19

Again, at the geographic level, we see Italy doing well, with Iberia scoring poorly (see Figure 19).

11. Other findings

Main Findings:

- There are mixed message around how respondents see the linkages and interdependencies between the various parts of the EPM environment
- There are a lot of misunderstandings around what business intelligence can offer to a business, with many not even being sure of what BI is.
- There is a broad correlation between the views of the importance of BI and the overall EPM index score.

The six areas covered above create an overall environment that builds up into an interlinked and closely dependent set of processes that form an EPM strategy. However, just over 1 in 5 of respondents saw that an integrated approach had to be taken, with over 27% seeing no linkage between the areas at all (see Figure 20). Although the research shows that many organisations believe that they have much of the capabilities in place for effective EPM, such a high number of people not seeing the need for linking the areas together will mean that such capabilities will never provide the maximum payback across an organisation.

This creates a major capability gap between what a company can possibly achieve and what it believes it can achieve. Many organisations will believe that EPM is a major project involving the introduction of new technologies, new architectures and a great deal of new education for users. However, EPM is essentially the use of effective management processes, underpinned by such technologies as workflow, collaboration and communication and business intelligence. The vast majority of organisations will have such capabilities already in place, albeit often available as silos of functionality.

By changing perceptions from a major project focus through to a future state gap analysis, organisations should be able to rapidly identify where they need to focus and so concentrate effort and resource in the areas where the best return on investment can be obtained.

Creating effective processes that utilise automation wherever possible will cut down on wasted time and minimise information issues that can be introduced in manual operations. The use of analysis tools to model future possible scenarios will minimise possible losses through optimising the risk/reward equation.

EPM must not be seen as a high-cost project, but needs to be seen in terms of survival strategy and growth capabilities in changing markets.

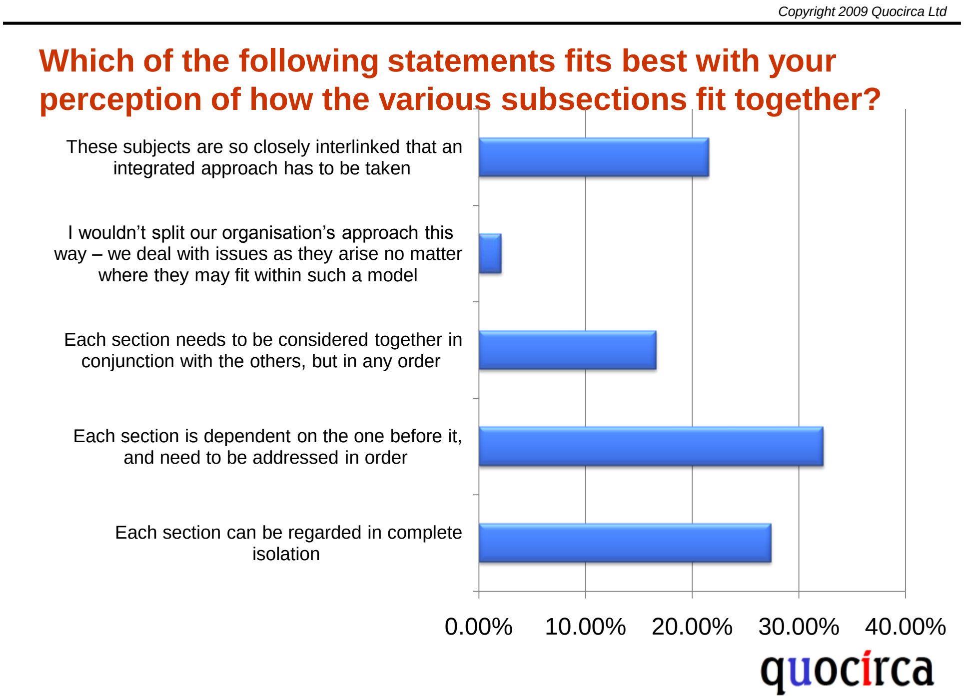


Figure 20

The majority of respondents either did not understand what business intelligence (BI) could do for their business, as being an expensive means of visualising data or as a means of reporting on past events within an organisation (see Figure 21).

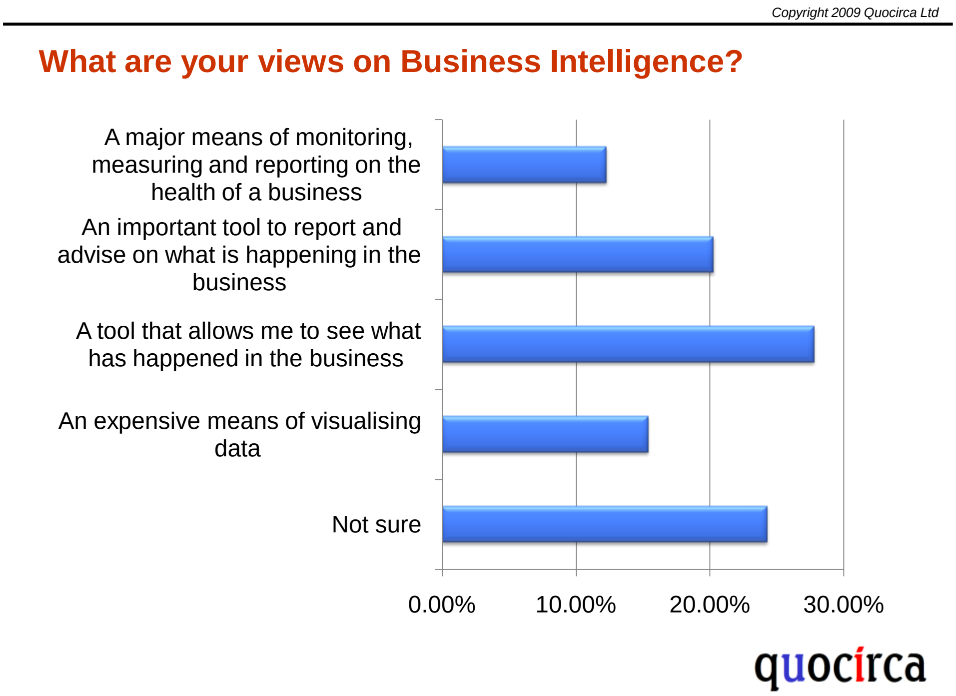


Figure 21

However, 1 in 3 do see BI as being able to provide them with strategic information, and the impact of this on EPM can be seen in Figure 22. Here, those seeing BI as a strategic tool gain considerably higher scores than those who see it as more of an irrelevance.

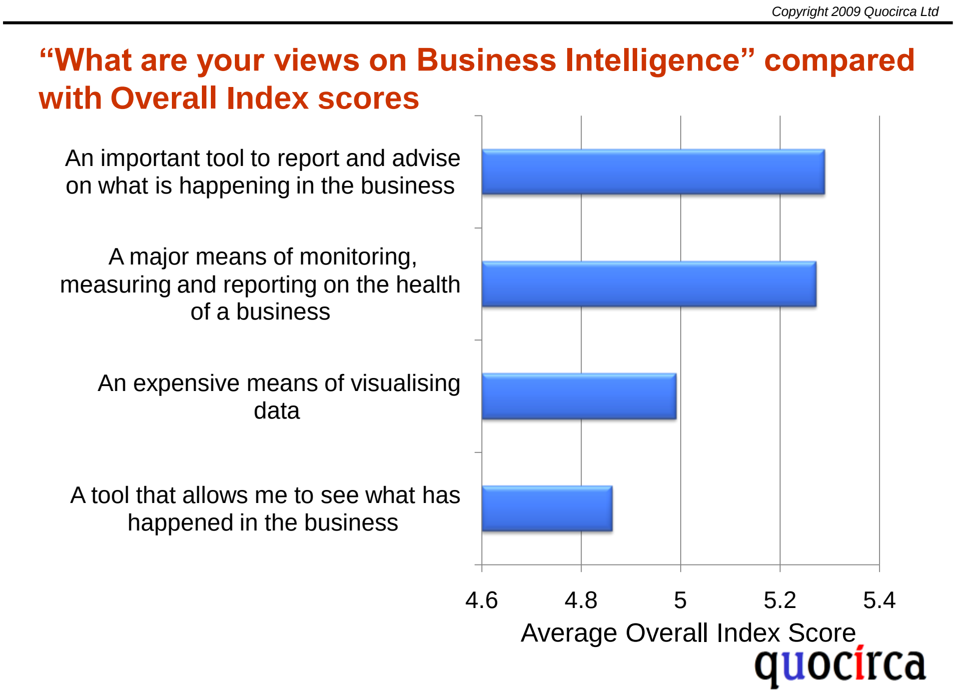


Figure 22

12. Conclusions and Recommendations

The research shows that overall, organisations see themselves as being pretty much in the middle of capability for much to do with EPM processes. This may be down to two main reasons – EPM is not a well understood subject as yet, and therefore, many interviewees' responses will be based on "best guess" which will tend towards an average score. Secondly, the questions will have taken many interviewees outside of their comfort zone, as they were asked about external stakeholders and how they deal with those outside the standard workflows and processes that they are more comfortable with. This will tend to lead to lower scores, and this is likely to remain the case until a better understanding of EPM is gained, and those involved with the various processes do reach out to external stakeholders and create processes that are interlinked so as to lead to more effective collaborative financial management.

It is also notable that those scoring best in the index tend to be from geographies where regulation is not seen as being overly onerous as yet. Those in these environments do see that the regulatory load is likely to grow due to current financial conditions, and this could have an adverse impact on future index scores. This could occur as the need for managing more complex information flows and the need for a more complete view on future state becomes more important, and respondents realise that the more simple processes that met their needs under less regulation are no longer fit for purpose.

What shines through the whole of the research, however, is that there is much room for improvement. Although three quarters of respondents manage to consolidate and close accounts within 10 working days, this is being done using a lot of individual spreadsheets and a high degree of manual work. This is bound to introduce errors into the workflows, which could have long-reaching impact for an organisation at the legal and stakeholder levels. Through the use of suitable EPM tooling, the processes can be automated, minimising errors in information transcriptions, ensuring that the latest available information is being used, and that small problems can be dealt with before they become major issues that could impact the overall corporate strategy. Indeed, EPM can help in positioning the organisation not as being at the end of a historical timeline, but as being at a point in time. With the capability to better position the organisation as to its capabilities in future possible market conditions, not only can the organisation be far more flexible in itself, but it can utilise inputs from across its stakeholder communities to ensure that such opportunities are optimised against the organisation's and stakeholder's risk profiles.

Quocirca strongly recommends that organisations reach out to embrace their stakeholders, both those within the organisation, and those external. Through this, a far more flexible value chain can be created and maintained, with each constituent within the workflows having a defined role to play that is matched more closely to their organisation's and their own needs. Indeed, many individual needs can be automated, enabling the disparate and numerous information needs of differing groups and individuals to be met at minimal cost. Stakeholders need to be fully embraced as important inward intelligence and data feeds, as well as being seen as targets for outward bound information publishing. Management excellence is predicated on maximising the value from all possible areas – and a piecemeal approach will result in piecemeal decisions being made. Processes have to be able to flow across organisational and value chain boundaries, and all stakeholders have to be encouraged to participate in providing information that improves the overall efficiencies and effectiveness of the processes being used.

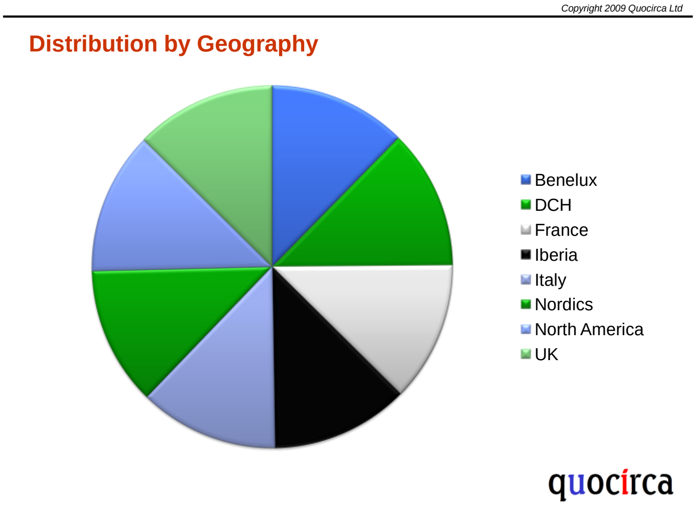
Organisations need to review where they are at this stage, and identify the "quick wins" leading to EPM. Consolidating and cleansing information through the use of common data models and master data repositories will minimise issues introduced through data redundancy and wrong data versions. Suitable business intelligence tools demonstrably provide better EPM capabilities. Future state capabilities, with scenario and "what-if" analysis give a degree of visibility into the future, enabling product launches, campaigns and M&A activity to be undertaken with far more trust in what the end result will be.

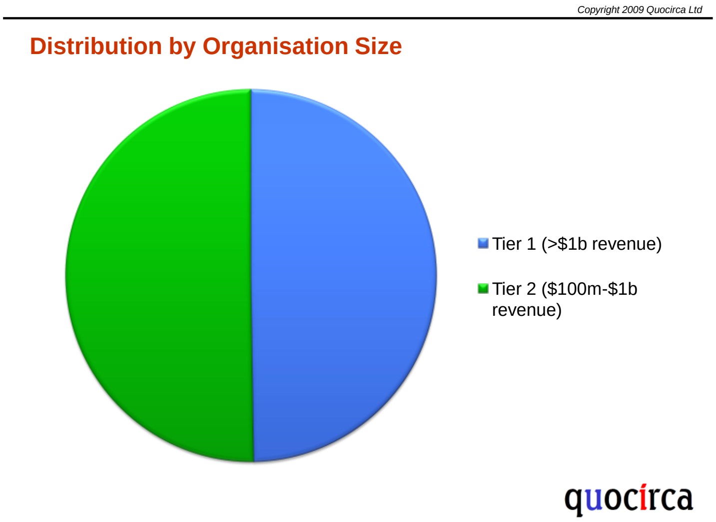
Overall, though, it should be apparent that what is really needed is the creation of the necessary high level plans and the underpinning processes and workflows that lead towards a full EPM strategy. This does not have to be a one-off, big-bang approach, but different process areas can be dealt with at different times, provided that the overall EPM and corporate strategies are still adequately supported.

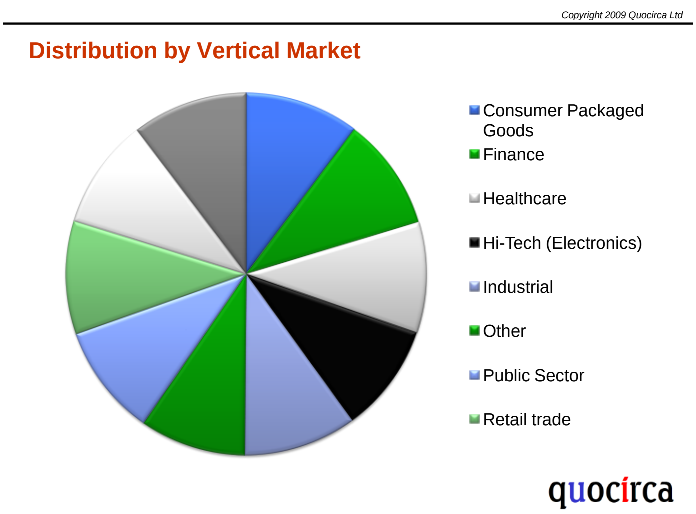
EPM provides a platform for flexibility, for ensuring that small problems can be dealt with effectively before they become bigger issues. It enables the future to be modelled, and enables organisations to be highly responsive to changing market conditions. In the current market conditions, not moving towards an EPM approach could be fatal. If your competition does move to EPM and implements and operates this effectively, they will be far better positioned to survive the recession and then thrive. Far better to be ready to hit the ground running than to be left by the wayside.

Appendix – Sample distributions

Quocirca interviewed 800 people closely involved in the financial processes across an organisation. These interviewees were spread across 8 geographies, 2 organisational sizes and 9 vertical markets (plus "other"). The interviews were carried out in February 2009 by telephone in native language for geographies excluding the Nordics where English was used.







About Oracle

Oracle (NASDAQ: ORCL) is the world's largest business software company. For more information about Oracle, please visit our Web site at http://www.oracle.com.

REPORT NOTE:
This report has been written independently by Quocirca Ltd to provide an overview of the issues facing organisations seeking to maximise the effectiveness of today's dynamic workforce.

The report draws on Quocirca's extensive knowledge of the technology and business arenas, and provides advice on the approach that organisations should take to create a more effective and efficient environment for future growth.

Quocirca would like to thank Oracle for its sponsorship of this report and to the end users who provided their time to answer questions on the usage of EPM within their organisations.

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with firsthand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at http://www.quocirca.com

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