



# Financial Consolidation and Reporting Solutions: Adding Value to Enterprise Resource Planning Systems

Oracle

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# Financial Consolidation and Reporting Solutions: Adding Value to Enterprise Resource Planning Systems

## EXECUTIVE OVERVIEW

Today's companies face a vast range of complex financial reporting and consolidation requirements, and ever-increasing scrutiny by auditors. Transaction systems such as enterprise resource planning (ERP) systems are no longer adequate for the job. Financial consolidation, reporting, and analysis (FCRA) applications can add significant value by enabling flexible, accurate, and rapid reporting that integrates with current ERP systems.

## INTRODUCTION

Financial reporting requirements come from a variety of sources and can be very complex. Regulatory scrutiny has never been higher—especially as a result of the Sarbanes-Oxley Act (SOX) in the United States and International Financial Reporting Standards (IFRS 2005) in Europe. There are various approaches and software packages that can help companies automate the consolidation and reporting cycle. Of these options, packaged FCRA applications with purpose-built features will deliver the highest return on investment by improving the speed and quality of the financial close. To deliver the most value, the finance or accounting staff that compiles and creates the financial reports should administer and maintain the FCRA solution.

FCRA applications act as a consolidated “book of record”—they provide audit trails and permanent storage of the consolidated results so that internal and external auditors can test and verify data. But FCRA applications also help organizations with management reporting, a process by which companies examine and analyze information about business performance to plan for change.

The FCRA is a module of enterprise performance management (EPM) solutions. These solutions complement and integrate with various underlying transaction systems, including ERP systems. The applications that comprise an EPM system provide comprehensive support for the entire management cycle of goal setting, modeling, planning, monitoring, analysis, and reporting. Like all modules of the EPM solution, Oracle Hyperion Financial Management can be run independently to address this particular segment of the management cycle. But when it is

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integrated with all the modules of Oracle's enterprise performance management system, it supports an efficient, closed-loop EPM process that improves business insight and generates better business decisions.

## FINANCIAL CONSOLIDATION AND REPORTING REQUIREMENTS

For most publicly traded companies, it is challenging to aggregate historical results in monthly or quarterly reports. One of the greatest challenges is meeting the business requirements for both statutory/legal and management reporting.

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### Statutory Reporting

Statutory reporting refers to the financial reporting that helps regulate public companies listed on the world's stock exchanges and the accompanying requirements detailed by governmental bodies such as the U.S. Securities and Exchange Commission. This is typically a quarterly reporting requirement.

Statutory requirements come from many sources:

- **The Financial Accounting Standards Board (FASB).** The FASB publishes U.S. financial accounting and reporting requirements.
- **The International Accounting Standards Board (IASB).** The IASB publishes International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in Europe and other countries.
- **Government.** Accounting rules can come directly from the government itself, such as the Japanese statutory for listing on the Tokyo Stock Exchange, and UK GAAP (generally accepted accounting principles) for listing on the London Stock Exchange.
- **Regulated industry.** Companies in regulated industries, such as banking, insurance, and utilities, typically have special accounting and reporting requirements.
- **Tax authorities.** All companies must comply with local tax authorities. For example, U.S. companies must comply with Internal Revenue Service requirements.

All these requirements are collectively known as *statutory* or "required by the state." Although these requirements apply to all publicly traded companies, they are often adopted by private companies and not-for-profits as well.

Most Financial Accounting Standards (FASs) deal with the *what*, *when*, and *how* of recording transactions. For example, FAS48/IAS 18 describes *when* to recognize revenue; FAS57/IAS 24 describes *what* should be disclosed in related-party transactions such as those between owners and members of their immediate family; and FAS109/IAS 12 describes *how* accounting should record income taxes.

Most FASs deal with the *what*, *when*, and *how* of recording transactions.

There are actually very few consolidation- and reporting-related FASs. The overriding principles of consolidation reporting are set forth in Accounting Research Bulletin (ARB) 51 and IAS 27.

ARB 51 states the following: “The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations, and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions.”

To achieve the purpose of consolidated financial statements, those statements must report as faithfully as possible the results of operations, cash flows, and the financial position of a reporting entity that comprises a parent and its subsidiaries. Underlying that conclusion is investors’ need for relevant, reliable, and comparable financial information that is helpful to them in assessing an entity’s financial position and performance. The reports must present the information so investors can compare it with reports for other periods and with similar information about other entities. A fair assessment of a company’s performance relies on information about all the activities related to the economic resources that an entity controls.

ARB 51 further states the following: “There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.”

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**Source: ARB 51**

The most common FASs/IASs related to consolidation include

- ARB 51/IAS 27: Consolidated Financial Statements and Intercompany Eliminations
- FAS94/IAS 27: Consolidation of Majority-Owned Subsidiaries
- FAS8/FAS52/IAS 21: Foreign Currency Transactions and Translations
- FAS95/IAS S7: Statement of Cash Flows
- FAS131/IAS 14: Disclosures about Segments of an Enterprise

For today’s diverse, global organizations, complying with statutory requirements can be a daunting task. Without robust consolidation and reporting processes, complying with multiple external reporting requirements becomes difficult, if not impossible.

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## **Management Reporting**

External or *statutory* reporting differs from internal or *management* reporting. A company’s managers set management reporting requirements, and the information is not typically disclosed to governments and third parties. Management reporting requirements are usually different for distinct organizational levels and the reports tend to be more analytic than statutory reports. For example, detailed budget variance analysis, an intrinsic element of management reporting, is not required for

statutory reporting. In addition, management reporting typically determines incentive-based compensation. Generating such reports gets complex when a company bases compensation for its management team on factors for which there are no guidelines in the generally accepted accounting principles.

**APPROACHES TO FINANCIAL CONSOLIDATION AND REPORTING**

There are three basic methods for financial consolidation and reporting (Figure 1):

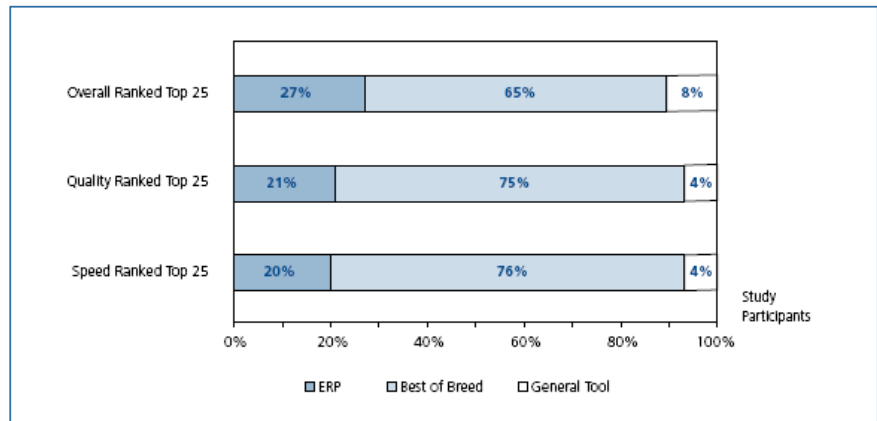
- Packaged or “best-of-breed” applications (FCRA applications)
- ERP systems
- General tools

These primary methods were identified in a study by BPM International. In 2006, BPM International surveyed 130 of the largest corporations in the world across all industries to identify common traits of top-performing finance departments. The study found that 59 percent of survey respondents used packaged applications, while 29 percent used an ERP or general ledger/ERP system. The remaining 12 percent used general tools, such as spreadsheets and data warehouses.

**Packaged Applications**

The study showed that packaged applications—also known as best-of-breed applications—were twice as popular overall as the next most common choice, the ERP system alone. Further, packaged applications were an even more common choice in the top 25 best-performing finance departments (Figure 1). The study showed that finance departments ranking in the top 25 used packaged applications between 65 percent and 76 percent of the time—a significant majority.

**The BPM International study showed that packaged applications—also known as best-of-breed applications—were twice as popular overall as the next most common choice, the ERP system.**



**Figure 1: Percentages of top 25 finance departments using each financial reporting approach.<sup>1</sup>**

<sup>1</sup> “Consolidation, Reporting and Planning Functions in European Multinational Enterprises 2006,” BPM International, February 2007.

Packaged applications will address both statutory/legal and management reporting requirements. Oracle Hyperion Financial Management is classified as a packaged FCRA application. For a software solution to be classified as a packaged FCRA application, it must do all the following:

- **Structure and automate.** Typically used by finance teams in midsize-to-large publicly traded corporations, FCRA applications structure and automate the monthly or quarterly aggregation of historical results. These applications embed rules, procedures, and techniques with an accompanying methodology, fulfilling specific statutory/legal reporting requirements associated with the period-end financial close. Such standards include the GAAP and the IFRS.
- **Support management reporting.** FCRA applications allow users to analyze information about the business and help to plan for change, a process collectively known as management reporting. FCRA applications perform functions that are ad hoc, involve creativity, and address what-if scenarios. They allow companies to
  - *Analyze unique events* such as modeling a new corporate structure, revising the existing corporate structure, starting a new division, and planning tax and treasury strategies for acquisitions and divestitures
  - *Evaluate profitability* by product, brand, and customer segment
  - *Determine compensation* for a sales or management team based on any factor of performance; for example, FCRA applications can support reporting for companies that compensate salespeople based on the sales they booked during a period, rather than the revenue they generated for that period
  - *Collect and consolidate environmental and social metrics* often included in sustainability reporting, as well as other nonfinancial information that is required for internal and external reporting
- **Act as a consolidated book of record.** FCRA applications must provide audit trails and permanent storage of the consolidated results for internal and external auditors to test and verify data. FCRA applications also provide control mechanisms to ensure that statutory/legal and management reporting is complete and accurate. As part of their annual internal control evaluations, public accountants rigorously audit companies' FCRA applications and the data generated.
- **Not require IT administration.** To deliver the most value, the finance or accounting staff that compiles and creates the financial reports should administer and maintain the FCRA solution. Furthermore, end users outside finance—for example, operational revenue and cost center managers—should be able to customize and create their own reports, thereby promoting a “self-service” operating model. Because of their packaged and self-service

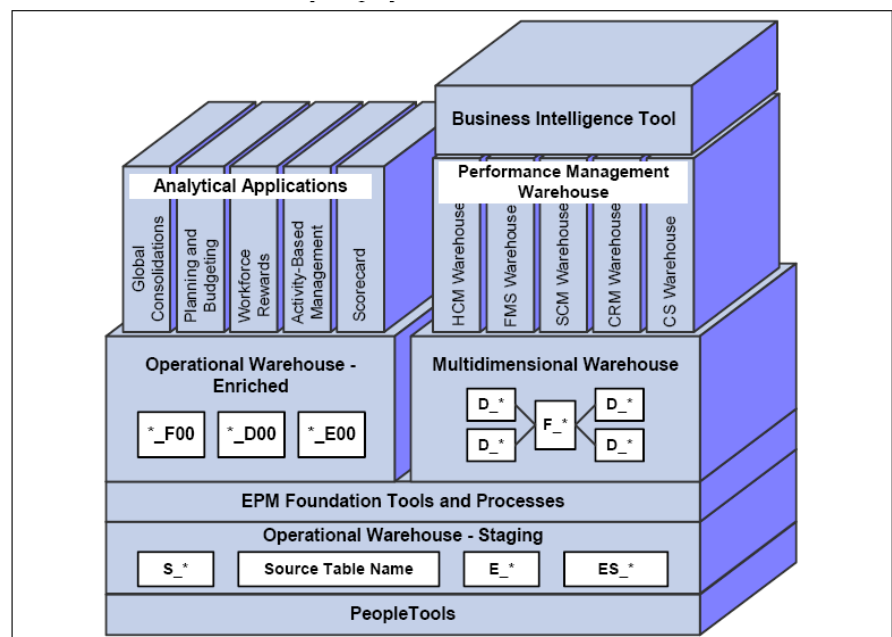
FCRA applications perform functions that are ad hoc, involve creativity, and address what-if scenarios.

FCRA applications can support reporting for companies that compensate salespeople based on the sales they booked during a period, rather than the revenue they generated for that period.

features, support of FCRA applications requires fewer staff members than any of the other most common approaches (see “Cost of Support” section).

## Enterprise Resource Planning Systems

The second most common choice is to consolidate financial results within the ERP system itself. With this approach, general ledgers or data warehouse technologies consolidate the results within the ERP technology stack. The primary advantage of this approach is that financial consolidation is fully integrated with the underlying transaction systems. However, financial consolidation can only be fully integrated when all underlying transaction systems are from the same vendor and they are installed as a single technology stack. For example, Figure 2 shows the recommended architecture for customers who have only Oracle’s PeopleSoft transaction systems.



EPM architecture

**Figure 2: A fully integrated financial consolidation solution relies on same-vendor architecture.**

**The biggest issues with the ERP approach are its lack of flexibility and inadequate functionality when companies need to report and analyze data in the area of change management.**

The biggest issues with the ERP approach are its lack of flexibility and inadequate functionality when companies need to report and analyze data in the area of change management. Changes to the chart of accounts and entity structures must be scrutinized and implemented by IT to carry them over to the entire general ledger system. The general ledger often makes it difficult to consolidate data from multiple periods, evaluate restatements, analyze what-if scenarios, or reconcile differing methods of recognition and reporting associated with management reporting. As a result, the finance department must complete these tasks offline in a spreadsheet because they can’t afford to wait for IT to respond. In general, only companies with limited environmental change can succeed for a sustained period with this approach. Also, ERP consolidations require the largest dedicated staff (see “Cost of Support” section).

## General Tools

General tools, including spreadsheets and data warehouses, were used by approximately 12 percent of companies in the survey.

### Spreadsheets

When the spreadsheet approach is used, spreadsheet templates are created by central headquarters and e-mailed to remote locations. Then, on a monthly or quarterly basis, these spreadsheets are updated and e-mailed back to central headquarters, where they are consolidated into a master spreadsheet—usually with complex macros. The only advantage of this approach is low cost because there is no software or hardware to buy. Everyone in the organization already has e-mail access and a spreadsheet application on the desktop.

The biggest disadvantages of this method are that it is difficult to maintain the spreadsheets, and there is no audit trail. It can be very difficult to keep all the spreadsheets updated and synchronized, especially in an environment of persistent change. Errors happen frequently and are difficult to correct, and there is no audit trail of adjustments or changes to the spreadsheets. Finally, specialized knowledge is required to program the spreadsheets, making companies fully dependent on one or a few spreadsheet “gurus.” Though a spreadsheet approach can help with statutory and management reporting when used with an FCRA system, standalone spreadsheets are being increasingly rejected as acceptable FCRA tools by public auditors during their internal control reviews—particularly those audits in the United States required by SOX.

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### Data Warehouses

The generic data warehouse is an IT-intensive approach. Indexed and coded data is loaded from general ledgers into a generic relational or multidimensional data storage system. The system then performs unique calculations and allocations and generates output reports. The primary advantage of this approach is its customization capability, because any number of unique calculations can be created. The primary disadvantage is that, because data warehouses are typically IT projects and not owned by the finance team, this method requires dedicated programming expertise. IT will be required to create and maintain the system and to oversee certain aspects, such as reporting formats and security. As such, delays and inflexibility will be constant challenges.

External auditors will usually want to review a custom system like this in detail, but will not require as extensive an audit when an FCRA application is implemented in the system. This is because the FCRA application has software controls with which auditors are familiar from their broader experience with packaged FCRA solutions. Generic data warehouse approaches will often increase audit fees and could increase internal control risk as well.

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## COST OF SUPPORT

In its study, BPM International also asked companies to report the number of full-time equivalent (FTE) employees they had on staff to support their financial consolidation systems. Among companies using packaged FCRA solutions, or best-of-breed solutions, only 18 percent in the survey had more than five FTE employees on staff to support the system. Among companies using ERP systems, 42 percent in the survey had more than five FTE employees on staff for support. Finally, among companies using general tools, 23 percent had more than five FTE employees on staff to support the system (Figure 3). This highlights the extra maintenance and support required by IT-based ERP approaches and generic tools.

Consolidation Tools by Number of Staff in Group Systems Team

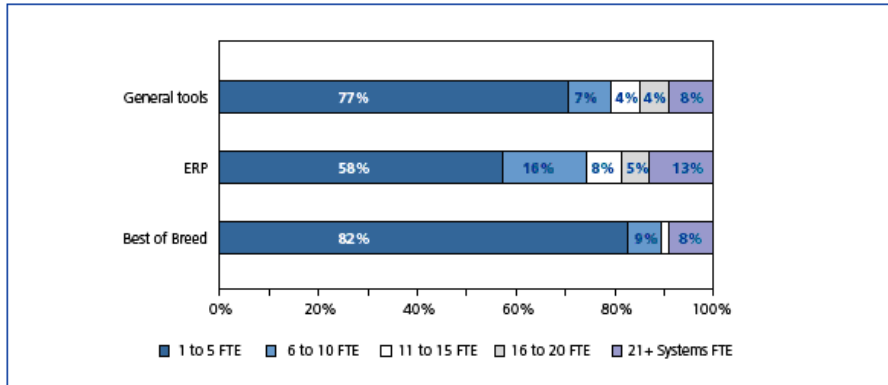
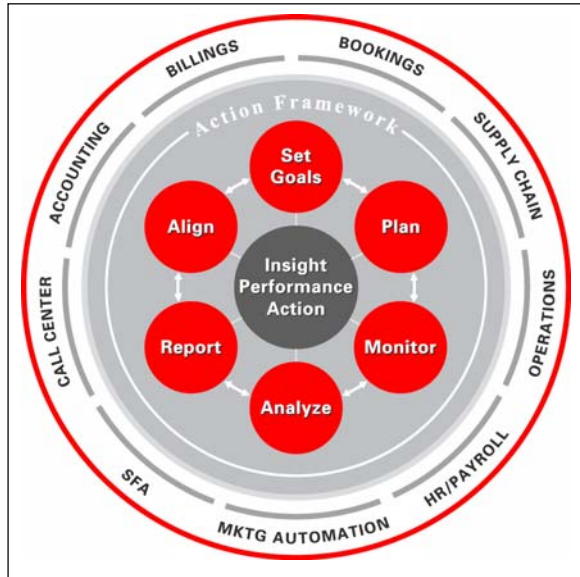


Figure 3: Packaged FCRA applications require the least number of full-time staff members for support and maintenance.

## FINANCIAL AND ENTERPRISE PERFORMANCE MANAGEMENT SOLUTIONS

**FCRA applications are important components of EPM, enabling customers to link strategies to plans, monitor execution, and gain insights.**

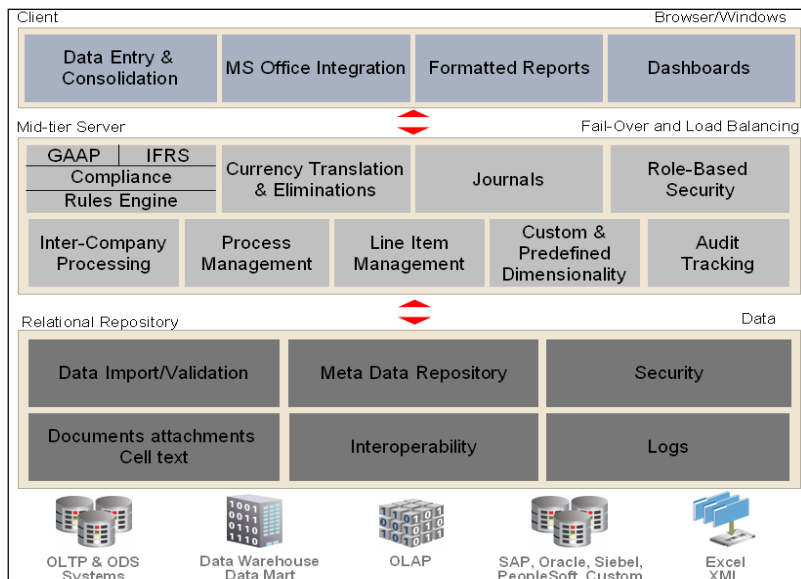
Standalone FCRA applications are extremely effective in streamlining financial consolidation and reporting when implementing a complete EPM solution is not practical. But a modular suite of applications integrating FCRA and other EPM applications provides the most comprehensive support for the entire management cycle of goal setting, modeling, planning, monitoring, analysis, and reporting with the fastest time to benefit (Figure 4). FCRA applications are important components of EPM, enabling customers to link strategies to plans, monitor execution, and gain insights to help manage and improve performance. These applications can be used independently to address the financial reporting segment of the management cycle, but together they support a closed-loop EPM cycle.



**Figure 4: The Oracle enterprise performance management system supports the complete management cycle.**

**A robust FCRA solution brings together trial balances and other information from one or many general ledger/ERP or other transaction systems.**

As shown in Figure 5, a robust FCRA solution brings together trial balances and other information from one or many general ledger/ERP or other transaction systems. Actual results from one or many transactional general ledger/ERP systems will typically be loaded or integrated into FCRA solutions at the period end. Once the consolidation process is complete, reports and dashboards can be accessed through a browser or Microsoft Office user interface.



**Figure 5: A robust FCRA solution integrates information from multiple transaction systems.**

As part of a robust EPM framework, FCRA applications should support the following financial processes:

- Management, legal, and tax reporting
- Complex currency translations
- Intercompany and minority interest eliminations
- Complete audit trails
- Journal adjustments
- Multidimensional analysis
- Cash flow reporting
- Extensible Business Reporting Language (XBRL) reporting

They should also include the following features:

- **Prepackaged features** that can be used quickly and cost-effectively
- **Flexible business rules** and powerful allocation rules that help in cost accounting and are easily set by staff
- **Robust data integration** with legacy applications and transaction systems
- **Graphical drag-and-drop** data mapping and administration of the chart of accounts and dimensional hierarchies
- **Productivity features** that can help trim days and weeks off the close cycle and support fast close best practices
- **Preventive financial control mechanisms** and sophisticated process management with automatic e-mail alerts
- **End-user-defined line item details** and text messages for added analysis and collaboration
- **Nested dimension forms** with drill-and-pivot features for navigation ease
- **Reports and graphics** that are high volume and preformatted
- **Built for the Web** functionality for ease of use; no PC client installation for end users
- **Around-the-clock availability** of mission-critical data
- **Inherent integration** with all leading security mechanisms
- **Failover and load-balancing** technologies

## **PACKAGED SOLUTIONS AND THE FAST CLOSE**

FCRA applications are often implemented as part of an effort to speed the company's financial close and reporting cycle. Why is a fast close so important? From an external perspective, speedy and high-quality financial reporting is an

indicator of good governance and is viewed favorably by investors. Internally, management will always want to know how business strategies are tracking against expectations as soon as possible. A faster close maximizes the time available for managers to analyze strategies and possibly alter them.

**According to the BPM International study, the fastest-closing companies complete the monthly consolidation and analysis process within the first week after the month's end.**

As mentioned earlier, the BPM International survey found that FCRA applications were used more often by the top 25 best-performing finance departments (Figure 1). But what does a fast close look like? According to the BPM International study, the fastest-closing companies complete the monthly consolidation and analysis process within the first week after the month's end. This compares to companies whose closing cycle speed is average, which takes another week or two; slow-closing companies often take a full month. The very fastest closing companies can close and report internally in a single workday. From an external reporting perspective, the fastest companies usually announce earnings early in the second week after the quarter's end—a six- to eight-day close and reporting cycle.

How do companies achieve world-class financial close and reporting performance? The fastest-closing companies have achieved success by implementing the following best practices that integrate, improve accessibility, improve efficiency, and maximize information:

#### **Integrate**

- Adopt a common chart of accounts across diverse general ledger systems.
- Implement an integrated financial consolidation and financial data quality solution to more-quickly collect data and reduce errors.
- Integrate financial reporting with planning, scorecard, and financial modeling systems for continuous performance management.

#### **Improve Accessibility**

- Empower the finance department with ownership of the data loading and mapping process.
- Equip remote reporting sites to map, validate, and correct data as they load it to the common chart of accounts.
- Enable Web-based reporting of internal results—making self-service finance a reality.
- Enable electronic submissions to external stakeholders via XBRL.

#### **Improve Efficiency**

- Regularly close systems that feed into general ledgers and do not wait until the period's end.
- Reconcile intercompany balances frequently, rather than waiting until the quarter's end.

- Make top-line adjustments in a financial consolidation system, rather than going back and correcting local general ledgers and then reprocessing.

#### **Maximize Information**

- Collect unstructured data related to financial information (such as variance descriptions and other qualitative information) while the trial balances are being collected.
- Subcertify the results along with the trial balances—survey responses, testing results, and reconciliation documents submitted with the trial balances can improve confidence.
- Conduct flash reporting on key performance indicators throughout the reporting period, using the financial consolidation system, performance dashboard, or scorecard system.

Clearly, technology will play a vital role in supporting these processes and improving cycle times. For more on the best practices required to achieve a fast close, read the Oracle white paper titled “The Fast Close: Are We There Yet?” (Updated June 2008).

### **INTEGRATING FINANCIAL AND TRANSACTION SYSTEMS**

As previously discussed, there are a variety of approaches to efficient and effective financial consolidation and reporting. But first it’s important to understand some of the inherent strengths and limitations of financial transaction systems. Systems such as general ledger/ERP software improve transaction processing in a company. General ledger/ERP software captures and structures transaction-based data at the lowest functional level—for example, data from a specific manufacturing facility. General ledger/ERP systems are generally divided into business functions, such as financial, distribution, human resources, manufacturing, treasury, materials, and customer relationship management. These systems help control and automate everyday activities such as purchasing, hiring, paying invoices, and receiving merchandise, among others.

A typical large corporation will have many general ledger/ERP systems with hundreds or thousands of users interacting with different modules on a daily basis. Major subsidiaries, product lines, and service organizations will typically have their own general ledger/ERP system tuned over time to unique operating requirements. These systems usually include a general ledger module for accumulating all transactions and creating a set of financial statements—often called trial balances—for the functional entity being administered. There could be hundreds or even thousands of such entities in a corporate structure, leading to thousands of trial balances with differing charts of accounts that must be consolidated.

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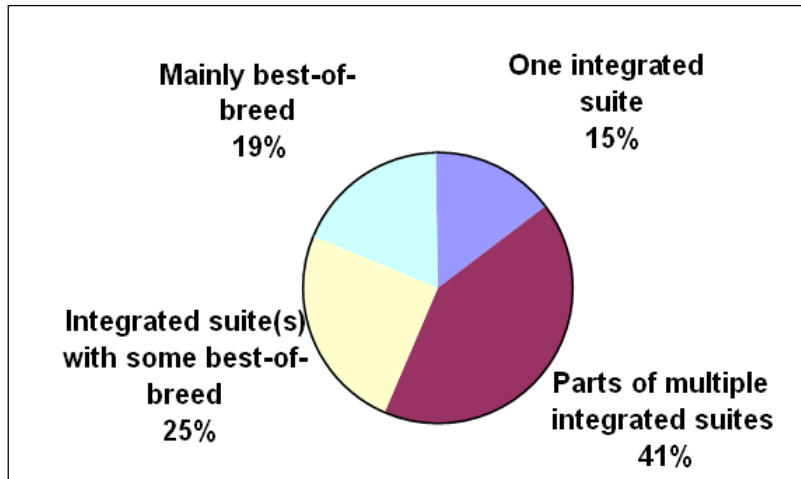


Figure 6: Percentage of single and multiple ERP systems, FCRA applications, and combined systems used companywide.<sup>2</sup>

### Adding Value to Multiple Enterprise Resource Planning Systems

As noted in the IDC survey, a large majority of companies do not have one integrated ERP suite. There are several key reasons for this:

- The cost to convert to a single ERP is prohibitive.
- Companies are encouraging greater autonomy in remote operations.
- Mergers bring in new general ledger/ERPs that are not immediately converted to a single corporate standard.
- The company might want to keep divisions separate as part of a sell-off or an initial public offering strategy.

<sup>2</sup> “End-User Buying Trends and Technology Directions for Enterprise Applications,” IDC, February 8, 2007.



**Figure 7: Oracle Hyperion Financial Management interfaces with multiple ERP systems.**

**It is critical to have a robust FCRA solution in place to bring all the disparate trial balances together in accordance with statutory requirements.**

In these situations, it is critical to have a robust FCRA solution in place to bring all the disparate trial balances together in accordance with statutory requirements. The FCRA solution also gives management a consolidated view of revenues, profits, cash flows, and other such performance indicators.

FCRA applications can also help keep the local general ledger/ERPs “simple”; that is, doing their primary job of transaction processing and generating basic financial statements, not higher-level financial functions such as complex allocations and management reporting.

Because the finance or accounting staff that compiles, creates, reviews, and approves the financial reports also administers and maintains the FCRA solution, the package adds significant value. The IT staff is free to address other IT issues, and the finance staff can still respond quickly to new requirements. As never before, company executives require the fastest possible turnaround on consolidation and reporting, planning, budgeting, and forecasting activities. These activities include business analysis, reorganizations, and multidimensional modeling—all with 100 percent accuracy and complete audit trails. The question of end-user empowerment and employee morale also comes into focus. An empowered finance team that is not dependent on IT for assistance will be happier and more productive overall.

**A purpose-built, well-controlled, ERP-independent system fully maintained by the finance team will deliver the fastest turnaround and best accuracy in today's dynamic business environment.**

A purpose-built, well-controlled, ERP-independent system fully maintained by the finance team will deliver the fastest turnaround and best accuracy in today's dynamic business environment, especially where multiple general ledger/ERP systems are in place. FCRA solutions act as a consolidated book of record, bringing together multiple disconnected transaction systems for a single set of consolidated results. This fulfills the ARB 51 requirement “to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations,

and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions.”

Furthermore, operational managers throughout the extended enterprise need accurate financial information quickly, and customized to their requirements. The best way to achieve this is through a self-service approach. Once the close has been completed in the FCRA solution, the results can be made available to the extended management team through a Web user interface. This interface has both formatted and ad hoc reporting tools to help them in their day-to-day activities.

### **Adding Value to Single Enterprise Resource Planning Systems**

**Although these systems can be costly, the return on investment of just-in-time purchasing and the corresponding reduction of inventory carrying costs more than justifies a single-instance ERP project for such companies.**

Single-instance ERP solutions are installed and maintained at a single location, but are accessible by all functional users worldwide. This type of ERP system adds significant value in some companies—for example, where large-scale manufacturing involves closely linked supply chains. As another example, in certain segments of the financial services industry, financial transaction requirements can only be met by single-instance ERP systems. Although these systems can be costly, the return on investment of just-in-time purchasing and the corresponding reduction of inventory carrying costs more than justifies a single-instance ERP project.

After the transition to a single worldwide ERP has been completed, there is still a strong need for a robust, ERP-independent FCRA solution owned and operated by the finance team. Some ERP solutions allow users to consolidate and report financial information with data warehouses. But these solutions are, by necessity, tied directly to the underlying transaction system, requiring IT expertise outside finance for basic maintenance and support. This might present some complications—for example, IT staff will be expected to make GAAP-compliant changes to the systems but typically lack the financial accounting background to really understand the changes they are making.

Also, ERP data warehouse-style consolidations are by necessity centralized and highly controlled. Changes to these systems need to be evaluated carefully to understand the full impact on data that headquarters consolidates and reports. In addition, such changes could affect the underlying transaction and extract, transform, and load (ETL) processes—and determining these effects takes time. These approaches do not promote the concept of autonomy and self-service. FCRA applications—stored centrally but maintained by autonomous divisions (where unique and dynamic key performance indicators are allowed)—will encourage operational business partnering, rather than simple scorekeeping.

For example, a new product in one division might be planned or produced that changes the cost structure, revenue projections, and cash flow contribution for that division. In this case, the divisional finance team can use an FCRA system to assess and evaluate the changes caused by the new product quickly and efficiently. Robust and flexible FCRA solutions are purpose built for this type of divisional activity, whereas ERP data warehouse solutions are less flexible and will require significant IT assistance to complete such tasks. What typically happens in these situations is

that data is dumped from warehouses into spreadsheets for analysis. But spreadsheets are really not suitable for critical multiuser financial activities such as new product impact analysis.

**A consolidation and reporting strategy based solely on an ERP system is a risky one. This approach is an option that will work for very few companies.**

Based on these limitations, a consolidation and reporting strategy based solely on an ERP system is a risky one. This approach becomes an option that will only work for a shrinking number of companies that can accept the constraints of a financial consolidation process owned by IT.

## **TRANSITIONING TO A SINGLE ENTERPRISE RESOURCE PLANNING SYSTEM**

For companies that have decided to move ahead with a single general ledger/ERP approach, time does not stand still. Single-instance ERP systems can take years to implement. During that time, the company will publish results, make acquisitions and divestitures, possibly even reorganize, and the competitive landscape could change dramatically. Robust FCRA applications can help with the transition to single-instance ERPs by providing consistent processes and reports during the transition period. The company can change underlying transaction systems independently when milestones are met and timing is best for the functioning of the organization, rather than being influenced by monthly or quarterly reporting requirements. And FCRA applications can help with ongoing reorganizations as well, which can be driven by the ERP project itself.

**FCRA solutions will provide a solid and reliable technology framework for merging acquired company financial statements quickly, and ERP integration can progress at its own pace.**

When a company is acquired, there is typically a need to bring the acquired company's financial statements together with that of ongoing operations very quickly. It takes some time to integrate ERP systems, and it is not practical to tie this process to the entire ERP integration. FCRA solutions will provide a solid and reliable technology framework for merging acquired company financial statements quickly, and ERP integration can progress at its own pace. In addition, FCRA solutions control processes and check accuracy, keeping errors to a minimum during what can be a challenging time.

For these reasons, FCRA applications can help ensure that a large-scale ERP project is a success, rather than a failure. Because of the significant investment required in ERPs, senior executives carefully scrutinize these projects. Often, a breakdown or delay in the monthly or quarterly reporting is caused by attempting to use an ERP system as a consolidation and reporting application. Management might see this as a "red flag" that the ERP project is failing. In reality, it could be that the ERP project is progressing well, but only the financial reporting functions are having difficulties. FCRA applications help ensure that periodic reporting and analysis continues to be satisfactory to senior executives during the ERP transition.

And finally, FCRA applications help ease the ERP project burden on the IT staff and help reduce the consulting cost of ERP projects. ERP projects usually consume significant internal resources and involve costly consultants. Plus, the IT staff will need to maintain the legacy systems during the transition. If consolidated statutory/legal and management reporting is handled by an empowered finance

team with a robust FCRA system in place, the company will invest less money and fewer resources. This increases the likelihood that an ERP system will be implemented successfully, and that legacy systems will continue to be available.

## CASE STUDIES

Next, let's look at some case studies of customers who have implemented Oracle's enterprise performance management solutions to add value to both multiple and single ERP systems.

### Textron Improves Business Decision Process

Textron is an US\$11 billion company with a global network of businesses in industries such as aircraft (including Cessna and Bell Helicopter), industrial products, and finance. The company is using Oracle Hyperion Financial Management to better leverage financial data across its businesses to make decisions that maximize profits. The software has helped Textron streamline its financial consolidation process across the enterprise and deliver financial results faster.

With 44,000 employees in 40 countries, multiple currencies, and hundreds of differing general ledgers, enterprisewide consolidation and reporting was no easy task. By implementing Oracle Hyperion Financial Management, Textron was able to adopt a common chart of accounts and shorten its financial close process by four days. It now has a single repository of consolidated financial information—without changing even one underlying transaction/ERP system.

“We see Oracle Hyperion Financial Management as an enabling technology that helps us shorten our financial close cycle, with consistent processes across the enterprise,” says Larry Costello, director of Finance Information Systems for Textron. “For example, Oracle's Hyperion software provides features that validate our data so a balance sheet cannot be out of balance. Our business units have an accurate and up-to-date database that helps them better understand the business.”

Oracle Hyperion Financial Management also allows Textron to create comparative reports, such as “plan versus actual results” reports and “plan versus forecasts” reports, which enable detailed variance analysis. Textron uses the software to create nearly 100 different types of reports analyzing its financial data. Managers can create reports for different division levels, from the plant to the corporate level. This arms managers at various levels of the organization with the information and insight they need to make strategic decisions.

“Oracle Hyperion Financial Management gives us one cash flow report, which includes the GAAP cash flow and the free cash flow for the entire company, or for any plant, division, or segment. Previously, we prepared these reports separately and then reconciled the numbers,” Costello says. “This enhanced analysis capability and greater insight into financial data enables us to better understand cash flow drivers.”

**“We see Oracle Hyperion Financial Management as an enabling technology that helps us shorten our financial close cycle, with consistent processes across the enterprise.”**

**—Larry Costello,  
Director of Finance Information Systems,  
Textron**

## The Right Tools for The Stanley Works

The Stanley Works has been a long-time customer of Hyperion solutions from Oracle. In 2005, the company completed its migration from Hyperion Enterprise and implemented Oracle Hyperion Financial Management as its financial consolidation engine. With the software's Web-enabled capabilities, 360 of the company's users worldwide can take advantage of its flexibility.

The Stanley Works is an S&P 500 company and a manufacturer of tools, hardware, and specialty hardware products for home improvement, consumer, industrial, and professional use. The Stanley Works is now a worldwide corporation worth more than US\$3 billion that sells its products in more than 130 countries. Today, the company has three core business lines—consumer products, industrial tools, and security solutions—and is well known for its Stanley trademark, as well as the Bostitch, Husky, Monarch, and Mac brands.

With its recent growth through acquisitions, The Stanley Works has gained a reputation for seamlessly integrating new companies into its core business. One of the secrets of its success is a continual focus on data integration and consolidation.

The company relies on SAP for its ERP and general ledger system. The SAP system produces trial balance files, which are then transferred to Oracle Hyperion Financial Management, using Oracle Hyperion Financial Data Quality Management. These solutions have enabled the company to automate reporting processes and to easily customize reports to reflect multiple dimensions. As a result, team members can address the reporting needs of senior managers around the globe by customizing financial books.

Ken Kordana, internal reporting manager of Group Finance at The Stanley Works, explains, "We do some departmental reporting in which we create reports for specific groups and divisions within the company. We can now customize dimensions, and we have been able to automate the process to where we can instantly produce departmental reports—literally, within minutes."

**—Ken Kordana,  
Internal Reporting Manager,  
Group Finance,  
The Stanley Works**

There has been an increase in productivity that came with more functionality. He estimates that senior-level analysts have gained between 8 to 12 hours a month during which they can focus on true analysis and interpretation, rather than accessing and organizing information.

"I'm delighted with our decision to build our critical finance infrastructure with Oracle software," says Kordana. "We are able to see true, tangible value from our investment, and we continue to find ways to do more with Oracle Hyperion Financial Management than we thought we could. I believe we will be working with Oracle for a long time."

**One of the secrets of The Stanley Works' success is a continual focus on data integration and consolidation.**

**"We have been able to automate the process to where we can instantly produce departmental reports—literally, within minutes."**

## CONCLUSION

FCRA applications can add significant value to transaction systems such as ERPs. Financial reporting requirements come from a variety of sources and can be complex; regulatory scrutiny has never been higher. Stakeholders around the world are demanding more detailed disclosures of both financial and nonfinancial information, including sustainability metrics. There are various approaches to the consolidation and reporting cycle, but FCRA solutions, with their purpose-built features, will deliver the highest return on investment.

Packaged FCRA applications are typically used by finance teams to structure and automate the monthly or quarterly aggregation of historical results and include best-practice methodology. FCRA applications such as Oracle Hyperion Financial Management act as a consolidated book of record—they provide audit trails and permanent storage of the consolidated results for internal and external auditors to test and verify data. But FCRA applications also help organizations examine and analyze information about the business to plan for change, collectively known as management reporting. To deliver the most value, the finance or accounting staff that compiles and creates the financial reports should be empowered to administer and maintain the FCRA solution.

FCRA solutions are distinct from the underlying general ledger/ERP transaction systems they use as a datasource. Most large enterprises will continue to use more than one general ledger/ERP system, but some companies will move toward a single general ledger/ERP approach. FCRA solutions can add value to both multiple and single ERP systems, and can help create a seamless transition to a single ERP environment.

Oracle's Hyperion family of products is the recognized market leader for FCRA solutions with more than 4,000 FCRA customers worldwide. More than 25 years ago, Hyperion was launched as the first client/server FCRA solution. With innovation and quick response to new market requirements, this product is continuously improving. Its latest release, Oracle Hyperion Financial Management is a comprehensive, Web-based application that delivers global-collection financial consolidation, reporting, and analysis in a single, highly scalable solution. Oracle Hyperion Financial Management uses today's most advanced Web and relational technology, yet can be owned and maintained by the finance department. And it is part of Oracle's enterprise performance management system, a comprehensive suite of enterprise performance management applications that drive profitable growth by delivering predictable results, improving confidence and compliance, and streamlining business processes.

**FCRA applications such as Oracle Hyperion Financial Management act as a consolidated book of record—they provide audit trails and permanent storage of the consolidated results for internal and external auditors to test and verify data.**

**Oracle Hyperion Financial Management is a comprehensive, Web-based application that delivers global-collection financial consolidation, reporting, and analysis in a single, highly scalable solution.**



Financial Consolidation and Reporting Solutions: Adding Value to Enterprise Resource Planning Systems

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### **About Tribridge**

Tribridge is an IT services firm that delivers and supports technology, business management and core infrastructure solutions for organizations spanning diverse industries. Tribridge helps customers strategically leverage IT investments to become more productive, profitable, competitive and secure through proven methodologies, process optimization and industry best practices. We are dedicated to building a community in which organizations derive long-term business value from practical solutions that guarantee customer success and maximum return on investment. Headquartered in Tampa, Tribridge has customers, offices and team members across the U.S. and is the recipient of numerous awards, including the 2008 Microsoft Dynamics Worldwide Partner of the Year.

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