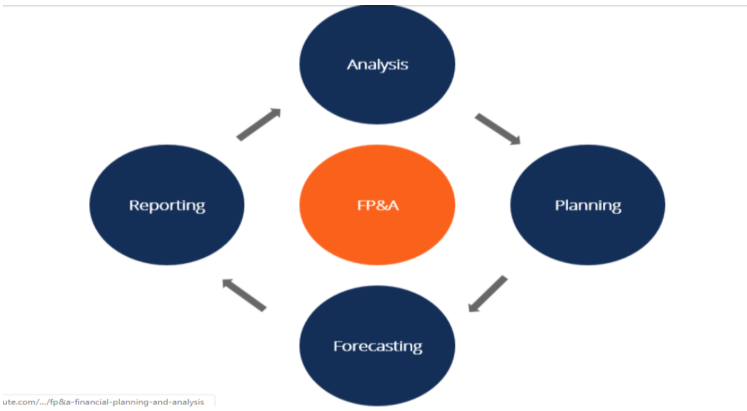
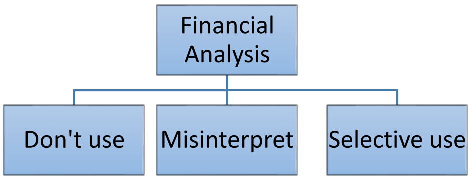
Financial Planning and Analysis: An Overview



Leaders, today, use financial analysis for guidance in budget, research & development and capital investments and accordingly are presented with daily/weekly financial analysis from Business Intelligence Group, Corporate Finance and Business Finance Team.

However, a lot of analyses are found to be not resulting in better decision making despite the midnight excel marathons resulting in under performance of finance's biggest investment. As per a survey of 2,305 business leaders conducted recently, 25% of the decisions with financial implications are made without financial analysis. Perhaps worst, a survey of 635 FP&A directors reported that 61% of the decision makers selectively choose analytics to validate their gut feeling. Most companies are losing up to 1% of revenue due to misuse of financial analysis during major strategic decisions.

The misuse of analysis happens when decision makers:



Is FP&A Going Wrong?

Many finance professionals may attribute the misuse of analysis to organisation culture which is beyond their control; however, there is more to it. Decision makers' use of financial analysis is within our control.

If Finance and its decision partners each contribute to the problem, they both own the solution. Financial analysis without decision-maker contribution lacks the detailed, business-level knowledge to make an impact, and business analysis without the oversight of a skilled analyst frequently lacks the financial acumen to factor in the key risks to profitability.

Although finance professional can fix flaws in how it designs, conducts and delivers analysis, it cannot do so effectively without input from business leaders. Decision makers need to bring in their deep business knowledge to bear and express their unique preference. Both producers and consumers of analysis need to pursue their shared goal; the best possible business decision.

To get decision makers to reengage with financial analysis and to realign the producers and consumers of financial analysis for better decisions, executives need to do three things:

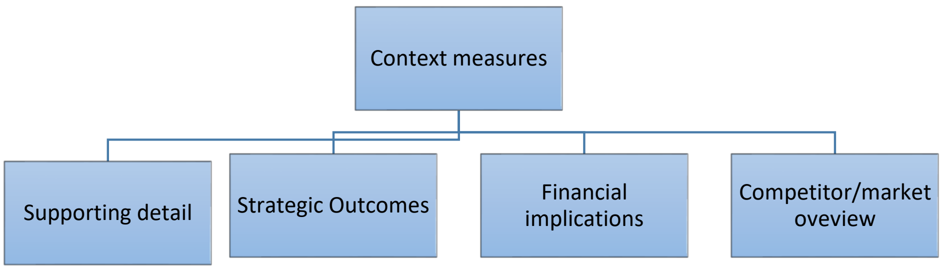
1. Create a shared view of business objectives and drivers
2. Enhance routine reporting with dialogue and discussion
3. Reorient business and finance roles for joint decision making

1. Create a shared view of business objectives and drivers:

(i) What drivers of a business ?
(ii) Should reach a shared understanding of business goals
(iii) Know the past and understanding of trends
(iv) Knowing the objective and tracking its progress

2. Enhance routine reporting with dialogue and discussion

(i) Finance professionals are expected to make valuable comments
(ii) Managing relationship with the peers of other departments for vital information
(iii) Budgeted Vs Actuals gives performance overview
(iv) Purpose and alignment of reports

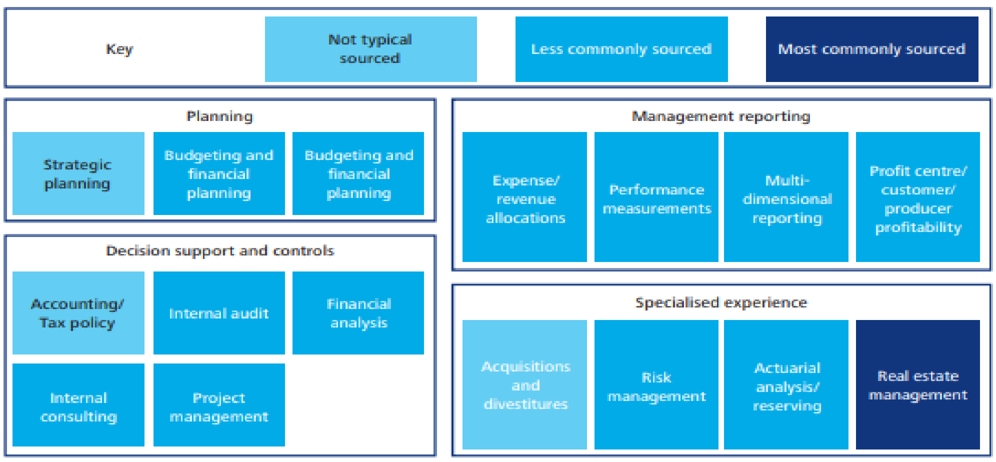


In each of the above an anlysist need to assess level of risk involved in it.

3. Reorient business and finance roles for joint decision making

Create effective debate by focusing on business decisions first and financial analysis last

* **Common financial planning and analysis process**



Conclusion:

There is no big secret – in order for FP&A professionals to give credible recommendations to senior management, it is required that they understand the company, industry and the latest trends associated with those. As knowledge depends on the access to right information, FP&A leads should work with CFOs to secure that the team has optimal tools and systems.

CA Mohd Khaled
Cell: 9985708830