FINANCIAL ANALYSIS

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INTRODUCTION

Financial analysis refers to the method of evaluation of the organisation. This analysis helps the organisation to evaluate various financial statement and financial indicators. The result from the analysis gives analytical outputs and artificial indicator. In the current study, the report will discuss the topics by considering the three businesses that the individual has acquired. The businesses are a commercial airline, a white goods manufacture, a large charity. In the first part, it will explains the benefits of integrating various planning and processes in the organisation. The report will highlight balanced scorecard for the performance of each organisation and at the end, it will summarise about the one costing technique that will suitable to the three organizations.

<u>1 Benefits of integrating / aligning the strategic planning, budgetary / operational planning and monitoring & control processes in the three organisation</u>

Every organisation needs to plan their strategies, budgets and how controlling and monitoring could be done for the success of the respective enterprises. For an organisation to be successful it is important to have a roadmap which guides the management to take the strategic and operational decisions. Strategic plan provides the direction to the management and employees. It defines the objectives and the targets which the business and gives the direction for achieving the results. Strategic plan is also important for setting up the coordination between different units so that they can work together to achieve the goals. Once the strategic plan if finalised, the organisation can further take action to define the operational plan. An operation plan would be needing budget for execution. Once the operational plan is in execution, it is important to monitor the activities to check whether the activities are going as per expectation.

All the three different organisations are engaged in the different businesses so there strategic planning, budgetary planning and controlling processes would also be different.

A Commercial airline

This organisation will have a strong strategic planning that gives the practical direction to board members, department leaders, variety of airport stakeholders, aviation industry association and other airport planning professionals etc. The benefits with this planning would be that it help in decision making, the airport managers will have the guidance to perform complex jobs in an efficient and safe manner. With planning the use of training and exercises would helpful in achieving the airport's business challenges and to tackle them at the individual, team and unit levels. The strategic planning gives the advantage to manager on formulating the flight schedule, identifies passenger traffic forecast, passengers arrival and departure, capacity constraints in respect of numbers of gates, counters etc, over time schedules from 1 day to several years etc (Subramanian and Ramanathan, 2012). In overall, the organisation employee and managers are aligned with future direction, current business decisions, creates differentiation in achieving the goals of enterprises with customer satisfaction.

In airlines organisation, there are varieties of benefits of budgetary planning. Budgets give the guidance on the action to be taken for example sales budget is prepared for air freight forwarder; it would help to know the busy route, day capacity requirement etc. It will further involve speaking to carrier authority for pricing and availability. This in turn would help to know the training or change in working practices. A sales budget gives the target that is to be achieved by the airport sales manager and its team. The other benefit of budget is that it maintains quality communication and coordination, involve people in the planning for future objectives.

The monitoring and controlling could be done through various tools like feedback system, appraisal system, performance based methods etc. The benefits of the controlling process are that it controls cost which is very important criteria in airlines organisations. For example: air transportation industry is very dynamic and it involves huge costs that are to be considered while making decisions. The organisation basically uses the controlling process to have a cost reduction in the main sector of airlines that involves essential earnings.

A white goods manufacture

A white good refers to white fabrics made of cotton or linen and articles typically made of white cloth. The other definition of white good is that it includes various household equipments that are made with white enamel. The basic objective o f strategic planning in every organisation is to understand the current situation and then plan for the future of the organisation. The benefit of this planning in this organisation is that the enterprise can set direction, make business decisions, enhances profitability and market share and whether to move global in this product. The manufacturer of white good would able to assess the future by taking the planning process accurately and achieving the desired objectives (Lorange, 2013).

In budget planning, the organisation will take into account the various budgets to decide for the future decisions. Budget planning helps the management accountant to know the future forecast that take into account changing market conditions and opportunities that exist in the environment. The other benefit is that the budget delegate authority and serves as the formation for periodic forecasts throughout the organisation in white good enterprises. It supports the strategic plan and substantiates information for external purpose and also determines mismatches and exceptional changes. The monitoring and controlling of the enterprises is done through the various procedures for measuring the performance of the employees of the white good manufacture. The proper use of controlling process by taking into account the various step of the process i.e. the organisation can use dual process method for monitoring and measuring the performances (Ngugi, 2015). After measuring the performances the corrective actions are need to be taken by the white good manufacture.

Charity Organisation

The organisations that focus on the social well being of the general public at large scale of the organisation. For example: the organisation that provides free facilities that are educational, charitable, religious or any other activity serving the public welfare or general goods. Whether the organisation is profit or not for profit organisation, strategic planning plays a crucial role in its functioning. The benefit of strategic planning in NPO’s is that to expand its mission that includes making enough money to continue to operate. The organisation with this planning tool can identify the strength, weaknesses, opportunities and threats and to set the objectives for the organisations. In the non profit organisation, while planning the strategy the organisation takes into account the stakeholders that supports the organisation work. The other benefit is that the role of board members is important for the final decision making.

The role of budget planning is important in not for profit organisation as it prove as a guide that help the non profit plan for the future as well for the current financial health. The non profit organisations make budgets on the accrual or cash basis. The smaller non profits organisation generally adopts the cash budgeting and the large non profits organisation likely to use accrual budgeting due to restricted availability of the fund every year. The benefits would be that the non profits too can forecast about the future so that they can make changes in the strategic planning for the next year (Brusca and Labrador, 2016). The internal controlling is necessary in the NPO's to reduce the errors and frauds or data manipulation. The benefit of the monitoring process is that it provides a check on cash, payroll, furniture and equipments, expenses, financial reporting, inventory, deposits etc. that helps the not for profit organisation to manage their strategic planning, budgetary planning and control process for the future vision and objectives.

2 Balanced scorecards for the performance of the three organisations with benefits

Balanced scorecard

Balanced scorecard is a performance management tool that gives a semi-structured report considering the methods and automation tools. This technique is used by the managers to keep the track on the activities of the staff that involves monitoring and controlling of the actions arising from the consequences. Balance scorecard is used by strategic management so as to find out the different strategic function and improve the outcomes of the function. Balance scorecard is used for providing feedback to organizations for improving the performance.

Using the balanced score card, it requires the organisation to viewed from 4 different perspectives. The organisation needs to develop metrics, collect data and further analyse these for all four perspectives. The four perspectives are as follows:

- Financial perspective
- Customer perspective
- Internal perspectives
- Innovative and learning perspective

Benefits of balance scorecards

There are several benefits of using the balance scorecards in any organisation that are as follows:

- The first advantage is that, it gives a balanced view on the performance of the whole organisation by covering the major four aspects and focusing whether the organisation is meeting the set objectives. It may be possible that one aspect is performing well while the other is not able to achieve the objectives. For example: the organisation is generating good revenue but it may be possible that customer satisfaction is getting down or employee training is inadequate etc.

- The second advantage is that, it gives the stakeholders to determine the short, medium and long term goals at the one peak by covering all the aspects. Whenever the accountant see that the organisation is not performing well he/she makes the short or immediate plan that don't serve the purpose of the organisation. Balanced scorecard overcomes this limitation.

- The third advantage is that, it gives assurance that the strategic actions executed meet the desired objectives that means is the customer is satisfied with product or the product serves the higher quality that involves creative and innovative processes.

The three organisations will have different balanced score cards depending on their performances.

Following is the balanced scorecard for commercial airlines and is developed by measuring the performance by considering the four perspectives:

Table 1: Balanced scorecard of commercial airlines

Financial perspective	**Customer perspective**	**Internal perspectives**	**Innovative and learning perspective**

Measures financial performances i.e. sales growth in respect of bookings, profitability and liquidity ratio.	Measures quality of airlines services i.e. through quality control or feedback of customers (Wu and Liao, 2014).	Measures security or speed of check in services through time efficiency technique of check in services.	This perspective includes emphasis on highly skilled staff and technological innovation.
Measures share holder value i.e. share price in the market, dividend per share etc.	Measures brand awareness again through customer feedback or passenger volumes.	Measures the way for expansion in new markets through profitability of airlines.	It can be done through increase in spending in R&D and training to staff.

For measuring the performance of the white goods manufacture following balance scorecard is proposed:

Table 2: Balanced scorecard of white goods manufacture

Financial perspective	**Customer perspective**	**Internal perspectives**	**Innovative and learning perspective**
Measures financial performances i.e. sales growth of the white appliances, profitability and liquidity ratio.	Measures quality of white goods i.e. through quality control or feedback of customers.	Measures internal perspectives like employees performances through various techniques of measurement.	This perspective includes emphasis on highly skilled staff and technological innovation.

Measures share holder value i.e. share price in the market, earning per share etc.	Measures brand awareness again through customer feedback or passenger volumes.	Measures the way for expansion in new markets through profitability of white goods manufacture (Bhattacharya et.al. 2014).	It can be done through increase in spending in R&D and training to staff.

Scorecard for measuring the performances of Charity organisation is proposed below:

Table 3: Balanced scorecard of a large charity

Financial perspective	**Customer perspective**	**Internal perspectives**	**Innovative and learning perspective**
This perspective covers that how financial donors and stakeholder perceive non profit organisation.	This perspective is same as financial perspectives that financial donors and recipients perceive the organisation.	This perspective ensures operational processes to achieve the missions.	This perspective includes emphasis on the mission and how the team learn and communicate.

Measures stability and growth through balance income / expense and support community through service funding (Sammin.et.al. 2016).	Measures retention of customer through information on results and provide funding to community by product or service quality.	Measures the way for expansion in new markets through profitability of product or services and improve operations and communications through fund raising.	It can be done through increase in spending in training to staff by exploring staff competencies, personal growth opportunities and detection programs.

Analysing the above situation, the key performance indicator in financial perspectives is the sales growth, profitability, cost factors etc. In customer perspective, the performance indicator is customer retention, customer lifetime value through maintaining the brand image of the organisation and serving best services to the customers. In internal perspectives, the performance is indicator is employee’s satisfaction and expansion for new businesses by seeing the responses of open positions and existing business. In innovative and learning a perspective, the performance indicator is indefinable drivers for future success such as human capital, training, informational systems, R&D expense etc. The main purpose of performance indicator in the all the three organisation is that interdependent between the perspectives (Parmenter, 2015).

Growth of the business is carried by learning and innovation that leads to the enhancement of internal process. And with the improvement in internal process through the balanced scorecard of the three organisations it helps in enhancing the operating efficiency that results in customer satisfaction and increased financial performances.

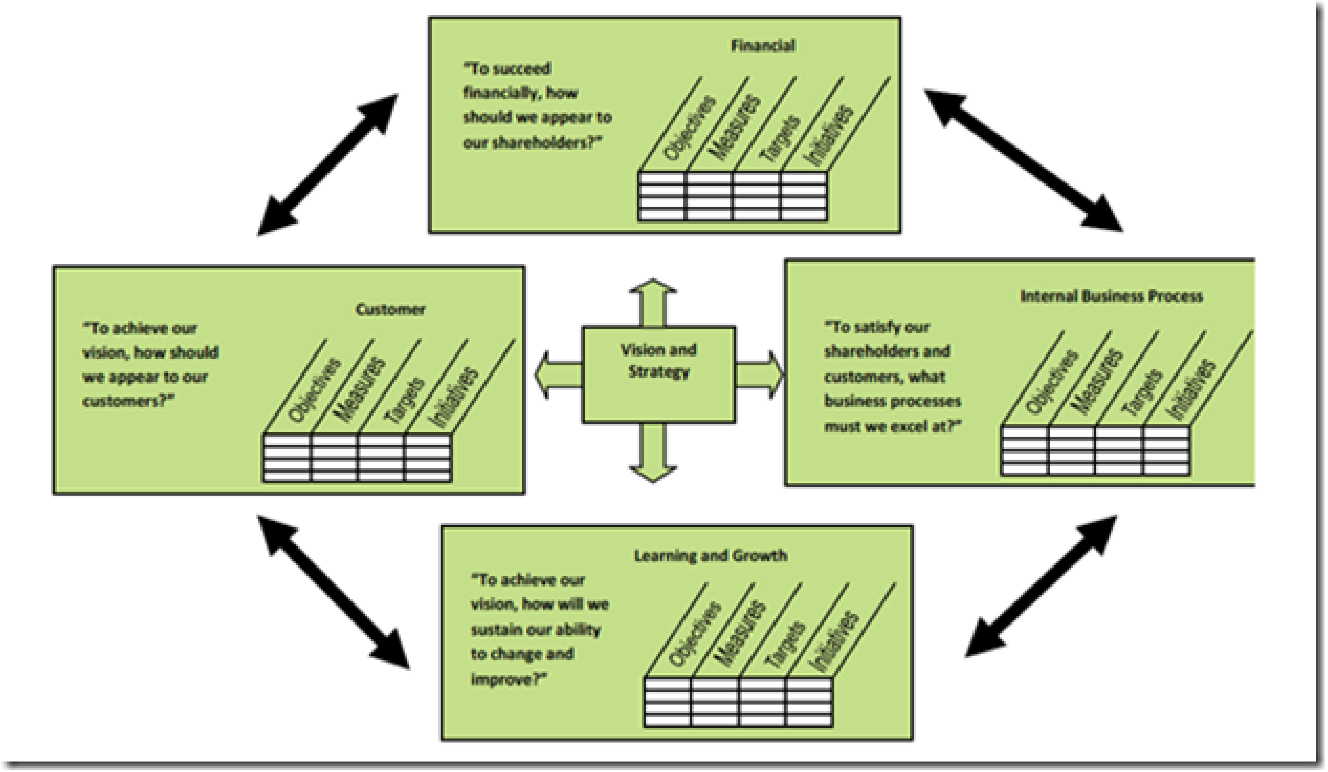

Figure 1: performance indicator interconnection with balanced scorecard

(Source: Sample of the organisation for performance indicator with balanced scorecard, 2016)

<u>3 Costing technique suitable for the each organisation with its benefits and limitations</u>

The organizations have choices to use the various costing techniques to achieve the high return from the management and operations. The organization can use two types of costing techniques: specific order costing technique and operation costing technique.

Specific order costing technique: This type of technique is used where the work comprises of separate jobs or contracts. Each contract is authorised by an order. This type of costing includes job, batch and contract

Operation costing technique: This type of technique is used in the environment where goods and services are produced as a result of sequence of activities or in other words a continuous operation. In this costing methods cost is averaged over the number of units produced..

For the organizations, the **operation costing technique** is recommended as most of the operations in three businesses are based on the practices and approaches those are rarely changed. The organization needs to use the operation costing techniques to optimize the return from the regular operations. The three businesses are common in term of operations as human resource management and operations to meet the organizational objectives are same. However, the operations may be different to deliver the effective customer services and supports. Therefore the operation costing techniques can be used in all businesses of the organization to enhance the productivity and performance with available set of resources (Belobaba.et.al. 2015).

The business to manufacturing white goods is required to use the operation costing as the business has large number of employees and assets those are not properly managed to achieved the optimistic performance. In order to align the business operations and objectives on the optimum returns, it is necessary to determine the flow of finance and efforts. The business can use the operation costing techniques to analyse the cost of operations per employees and resources in workplace. Once the cost is analysed, better strategies can be made to enhance the finance flow and to organization of resources. However the issues may appear to analyse the cost on resources those are remote in nature or have rapid changes (Dhillon, 2013). The staff and resources may be rapidly replaced in section of business. The marketing demands and changes also impact the operations and in such cases, it is difficult to predict the operation cost per resource.

In commercial airlines, the customer satisfaction is the prime point of focus for organization. Most of the operations in business are aligned to meet the customer requirements and benefits in time of competitive advantages. Organization can use the operation costing to simplify the operations for the customer. For example the cost can be used to set up the easy online system instead of manual operations to enhance the customer satisfaction and service quality. Operation costing can be used to define the cost on order booking, customer welcoming, operations to manage the services and to deliver the market impact. The operation costing techniques can be used to determine the continuous operations in business and to define the new approaches to reduce the cost with better service management and resource allocation (Bazargan, 2016). The staff and assets can be managed effectively after analysing the cost per unit.

However, the environment changes and market perception for the airline service may impact the internal operations and services for customers. As a result the cost per unit may change to meet the changes in business operations. The dynamic cost identification is also required to delimit the operation costing technique.

In a large charity organisation, cost allocation is an important tool for the business though the purpose of business is not for profit. The operating cost technique is important in knowing the allocation of direct cost and indirect cost in the organisation. Operating cost is distributed in that department that are operating like direct cost is directly allocated to the department by usage. For example: the accountant can bill each of the department for the cost of each employee's specific health insurance rate. On the other hand, indirect costs are not attributable to the particular area but related to the operation department. Indirect costs are like water, electricity bills, accounting staff salary etc are generally allocated as overhead expenses. The general cost sheet is prepared in the operating cost technique of the organisation considering the direct and indirect cost (Finkler.et.al. 2016). The benefits of this method in not for profit organisation is that allocation of cost would be appropriately as this organisation are generally funded by major stakeholders and the funds are received on accrual basis and it would be easy for the organisation to analyse the cost allocation and other resources.

The other benefit of operational costing technique is that it forms the basis for the calculation of standard costing and financial ratio like stakeholder worth, earning per share, dividend per share, material cost variance by allocating cost to direct and indirect material, labour and overhead cost variances by allocating direct and indirect labour and other expenses. The only limitation in this method it does not consider the time and money cost, non quantifiable factors etc. In not profit organisation, the objective is to have charitable, educational and religious and serve the general public at large. To achieve these objectives, the cost and financial management plays important role in achieving and moreover proper analysing of costing technique that would will ensure the funds are allocated and remaining funds can be utilised for the public welfare (DRURY, 2013).

CONCLUSION

The report had depicted about the financial analysis in this context and its importance in the financial management. It had clearly explained about the strategic planning, budgetary planning and various monitoring and control process in all the three businesses. The report had proposed the balanced scorecard for commercial airlines, white goods manufacture and a large charity including their key performance indicator that helps in measuring the benefits along with that the benefits of balanced scorecard in all the three businesses. Further, it had highlighted the operating costing techniques in the three business specified in the report. The benefits and limitation of operating cost technique had also very well explained in the business of commercial airlines, white goods manufacture and a large charity.

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