Strategic planning and financial analysis ratios

Finance

Strategic planning and Financial Analysis Ratios s Strategic Planning and Financial Analysis Ratios Strategic planning is the process of developing and maintaining consistency between the organizational objectives and resources and its changing opportunities. The strategic plan sets the general direction for the use of management resources and turns the organizational vision into concrete achievements. Strategic planning is therefore the process of setting objectives and determining what should be done to accomplish them (Sadler, 2003). It is not a static process and once the framework is in place and working, it needs to be frequently reviewed in the light of changes in the environment. The difference between strategic planning and financial policy of General Motors is that while strategy determines how the company will accomplish its set objectives and goals, financial policy is concerned with the allocation of resources for example, capital that are to be utilized to achieve company objectives and goals. The purpose of strategy is to take advantage of what the company does well or hopes to do well which will have a benefit on the external environment. The strategy also provides a focus upon which the company mission and objectives can be translated into tactical and operational plans that work and make sense (Sadler, 2003). Finally, a strategy works as a vital link as an organization moves from formulating to the implementation strategy i. e. from thought to action. General Motors is the world’s largest car and truck manufacturer founded in 1908 in Flint, Michigan and it employs approximately 202, 000 people worldwide. The company’s strategic planning objectives include the creation of a high level of awareness of its presence in the auto market, have a successful commercial auto market sector worldwide through effective strategies within 5 years, use a wide range of

marketing programs and plans to guarantee general company growth and finally acquire 40% of the market segment within a period of 5 years. The financial policies include, cost savings, operational discipline through lean principles of management, dividend payout, equity structure, increased production and efficiency, risk management practices and effective working relationships with suppliers to ensure that quality and service standards are achieved. Operational planning is the detailed plan of how a company's high level strategic goals will be translated into tactical goals and objectives. The operation plans for General Motors include, an overhaul of the information technology operations that will require the hiring of 1, 000 people in the new computer center in the Phoenix area. The company is also set to introduce seven new vehicles as new products into the South American market. There are five steps involved in the financial planning process are namely, the gathering of data, preparation of a plan, and presentation of the plan, implementation of the plan and finally on-going monitoring and maintenance. The steps involve the services of a financial planner who will advice appropriately according to the financial position of the company after carrying out a thorough assessment of company records and give recommendations to be put into action as well as monitor on the progress of the recommendations towards the goals. The company plans to increase its sales forecasts worldwide through the marketing strategies available to it such as advertising in the world market and the introduction of new products. The company when it comes to forecasting intends to acquire a 40% market share in the world in the next 5 years and to be a successful business segment in the auto market in the next five years. Horizontal analysis in the formulation of financial policy enables strategy managers to

look into performance data of a company and examine the past performance development of certain information. The focus with horizontal analysis is the fluctuation of past performance data annually. For example, strategists may review the net income for a company over a four year period, evaluating it based on the strategies implemented and concluding on its outcome and how it affects company performance whether positively or negatively. Vertical analysis on the other hand, allows accountants to compare company particular outcome projects with a standard that is numerical. For instance, a sale as a benchmark is compared to net income. Vertical analysis may be used to evaluate the financial weight that particular resources such as real property and production equipment have in corporate operations. This knowledge is vital for strategy managers to plan for long-term acquisition of assets and set proper financial policies for profitability in future. Ratio analysis acts as a guide for decision making of the various potential and actual users of financial information. Profitability ratios evaluate the firm’s earnings with respect to a given level of sales, a certain level of assets, the owner’s investment or value of shares (Banks, 2011). Evaluating the future profitability potential of the firm is essential in the long run since the firm has to operate profitably in order to survive. The profitability ratios are of importance to long term creditors, shareholders, suppliers, employees among others since they are all interested parties in the financial soundness of an enterprise. The liquidity ratios are used to assess the adequacy of a firm’s working capital. Shortfalls in working capital may lead to inability to pay bills and disruptions in operations which may be the forerunner to company bankruptcy. The asset utilization ratio measures the ability of management to make the best use of its assets to generate revenue. It also

shows whether a company is wasting its assets or putting them into good use (Shim & Siegel, 2000). This is just an indicator and a high ratio may mean more efficient management or indicate older equipment that has been depreciated significantly. The debt utilization ratio on the other hand, indicates the amount of debt that a company has relative to its assets. The more debt a company has the less healthy financially it is deemed to be. The debt utilization ratio provides a comprehensive picture of the long-term financial health and solvency of the company. Benchmarking is used to ascertain the performance of a company by relying on more than one specific indicator. It is a means of comparison of one’s commercial methods as well as standards of performance to other firm’s within one’s industry. Organizations evaluate their several ways of performance in business practices and relate them to the best practices of the processes of other similar companies in the industry. Thus benchmarking in the financial policy formulation and business strategy involves making an analysis financially and generating a result comparison so that the company’s competitiveness, productivity and general performance can be evaluated. References Banks, E. (2011). Finance (2nd ed.). New York, NY: Routledge. Sadler, P. (2003). Strategic management (2nd ed.). Sterling, VA: Kogan Page. Shim, J. K., & Siegel, J. G. (2000). Financial management (2nd ed.). Hauppauge, N. Y.: Barron's.