TOPIC; STRATEGIC FINANCIAL ANALYSIS

Description

Read the scenario below. Then draft a 3–4 page business memorandum to Linda Hoff, Stanford's CFO. In your memo, codify your findings and interpretations from the horizontal and vertical analyses and the level of alignment between the company's fiscal management and its strategic direction. Include an Excel spreadsheet as an attachment to the memo. In this memo you will: Review the year-over-year variances contained in the audited Stanford balance sheets and income statements, which are contained within the provided Week 5 Assignment Spreadsheet [XLSX] for fiscal years 2015 through 2018. You'll be expected to pay particular attention to the negative variances (color coded in "red") that you believe to be potentially the most impactful to Stanford. Speculate as to the reasons for the negative variances. Examine the common size balance sheets and income statements looking for abnormally low or high ratios based on what you know about the line item and what you observe in the data for the other fiscal years. Look for patterns in the line items over time (2015 through 2018) and identify any unusual findings that may need to be examined further. Make a judgement regarding the alignment of the organization's fiscal management with its strategic direction of the firm. Fiscal management is based on your horizontal and vertical analyses. The strategic direction is based on the vision, mission, and strategic priorities of Stanford. Purpose The purpose of this assignment is to familiarize you with financial statements, the need to align the financials with the strategic direction of the firm, and the process of performing a horizontal and vertical analysis of a company's balance sheets and income statements. The Scenario You're a Healthcare Administration Fellow at the prestigious Stanford Healthcare. You have been rotating through the various departments over the past 9 months and now you have the honor of working under the mentorship of Linda Hoff, Chief Financial Officer. Stanford Medicine includes Stanford Healthcare, Stanford Children's Hospital, and Lucile Packard Children's Hospital Stanford. This organization uses an integrated approach to strategic planning, which incorporates jointly agreed upon strategic priorities from its various entities. It also ensures a high degree of congruency in strategic focus by each entity. Before outlining the strategic priorities for Stanford Medicine, it is important to take note that a firm's directional strategy is comprised on three separate yet interwoven components: vision, mission, and goals (or, in this case, priorities). Armed with this knowledge, you have taken the necessary step and located and familiarized yourself with the vision, mission, and priorities of Stanford Medicine. Below is what you found. When examining a company's financials, it is prudent to keep the directional strategy of the company in mind. After all, in order to advance many strategic priorities, which include fulfilling the mission and positioning the organization to achieve it vision for the future, it will require proper management of the firm's scarce resources. Failure to properly manage the financial performance of the organization can compromise the company's ability to maintain a competitive advantage in the marketplace. Our Vision Precision Health: Predict. Prevent. Cure. Precisely. We will heal humanity through science and compassion by leading the biomedical revolution in Precision Health. Our Mission Improving Human Health through Discovery and Care. Through innovative discovery and the translation of new knowledge, Stanford Medicine improves human health locally and globally. We serve our community by providing outstanding and compassionate care. We inspire and prepare the future leaders of science and medicine. Strategic Priorities A collaborative endeavor involving the entire community, the Stanford Medicine Integrated Strategic Planning process yielded a framework that is human centered and discovery led, focused on three overarching priorities for our enterprise. By enhancing our strengths and achieving our goals in these priority areas, we will amplify our preeminence and remain uniquely positioned to lead the biomedical revolution in Precision Health, ensuring our continued ability to guide health care through significant global changes. Value Focused Provide a highly personalized patient experience. Ensure a seamless Stanford Medicine experience. Digitally Driven Amplify the impact of Stanford innovation globally. Deliver human-centered, high-tech, high-touch care and revolutionize biomedical discovery. Lead in population health and data science. Uniquely Stanford Accelerate discovery in and knowledge of human biology. Discovered here, used everywhere: advance fundamental human knowledge, translational medicine, and global health. Ensure preeminence across all of our mission areas. Variance Analyses Normally, managers are expected to examine positive and negative variances, and then speculate as to possible explanations for the observed variances. Following this initial assessment, managers would be expected to dig deeper into those variances of greatest concern to the organization in order to uncover the actual causes for the variances, and then implement necessary corrective actions. Digging into all variances would be costly and, quite frankly, a misuse of one's time and energy. The CFO has asked you to conduct a variance analysis of the company's consolidated balance sheets and income statements for fiscal years 2015, 2016, 2017, and 2018, which you began. You have determined the variances for each account (line item) captured in the financials. Now that this first step has been accomplished, the CFO would like for you to pay particular attention to the negative variances contained in the spreadsheet; and focus more specifically on those variances you believe to be potentially the most impactful to Stanford. Once you've completed your variance analysis over time, which is referred to as a horizontal analysis, you are ready to create a common size balance sheet and income statement of each of the 4 fiscal years (2015 through 2018). You prepared the common sized financials, which are captured in your spreadsheet. Now, it is time to perform a vertical and horizontal analysis of these common size financials. The common size balance sheet allows you to see each asset relative to total assets, as well as each liability and net asset (in the case of non-profit organizations) relative to total liabilities and net assets. In a common size income statement, each line item is expressed as a percentage of total revenue or sales. Common sizing balance sheets and income statements allows firms to compare against one another even though they may be of different sizes. It also allows a firm to benchmark its financial performance against comparative groups. In this case, there isn't any comparative data to benchmark against; however, you can examine the ratios in each fiscal year and look to see if anything looks abnormally low or high based on what you know about the line item and what you observe in the data for the other fiscal years (vertical analysis). You can also look for patterns in the line items over time (2015 through 2018) and point out any unusual findings that may need to be examined further (horizontal analysis). In finance, it isn't uncommon for the organization to establish interim goals and targets for certain line items in the financials. The firm can compare its actual performance against the established goals and targets. Financial Management and Strategic Direction Once you've completed your horizontal and vertical analyses of the financial statements, you should be able to get a sense of how well management has managed the financial resources of the company in support of its strategic direction. In business, the strategic direction should be evident in its vision and mission statements and strategic priorities. The strategic priorities should help support the company's mission, and the mission should help advance the firm's vision for the future. Failure to effectively manage the company's financial resources can seriously compromise the firm's ability to fulfill its mission and subsequently the vision. Business Memorandum to CFO Using the analysis that you performed on Stanford Healthcare and trends that you identified, write a business memorandum to the CFO. In your memo, codify your findings and interpretations, and make a judgment regarding the alignment of the organization's fiscal management with its strategic direction of the firm. Attach your analysis in an Excel spreadsheet as an attachment to the memo. Your analysis and trends identified should take into account any feedback that you received from your professor and/or peers. Helpful hints: Negative variance is not always a bad thing. For example, you might see a slight increase in the operating costs; however, if you achieved a positive variance in the total operating revenue that outpaced the increase in operating costs, then that may be perceived as a positive outcome. Remember, you need to spend money to make money. We just want to make certain that operating costs/expenses don't outpace the growth in operating revenues. Also keep in mind that some variances are useful in explaining other variances even if these variances are associated with different financial statements. For example, you may see an increase in operating costs, which is a negative variance, but an increase in current assets, which is a positive variance. Furthermore, you should look for patterns over time. This can reveal both positive and negative trends that may provide insight into the variances you discovered. For example, you may have noticed that a certain expense has continued growth over the past 3 years (negative variance); however, the rate of growth year-over-year has been declining. It could be that Stanford has implemented some cost cutting measures that are showing signs of working. The specific learning outcome associated with this assignment is: Audit financial statements and expenditures for alignment with organizational strategic priorities.﻿