

Owners of properties, CFOs, and financial controllers need to design and implement financial strategies that maximise the wealth of stakeholders. Strategies may involve expansion, acquiring or relinquishing of an existing property, adapting a franchise or lease model, or entering into management contracts. In each of these scenarios, the owners and acquirers strive to value property in a reasonably accurate manner.

As hoteliers, we also take decisions on various aspects of the business, such as opening of additional outlets that have long-term returns and short-term outcomes. We often realise that our strategies and plans miss out on certain factors that should have been considered and that the gaps are inexplicable. The possibility for these gaps can be minimised by designing and implementing an integrated financial model that incorporates a scientific approach.

FINANCIAL MODELLING

Financial Modelling refers to the process of preparation of financial models. These models enable process managers to integrate their planning and operational activities with organisational objectives, in the same manner as they integrate strategic financial management objectives with the vision and mission of an entity.

If one follows the traditional approach, a financial model can be prepared on the basis of historical information, with a guesstimated increase or decrease of base figures. Even when financial models are followed for new projects, a scientific approach that makes models more reliable is often ignored. Reliability of financial models increases when they are prepared in an integrated manner.

INTEGRATED FINANCIAL MODELLING

Integrated Financial Modelling may be defined as "a scientific process of design and development of financial models that builds-in statistical validation, maps internal scenarios with external environments and uncertainties, integrates individual process objectives with that of the entity's objectives, recognises respective constraints, enhances automation, and minimises the probability of bias."

INTEGRATED FINANCIAL MODELLING: METHODOLOGY

- Define the scope of financial models
- Study the external environment
- Analyse the internal processes
- Validation of objectives
- Collection of data
- Design models in a spreadsheet software
- Build up assumptions and scenarios
- Define controls
- Generate the models
- Prepare the reports

INTEGRATED FINANCIAL MODELLING: PROCESS FLOW AND BENEFITS

Strategies and business plans

Integrated financial models

Business or property valuation, acquisition, management contracts, franchise, lease, expansion, financing and asset management decisions, budgets, performance review, goal congruence, etc.

Maximisation of stakeholders' wealth

The definition comprises of the following key components:

- **Validation of internal processes:** An entity or a conglomerate is a part of a bigger hierarchy. An integrated financial modelling process verifies internal processes and capabilities in the light of external environment, such as economic growth, inflation, market size, competition, etc.
- **Mapping of process objectives:** A well-designed financial modelling process requires synchronisation of financial and operational objectives of an entity with organisational goals.
- **Inculcating an integrated approach:** Since validation or synchronisation of individual parts of an entity or conglomerate take place in terms of objectives, planning, and utilisation of resources, a culture of evaluation of each individual activity evolves across the entity or group.
- **Incorporating a control mechanism:** An integrated approach in financial mod-

elling requires identification and building up of constraints, parameters, thresholds, alerts, etc. This naturally helps in instilling a holistic approach in terms of formulation of objectives and outcomes, thereby helping in optimal utilisation of resources.

- **Building statistical concepts:** Integrated financial modelling provides scope for building-in statistical validation of assumptions and values of variables against other independent variables in

light of their behaviour in the past and expectations from the future.

- **Utilising the power of a spreadsheet:** Designing an integrated financial model requires application of a spreadsheet software that incorporates validation logics, measures probable outcomes against metrics, and creates alerts.

BENEFITS OF THE PROCESS

Integrated financial modelling provides a holistic and scientific approach that increases the reliability of a model. The more reliable a model is, the more effective and efficient the planning and decision-making process gets. For example, your performance level increases, your valuation becomes acceptable, your lender makes a quicker and favourable lending decision, and ultimately, the investor's confidence in the entity increases, thereby increasing the value of the entity.

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