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The Role of Financial Analysis in Strategic Planning

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Abstract:Financial analysis plays a very important role in the strategic planning process. This article extensively discusses the role of financial analysis in setting long-term goals of an organization, effectively allocating resources, and increasing competitiveness. Through financial analysis, organizations are able to assess their financial potential, identify risks in advance, explore investment opportunities, and achieve financial stability. The study showed how financial indicators of enterprises are analyzed and provide useful information when making strategic decisions. Strategic planning is an important stage that determines the long-term prospects of an enterprise. At this stage, financial analysis is one of the main tools through which the current state of the enterprise, future development opportunities, and existing limitations are determined. Financial indicators — profit and loss statements, balance sheets, and cash flow statements — form the basis of strategic decisions. For example, enterprises with low profit margins or liquidity levels focus on strengthening their internal financial structure before implementing a growth plan. The article also examined the application of financial analysis methods (horizontal and vertical analysis, financial ratio analysis and trend analysis) in strategic planning. Through these methods, the enterprise identifies internal opportunities and external threats and determines its priorities. The study showed with practical examples how strategic decisions can be made on the basis of financial analysis on the example of a real enterprise.

Key words: strategic planning, financial analysis, financial indicators, management, strategic decisions.

Introduction

In today's era of rapid economic changes, every enterprise or organization must have clear and well-founded strategic plans to successfully conduct its activities. Strategic planning is an important management process that determines how to allocate resources, in which directions to move, and which market segments to enter in order to achieve the organization's long-term goals. Financial analysis plays a key role in this process, because it determines the organization's current financial condition, profitability, liquidity, and solvency. With the help of financial analysis, it is possible not only to assess the current situation, but also to identify future risks, identify opportunities, and make effective management decisions [1]. That is why financial analysis is an integral part of the strategic planning process. One of the important aspects of strategic planning is a thorough analysis of the internal and external environment of the organization. When this analysis is carried out in conjunction with financial data, it becomes easier to identify the company's strengths and weaknesses, adapt to market demand, and develop competitive strategies. For example, by analyzing the structure of the company's income and expenses based on financial statements, strategies for increasing profits and reducing costs can be developed.

Financial analysis also provides the company's management with a clear fact-based approach to decision-making. This prevents misallocation of resources and increases the effectiveness of actions. Financial forecasts are also of great importance in strategic planning, as they predict future cash flows, the profitability of investment projects, and the level of financial security.

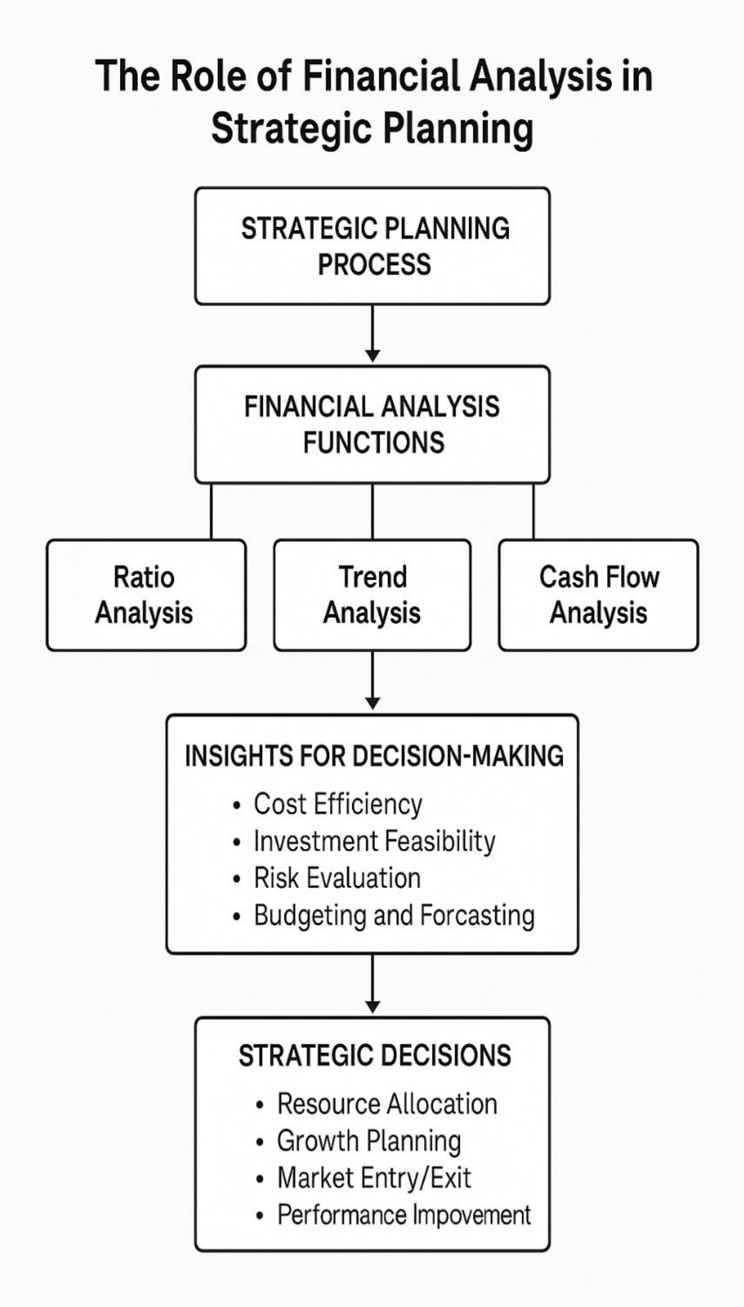

Figure 1

It should also be noted that in today's competitive environment, in-depth study of not only the market situation, but also financial stability is of great importance in making successful strategic decisions. Many successful companies skillfully use financial indicators in developing their strategies, achieving not only increased profits, but also increased efficiency [2]. In particular, maintaining a balance between assets and liabilities, studying capital structure and profitability indicators increases the quality of strategic decisions. Strategic planning for enterprises is a process that requires constant updating, in which the role of financial analysis is reflected at each stage. This analysis serves not only to manage the company based on its current state, but also to correctly assess future opportunities and threats. Therefore, financial analysis should be viewed not only as an analysis of accounting statements, but also as an active tool of strategic management.

Methodology

In methodology, a qualitative research approach was taken as a basis. The goal is to deeply analyze the role of financial analysis in strategic planning and combine existing scientific approaches in this regard, methods in real practice, as well as examples based on the experience of the enterprise. The methodology mainly used secondary sources (secondary data) - that is, previously published scientific articles, textbooks, case studies, financial reports and statistical data of international organizations [3].

First of all, the scientific literature on the topic was analyzed. Through this, the theoretical foundations of financial analysis and their connection with strategic decisions were identified. Also, the main methods of financial analysis - horizontal analysis, vertical analysis, coefficient analysis and trend analysis - were studied in depth.

In the second stage, an analytical approach was used to examine how these methods are used in real business practice. In this case, financial statements of some selected small and medium-sized businesses were considered as examples. Through these real examples, an attempt was made to determine how strategic decisions are formed and what financial indicators are used as a source of information. Thirdly, based on the analytical approach, existing indicators were compared and the significance of the results of financial analysis in making strategic decisions was assessed. In particular, the strategic priorities of the enterprise were determined based on indicators such as liquidity, profitability, and asset turnover [4].

The methodology also uses the SWOT analysis method to show how financial analysis contributes to strategic planning by identifying the strengths, weaknesses, opportunities, and threats of the enterprise and company development by thinking strategical way. The article presents not only theoretical analysis, but also practical analysis that is based on real financial statements. Through this approach, the role of financial analysis in strategic planning is not only explained, but also justified with examples here in the article.

Literature Review

The relationship between financial analysis and strategic planning has been studied by many economists and managers through scientific research. Chandler (1962) defined strategic planning as the determination of long-term goals and the allocation of resources to achieve these goals, emphasizing the importance of financial indicators. Brigham and Houston (2016) emphasize that financial analysis plays an important role in assessing the financial health of an enterprise and justifying investment and financing decisions. Financial ratios (liquidity, profitability, efficiency and financial stability) are an important source in determining the strategic priorities of an enterprise (Ross et al., 2018). H. Mintzberg (1994) sees strategic planning not as a rigid system, but as a process that is flexible to changing market conditions, and considers financial analysis as a constantly updated tool. The literature also emphasizes that the accuracy and reliability of strategic decisions can be increased through the integration of SWOT analysis and financial forecasts. These approaches are widely used in modern strategic management practice [5].

Results and Discussion

The results of the study show that financial analysis is an integral part of the strategic planning process. Enterprises cannot make effective strategic decisions without a proper assessment of their financial situation. Horizontal and vertical analyses determine the composition of income and expenses, the dynamics of their changes. This allows the company to develop strategies for reducing costs and increasing profits. As an example, a financial analysis of a small manufacturing enterprise was conducted. During the analysis, it was found that the profitability of the enterprise has decreased over the past three years. The main reason for this is a sharp increase in production costs. Using trend analysis, it was determined that there is a risk that this trend will continue, and the enterprise developed a strategy for diversifying costs. Based on this strategy, the use of local and cheap sources of raw materials and the transition to energy-efficient technologies were introduced.

Year	Profit Margin (%)	ROI (%)	Cash flow (million sum)
2019	12	10	50
2020	9	8	45
2021	11	10	60
2022	14	13	70
2023	17	15	90

Figure 2

The chart above shows the dynamics of three important financial indicators used in the company's strategic planning for the period 2019–2023 – Profit Margin, Return on Investment (ROI) and Cash Flow. The first indicator – Profit Margin (%), i.e. net profit margin – shows how much profit the company receives from its product or service. In 2020, due to the pandemic or economic downturn, this indicator fell from 12% to 9%. After that, it can be understood that the company has taken strategic measures, because in subsequent years the profit margin has continuously increased, reaching 17% in 2023. The fact that ROI, i.e. return on investment, also fell to its lowest point in 2020 (8%), but reached 15% in 2023, indicates that the company's investment policy has been implemented effectively. This indicates that resources have been correctly directed using financial analysis in strategic planning [6]

The third indicator is Cash Flow, which indicates the company's liquidity and cash flow in operating activities. The flow of 50 million soums in 2019 will reach 90 million soums by 2023, indicating that the company's internal management, cost control and income from investments are increasing. In general, based on these indicators, we can say that the company made the right strategic decisions using the results of financial analysis. This, in turn, served to improve its profitability, investment efficiency and cash flow. The diagram shows a gradual increase in financial stability.

In addition, the analysis of financial ratios also yielded important results. In particular, it was found that the company was having difficulties meeting its short-term obligations due to the low current ratio and overall solvency. This situation prompted the development of a strategy to improve cash flows to ensure financial security. As a result, the company took measures to accelerate settlements with customers and reduce receivables. Another useful aspect of financial analysis in strategic planning is the justified adoption of investment decisions. The company was planning to open a new production line. Financial indicators such as investment profitability and payback period were analyzed and the project's effectiveness was assessed [7]. As a result, due to the low profitability of the project, its implementation was abandoned and resources were redirected to another, more profitable project. In addition, SWOT analysis was used to identify the company's strengths and weaknesses, opportunities and threats. Financial analysis served as the main source of information in this process. For example, the company's strengths were expressed in the form of a high net profit margin, and its weaknesses were expressed in the form of excess inventories. This led to the optimization of inventory management as a priority in the strategy. Financial forecasts also played an important role in the development of the company's strategic plans. Based on projected cash flows, forecast balance sheets and profit and loss statements, 3-year strategic plans were formed. Through these plans, the company determined future growth, investments and capital structure [8].

The results of the analysis confirmed that financial analysis is not only a tool for studying the past, but also a powerful tool for planning the future that consists optimal resource allocation, and increasing competitiveness. Based on real examples, it was shown that strategic decisions made on the basis of financial analysis significantly increased the profitability and stability of the company.

Conclusion

The above analysis shows that financial analysis is of crucial importance in the strategic planning process. It serves to deeply analyze the financial condition of the enterprise, identify existing problems and develop specific strategies for them. Decisions made on the basis of financial indicators - profitability, liquidity, efficiency and stability - not only improve the current situation, but also determine future growth. Based on practical research, it has been found that the results of financial analysis help enterprises choose a clear and justified strategic direction. Trend analysis allows them to adapt to market changes, coefficient analysis allows them to identify risks in advance, and forecasts allow for long-term planning. In conclusion, financial analysis is not only an analysis of financial statements, but also a key tool in developing general management and development strategies. Approaching it on an ongoing basis and with a systematic approach ensures the stability and competitiveness of the company.

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