

# Operational Financial Management

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## In essence...

Operational financial management considers the day to day running of your finance function/department. It considers your data flow, the processes in place, the controls and useful accurate reporting which is then used for decision making.

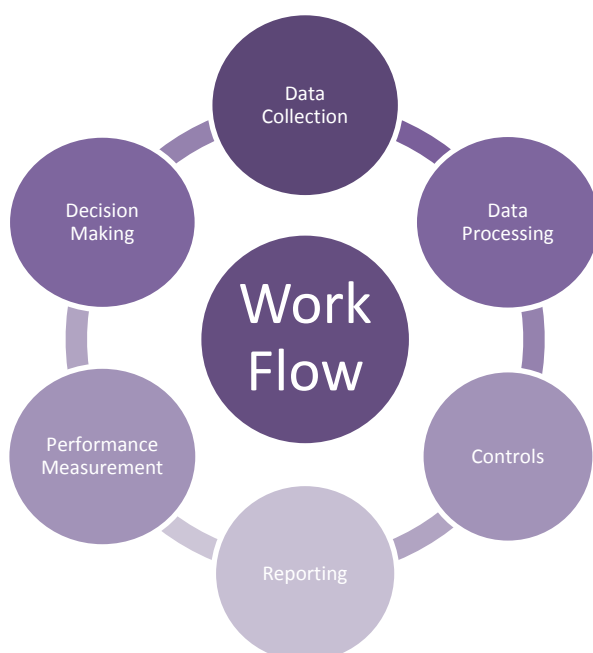
## From the top...

Where strategic management focuses on supporting the medium to long term plan, operational financial management is concerned with the day-to-day management of the finance function. It looks at the typical areas/departments (such as credit control, purchasing, sales ledger processing etc.) and how to get the best from it with the resources invested (such as your software, document storage and staff etc.). It also looks at the interdependencies of each of the finance areas with each other (and with other areas of the business); this is where a good financial manager really makes an impact for the business, with integration and co-operation at all levels.

## Do explain further...

So it's not just about having a great process for getting paid on time (although that is a good one to have), it's about getting all the units of finance working together seamlessly, limiting duplication and messy processing requirements. It doesn't stop there, the finance department then also supports other parts of the business including the sales

function, management/business strategy and the production/operations department, getting them informed up to date information so they can make better decisions.



### Data Collection

This is the part where your information comes in, in its rawest forms. Good data collection will ensure no source data falls through the cracks or gets forgotten about.

### Data Processing

This usually involves the entry into systems and the moving from one department to another, a typical example being a company stock order moving from purchasing to accounts payable once delivery has been recorded.

## Controls

This area is mainly about setting triggers for key points within the process, for example a budget manager may well be able to authorise a purchase up to £100 however anything above this requires the authorisation of a senior member of staff or a company director. Multiple points can be set throughout processes that flag needed attention or to create an early warning trigger, such as when the bank balance falls below £5,000, the financial manager is notified.

## Reporting

The reporting is the result of all your labour; the reports should be neat, up to date, clear, understandable and gives you the type of information that tells you how things are going. In financial management (and management accounting), it is in a format that suits your needs rather than the statutory formats prepared at the year end.

Good reports should read like a great novel, with a beginning, middle and a projected end point. Providing a comprehensive and easy to read story of your financial status, including where you are now, how you have performed to date and what's coming up.

## Performance Measurement

Reporting feeds into this stage, with a carefully set up system, comparing how you have performed (your actual information) versus how you wanted to do and how you are going to move forward (your budgets, forecasts and projections) should be a natural follow through process, 'what gets measured gets done'.

## Decision Making

Where there is performance measurement, normally there are decisions to be made. Using your strong financial processes to deliver reliable and accurate reports gives you a true picture of how you are doing against your goals, is it where you want to be? Do you need to change something? What are you going to do?

Finances are a good objective way to decide what action is going to be taken to move forward, although only a part of the full decision process, they play a big part in providing evidence to base your decision on. Questions like; which new retail location to set up? What's the financial impact of increasing production capacity? How to return back to profit through cost savings? What price do I sell that product? These answers can be found through your finances.

## In conclusion...

Operational financial management is mostly focused on creating a robust, dynamic and transparent environment for your finances to operate in. It supports the finance department as a whole; it filters out to other areas of the business and provides a solid foundation for strategic financial management. Without this foundation, it is very hard to find the data that's needed to operate effectively at a strategic level.

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If you would like to know more or to discuss any of the above content, the author would love to hear from you, please contact them on [vicki.lamch@pyramissolutions.co.uk](mailto:vicki.lamch@pyramissolutions.co.uk).

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