BEYOND CAPITAL

The next generation of social enterprises

KA220-VET-ECFF84E6

Module 2:

Creating the strategic plan and building a finance function for early stage enterprises: need analysis, financial planning, and management

Version:	Author:	Date:
V.1	EXEO LAB & GEINNOVA	31/10/2022

Module 2 - Creating the strategic plan and building a finance function for early stage enterprises: need analysis, financial planning, and management

Introduction

This module aims to provide social entrepreneurs with the skills to create a business plan and to manage financial processes also through innovative and digital tools.

The ability to understand the concept of planning a strategy and financial resources to be allocated according to previously set objectives through an innovative management model is the criterion according to which skills will be acquired by entrepreneurs.

The content of the module will touch on the following topics:

- The purpose of planning
- Creation of the business plan
- Economic balance sheet and its components
- Digital financial management

Learning Objectives

At the end of this module, you will:

- Learn how to plan a business
- Know how to achieve objectives set
- Understand the differences between the various types of financial management
- Know the tools that make up finance management
- Understand how to use the resources available within the organization
- Know how to calculate cash flows, construct a balance sheet and control the company's profit and loss
- Know the digital tools for financial processes

LEARNING OUTCOMES

Knowledge

- Learn how to plan a business and identify goals

- Know exactly how to achieve objectives set

- Understand the differences between the various types of management financial

-Know the exact tools that make up finance management

- Understand how to effectively use the resources available within the organisation

-Know how to calculate cash flows, construct a balance sheet and control the company's profit and loss.

-Know the digital tools for financial processes

Skills

- To define and focus on business ideas, strategies and vision

- Identify potential pitfalls as well as strengths

-Planning strategies in both the short and long term

-To acquire a concrete entrepreneurial vision that can guarantee the success of the social enterprise

- Plan strategically the necessary financial resources for the enterprise

- Market and feasibility analysis

-Adapt to changing situations of the social enterprise and the context in which it operates through problem solving skills

-Manage cash and work flows efficiently

-Identify potential opportunities in digitised financial management

Competences

- Take specific steps necessary to make business ideas succeed achieving short-term and long-term objectives

- Management is better-equipped to handle uncertainty and to focus on strong points

-Have control over the budget that makes the company acquire wealth

- Allocating resources in a way that will help achieve strategic objectives

- Critical, logical and systematic thinking

-Minimise risks of failure by adapting diversified methods and strategies

-Create social value by pursuing common interests through an innovative management model

Aim:	Performance criteria:
Provide social entrepreneurs with the skills to create a **business plan** and to **manage financial processes** also through innovative and digital tools	The **ability** to understand the concept of planning a strategy and financial resources to allocate according to objectives previously set through an innovative management model

Detailed index

Mapping the economic and financial processes of social enterprise

1. **The Business planning process**
   1.1 The purpose of planning and management tools
   1.2 Planning the agenda taking into consideration priorities and internal needs
   1.3 Articulating the mission of the social enterprise
   1.4 Outlining the specific actions to achieve goals and objectives
   1.5 Establishing targets for planning, measuring and improving performance
   1.6 Eco-systems of support for social enterprise: maintaining effective communication with stakeholders, funders or investors, community, board, employees and volunteers (network)
   1.7 What is a business plan

2. **The Economic balance of the social enterprise**
   2.1 Characteristics and management of the financial objectives
   2.2 Planning the necessary resources, costs and revenues

Social enterprise financial planning and management and innovation and digitisation of financial processes

3. **Introduction to financial management**
   3.1 What is financial management
   3.2 Objectives
   3.3 Elements of financial management

4. **Components of financial management - Constructing, reading and understanding**
   4.1 The balance sheet
   4.2 The profit and loss statements
   4.3 The cash flow statement
   4.4 The importance of budget indicators for the above statements for control and management purposes

5. **Automation and financial management**
   5.1 Big Data for real-time management
   5.2 Tool tips

Main Content

1. THE BUSINESS PLANNING PROCESS

1.1 THE PURPOSE OF PLANNING AND MANAGEMENT TOOLS

The importance of planning

One of the major causes of the success of businesses is the definition of their own objectives. It is important to understand what conditions must be met for maximum effectiveness subordinating activities to objectives. To achieve success it is necessary to:

1. Know clearly what you are looking for;
2. Develop a plan to achieve it;
3. Concentrate, work and strive to reach it.

Objectives set out what a business is trying to achieve. In order to define the objectives properly, they must meet a series of characteristics that will help your business to be more effective. SMART goals allow to create, track and accomplish short-and-long-term goals.

SMART stands for:

- **Specific**: objectives should describe the desired result in a way that is detailed, focused and well defined;
- **Measurable**: objectives should include a measure to enable organizations to monitor progress and to know when the objective has been achieved;
- **Achievable** (or **agreed**): objectives can be said to be achievable if the necessary resources are available. They should also be agreed by managers and employees to ensure commitment to them;
- **Relevant** (or **realistic**): 'realistic' suggests that there is a clear understanding of how the objective might be reached while 'relevant' suggests that the objectives set are appropriate to the team and aligned with the overall strategy of the organization;
- **Time bound:** it is necessary to set a date or time by which the objective should have been accomplished.

Work methodology of management by objectives

Planning is the function of management that involves setting objectives and determining the course of action for achieving those objectives. Planning requires managers to be aware of environmental conditions facing their organization and forecast future conditions.

There are many different types of plans and planning:

- **Strategic planning** involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in their environment. It has a long time frame;

- **Tactical planning** is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan;
- **Operational planning** generally assumes the existence of organization-wide or subunit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans.

Time management

Among the best known basic management tools there is the **80/20 rule**, also called pareto principle. When applied to time management, it means that approximately 20 percent of your efforts produce 80 percent of the results. Learning to recognize and then focus on that 20 percent is the key to make the most effective use of your time.

You don't have to make big changes suddenly, little changes in the work lifestyle and habits will suffice:

- **Eat that frog first:** start with a task that seems most complex and the hardest. It might consume some time but the payoffs can be great;
- **Keep your eyes on the main goal:** set one big goal and work on it all the time. All the sub-tasks and short-term goals revolve around the main goal;
- **Identify what distracts you the most:** identify what distracts you the most to keep it away.

The Pareto principle can change how your day looks and how your tasks get done. It allows you to focus on the essential things and let go of the distractions that hold you back.

Management tools

Technological management tools have a dual function in relation to social entrepreneurship. They can either generate company ideas or act as catalysts and facilitators for the entrepreneurship processes.

Some examples of technological management tools are - the list is not exhaustive -:

- SimpleMind allows users to create mind maps to easily establish connections between ideas;
- Evernote allows users to organize all their information by filing notes;
- Stratpad allows users to create a business plan and financial projections explained step by step;
- Anfix allows users to carry out the accounting and billing of their business;
- Skype allows instant communication;
- LinkedIn is the most widespread professional network in the world;
- Google Analytics allows to know and analyze the traffic of your website and the trends of the network

1.2 PLANNING THE AGENDA TAKING INTO CONSIDERATION PRIORITIES AND INTERNAL NEEDS

When planning the agenda it is very important to take into consideration everything that needs attention, all of your tasks and internal needs. Once you have the full list of both you'll be able to determine which are urgent and which are important.

When deciding which tasks are the most critical to focus on, you can break them down into three different priority levels:

- **Critical priorities** are time sensitive and high value. These include tasks dealing with crises or strict client deadlines. High value tasks that are not time sensitive should be considered **high priorities**. These are tasks that involve thinking, planning and collaboration;
- **Medium priorities** can be time sensitive but not high in value. Meetings, email communications, and project organizing can fall into this category;
- **Low priority projects and tasks** are the ones that are not time sensitive and do not have high value. You can push these priorities later in the week.

After you've organized your tasks into the different priority levels you will then want to determine the tasks based on the amount of necessary labor to complete them, so obviously prioritizing your critical priority high labor tasks first.

1.3 ARTICULATING THE MISSION OF THE SOCIAL ENTERPRISE

The starting point for any social enterprise is to be clear on what you are trying to achieve, what is your motivation and how you will go about doing it. Your social enterprise needs to have a clearly defined brand and business brief which communicates **what** it does, **how** it does it and **why** it does it. A social enterprise is distinguished from a conventional business because it is established to tackle a problem or promote a cause as its primary intention. Tackling that problem or challenge becomes the organizations' '**social mission**'.

As social enterprises are fundamentally no different to normal businesses (apart from their social mission!), you should put all that the organization intends to do in a business plan. Social enterprises often come down to the question '**Why?**' - the core of your social enterprise, the **values** it wants to pursue. This question is generally what sets them apart from a regular business.
A **vision** really gets to the **'Why'** of your organization.

Often when starting a social enterprise we become enamored with the idea of how we are going to accomplish the goals we set for our new adventure. This, however, is often a first mistake, the ***how*** develops the strategy, it responds to the question ''how will you make a difference?'', the ***"what"***, is what you have designated this business to do, it responds to the question '' what will you do to make the difference?''. What states what the **goal** of the organization is.

How we go about establishing the mission statement is by filtering down the objectives into a single sentence that encompasses the entire vision. Your mission statement has to be short, specific and measurable. ***In social enterprises, you can also have it described as your 'social mission'.***

To recap, the mission is the barebones, straightforward idea of **why** and ***what*** you are going to accomplish. It will inspire your team, be inclusive to your target audience and tell possible partners exactly what you intend to do.

1.4 OUTLINING THE SPECIFIC ACTIONS TO ACHIEVE GOALS AND OBJECTIVES

Once you have decided the mission statement for your cause the next step will be determining your ***how****.* It expands on your vision statement, informing **how** you plan to deliver the change you believe is required.

Once you've determined what to expect and how to achieve your goals, it's time to examine **who** will be doing this.

Once you've delegated the task responsibility to someone, ensure you detail **accountability**. By doing this you make clear what the goals and parameters of your project are. Depending on the timelines and needs of the organization, each step should be broken down, explained and given a timeline to maintain accountability with the task.

After you've developed your accountability you'll want to include enough detail to ensure that whomever you entrusted the assignment with understands fully what the scope, limit and purpose of the assignment is. After completing this you'll be ready to distribute the outline for the action to the designated people with full confidence.

1.5 ESTABLISHING TARGETS FOR PLANNING, MEASURING AND IMPROVING PERFORMANCE

Establishing targets for planning, measuring and improving performance, is incredibly important to understand where your organization is succeeding, progressing, receding and failing. These factors go far beyond into every aspect of your organization.

One of the key challenges with performance management is selecting what to measure. Identify the key areas that drive your business performance and find a way to measure them, then tailor your measurement to your specific circumstances and objectives. This type of measurement unit is referred to as a **key performance indicator** (KPI). The two key attributes of a KPI are <u>quantifiability</u> (i.e. you must be able to reduce it to a number) and that it directly <u>captures a key business driver</u>.

KPIs are at the heart of any system of performance measurement and target-setting. When properly used, they are one of the most powerful management tools available to growing businesses. There are a number of key criteria that your KPIs should meet:

- they should be as closely linked as possible to the top-level goals of your business;
- they need to be quantifiable;
- they should relate to aspects of the business environment over which you have control.

The purpose is ultimately to drive future improvements in performance. There are two main ways in which you can achieve this kind of management power, using your KPIs to:

1. spot potential problems or opportunities;
2. set targets for departments and employees to deliver your strategic goals.

1.6 ECO-SYSTEMS OF SUPPORT FOR SOCIAL ENTERPRISE: maintaining effective communication with stakeholders, funders or investors, community, board, employees and volunteers (network)

Social entrepreneurs are distinguished from commercial entrepreneurs by their goal of creating value for society; and from traditional social support organizations for their willingness to create economically sustainable models that seek to increase their impact. However, ideals and dreams are not enough to start and develop a social entrepreneurship project.

It is necessary to delimit the environment in which the project will unfold in order to be able to predict and evaluate the interrelation between the idea and the environment. **Medium and long-term sustainability** is a challenge faced by all companies, but in the case of social enterprises it is even more pressing. So that social enterprises can compete in the market under equal conditions, it is important that entrepreneurs know how to identify their support ecosystem, relying on it to achieve their goal.

A crucial strategy for engaging with, and managing stakeholders, is communication. Such communication can help to coordinate work within the organization and to build consensus on what makes the organization effective.

Some common ways in which such communication is implemented are:

- annual reports provided to the public
- periodic meetings with stakeholder groups (such as community meetings)
- regular meetings with and training of staff and volunteers
- fundraising events
- including stakeholders in the organization’s strategic planning activities
- website and social media
- press releases
- guest speaking engagements at meetings
- participation in collaborative project teams and task forces
- public testimony in government venues (such as local councils)

Some of these communication methods are more participatory and engage with stakeholders in a way that empowers them and gives them a voice. Other strategies are simply a means of communicating the main values and activities of the organization and are less powerful.

Each of the listed communication methods may address a different set of stakeholders. This is why managing stakeholders can be a very time-consuming process for organizations. Nevertheless, managing stakeholder relationships is an important activity for social business organizations.

1.7 WHAT IS A BUSINESS PLAN

A business plan is an essential written document that provides a description and overview of your company. The plan should explain your business strategy and your key goals.

At its most basic, your business plan outline should explain what you intend to do and how you are going to do it. You should outline your strategies across the business, including financial projections, marketing and operational plans.

Knowing your long-term goals will help you to take steps towards them in the day-to-day running of your business. It should also act as a benchmark for the performance of your company.

Your plan will show that you have a clear understanding of your business and the market it operates in. It should set out how you expect it to perform in the coming years and how you will overcome any potential obstacles. It should also be a useful tool to:

- Focus and develop ideas;
- Identify your business priorities;
- Think through options and opportunities.

Moreover, most banks and lenders will require a detailed business plan for loans, including start up loans, so financial planning is a must. An in-depth plan will help you to convince banks, potential investors and other key contacts to support and fund you to grow your business.

As you grow, you might look to hire employees and attract more talents expanding your resources. The plan can also be important for attracting new senior management, business partners and distributors.

In general, a business plan should include nine key sections:

1. An executive summary: it includes your company's mission or vision statement, value proposition, and long-term goals;
2. A business description: this brief part of your business plan will detail your business name, years in operation, key offerings, and positioning statement, values or a short history of the company;
3. The business opportunity: this section explains the specific problems your business tackle within the marketplace and how it solves them;

4. Market target: who are the core customers of your business and why? The target market should explain the demographics, psychographics, behavioristics, and geographics of the ideal customer;
5. Details of market strategies: your marketing plan will give a brief overview of how you'll market your unique value proposition to your target audience;
6. Competitor analysis: it will examine the strengths and weaknesses of the competition and help direct your strategy for garnering a share of the market in your marketing plan. A SWOT analysis is the way to shape this section;
7. A design and development plan of your products and services: the operating plan describes your facilities, equipment, inventory, and supply requirements;
8. Information about your operations and management plan: the management plan outlines your business structure, management, and staffing requirements;
9. Financial information, planning and factors: this section containing your financial factors should include your income statement, cash flow forecast or statement, and balance sheet. This should aim to provide an accurate picture of your company's current value and your ability to earn a profit.

A business plan is one of the big steps when you start a business, but it shouldn't be forgotten. By revisiting and updating your plans regularly, it becomes a tool for measuring your success or supporting you in moving in a new direction.

2. THE ECONOMIC BALANCE OF THE SOCIAL ENTERPRISE

2.1 CHARACTERISTICS AND MANAGEMENT OF THE FINANCIAL OBJECTIVES

Analyzing in more depth the last section of the business plan that is about financial information, it is important to highlight that the main goal of the management of financial objectives is to control an organization's finances in a way that ensures compliance with legal requirements and business success. High-level planning and effective execution are required for the process. This is also the reason why the finance department/team plays a critical role in any organization. It makes sure the fundamental goal of financial management is achieved by:

- making important decisions through profit and loss analysis, financial forecasting and ratio analysis;
- utilizing available resources and ensuring that they fulfill an organization's needs;
- ensuring that an organization makes decisions after consideration of available funds and potential risks in the future.

Creating financial discipline and enhancing an organization's financial health are, in essence, the main goals of financial management. These objectives help financial managers, among other things, determine how much to invest and how much to save.

2.2 PLANNING THE NECESSARY RESOURCES, COSTS AND REVENUES

Resource planning is a strategic approach to ensuring resources are used in the most effective way. When executed properly, organizations achieve maximum efficiency and optimization in their use of resources, without under- or over-utilizing any resource. By identifying all the resources you need to deliver an enterprise within a specific timeframe, you'll gain more control over your outgoings and cash flow.

In a nutshell, a resource plan identifies, organizes, and lists the resources required to complete a project. Because most organizational expenses are resource related, it's essential that they're used as efficiently as possible. It acts as a blueprint to help ensure projects and work are executed on time and on budget.

The term 'resources' includes everything that might impact your ability to stay in business – equipment for manufacturing products or doing the work, machinery, raw materials, vehicles, staff members, etc.

The right allocation of resources can help to define:

- What will you need – in equipment and people?
- When will you need it – straight away or later?
- How much will it cost – to acquire, maintain, and run?

Resource planning will help improve the overall health of the organization by ensuring:

- Maximum resource utilization: companies have to place a strategic focus on maximizing resource utilization;
- On-time delivery: enterprises strive to deliver projects on schedule. Doing so helps build customer satisfaction and loyalty, ensuring future projects start on time;
- On-budget delivery: overspending can cause project cancellations, missed revenue, and reduced profitability. Without a clear understanding of resources, managing budgets is a shot in the dark;
- Predictable project timeline: a deep understanding of available resources allows organizations to estimate the amount of time required to perform the tasks;
- Improved tasks flow: when the right people work on the right tasks at the right time, projects move forward at maximum speed and with fewer mistakes;
- More accurate estimates: carefully managing resources and skillsets help ensure more accurate project timelines and budgeting. This can also help executives estimate when projects will begin to impact revenue, costs, and even profitability.

3. INTRODUCTION TO FINANCIAL MANAGEMENT

3.1 WHAT IS FINANCIAL MANAGEMENT

Financial management (FM) is the subunit of management that focuses on generation of financial information that can be used to improve decision-making.
The financial experts, Guthman and Dougal, gave this definition: *"Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business."*
FM is essential for companies and organizations, as it maps the right path to achieve business goals. There are many reasons why FM is essential in a social enterprise as it can help to improve the value of the organization, to plan the future growth of it to achieve economic stability.

3.2 OBJECTIVES OF FINANCIAL MANAGEMENT

Organizations have to manage funds effectively to be successful. There are some crucial objectives that organizations should keep in mind including:

- **Profit Maximization**

The basic objective of financial management is to achieve optimal profit, both in the short and long run.

- **High Efficiency**

FM tries to increase the efficiency of all business departments. Proper distribution of funds to all, taking into account the resources and work required, increases the efficiency of the organization as a whole.

- **Reduce Risks**

Management of an organization involves risk, especially because of the uncertainty that accompanies it. Financial managers have to avoid high-risk situations and take calculated risks.

- **Proper mobilization**

One of the main goals of financial function is efficient mobilization. It implies that managers have to make decisions regarding the allocation and utilization of various funds.

- **Business Survival**

In the competitive world, the survival of the organization is a primary goal. If this is mined by external threats, the entrepreneur needs to maintain management control even by outsourcing to members outside the company.

- **Balanced Structure**

Financial managers have to prepare a firm capital structure that takes into account all sources of capital. This balance is crucial for liquidity, flexibility, economy and stability.

3.3 ELEMENTS OF FINANCIAL MANAGEMENT

The world of FM basically consists of three key elements, which are:

- **Financial planning**

Financial planning is a way of calculating the capital needed by an organization and allocating resources appropriately. It is necessary to keep track of certain aspects such as business goals and objectives, strategies to be implemented in the short and long term.
To manage these aspects, it is therefore essential to plan correctly to help the entrepreneur achieve business goals.

- **Financial control**

It is a key activity to ensure that the organization works towards its goals. It is about establishing appropriate KIPs. It is crucial to be sure that all team members are aware of the business objectives.

- **Financial decision-making**

After having an adequate plan and understanding of all financial aspects, entrepreneurs have to decide on financing, resource allocation, profit distribution and much more.

4. COMPONENTS OF FINANCIAL MANAGEMENT: CONSTRUCTING, READING AND UNDERSTANDING

4.1 THE BALANCE SHEET

To understand how to approach the world of financial management, in the sense of control of an organization's funds, it is first necessary for every enterprise to have three basic documents: the balance sheet, the profit and loss statements and the cash flow statements.

The accounting balance sheet is a picture of the company's financial situation, through which it is possible to analyze the financial position. With this paper anyone can see what the enterprise owns, how many debts the organization has and how much has been invested. The financial situation is the main point of the balance sheet, but what is it? It is the ability to face debts. It is different from the economic situation.
In other words, the balance sheet shows the company’s total assets and how they are financed, through either debt or equity, and is useful for doing both internal and external analysis.
The balance sheet is the last piece worked out in financial management and is the key point from which to understand what decisions to take in the immediate future. It represents a summarized document containing the history of the organization's finances.

Internal analysis

Balance sheets help to understand if an organization is succeeding or struggling by analyzing the liquidity situation. With the internal analysis is possible to understand:

- if the organization is able to meet future expenses or handle a market shock;
- trends in assets and liabilities to make sure the organization is functioning properly;

If the numbers are not good and positive, it is probably necessary to conduct the business in another way.

External analysis

This paper is public and available to all. For this reason, it helps investors and stakeholders to evaluate the company, to see its financial position, the current available resources, and all the financing arrangements. For investors, this can help them to understand whether it would be worth it to invest in that company. They can extrapolate these numbers to determine other financial metrics such as debt-to-equity ratio, capital multiplier and liquidity.

The balance sheet is based on this essential equation: **Assets = Liabilities + Equity**

Source: CFI's Financial Analysis Course

The assets

Following the essential equation of balance sheet (A= L + E), in the left side there are the assets.
An asset is a resource with an economic value that an organization controls to increase its value and to generate cash flow[1].
The assets can be classified as current and non-current, based on their time horizon of use.

- Current: they are expected to be used within one year because they are necessary for a company's immediate needs.
- Non-current: they have a longer useful life so they are expected to be used in more than a year.

The liabilities

On the other side of the balance sheets there are the liabilities.
A liability is an obligation of money or service that the organization has to render to another one.
As the assets, also the liabilities are current and non-current.

- Current: they are expected to be paid back within one year;
- Non-current: they are expected to be paid back in over one year.

The Shareholder's Equity

Shareholder’s equity is the amount that the owners of the organization have invested in their business. The Shareholder’s equity is the difference between assets and liabilities.
It can be positive or negative.
A positive shareholder equity means the organization has enough assets to cover its liabilities. On the other hand, if it is negative the company's liabilities exceed its assets.
The shareholders equity is composed of 2 elements:

- Shared Capital: It is the amount of the money invested by the company’s owners. The company, in order to increase the share capital on its balance sheet, can divide it by offering new stocks and getting new shareholders.
- Retained earnings: They are, as the word itself says, the profits that are not divided by the shareholders and they are used to pay debt or to be reinvested.

In a nutshell, with the balance sheet anyone can see:

1. Assets: what the business owns
2. Liabilities: what the business owes
3. Shareholders’ equity: how much has been invested into the business

DIFFERENCES BETWEEN TRADITIONAL AND SOCIAL ENTERPRISE BALANCE SHEETS

Social enterprises are also required to prepare the balance sheet at the end of the fiscal year. However, this document has some differences from the traditional one. The status of "social enterprise" can be acquired by any economic entity. The important thing is that it carries out on a stable and lasting basis an economic activity (non-profit) based on the general interest, and for civic, solidarity and socially useful purposes.
For this reason, social enterprise is labor intensive rather than capital intensive[2]. It means that its assets do not include much equipment and machinery to produce products so less need for structural funding. Very often all the items owned by the social enterprise are on loan for use (also in this case it is necessary to prove the social utility of the activities). For this reason, the main asset to consider is the current liquidity and how this covers liabilities.

4.2 THE PROFIT AND LOSS STATEMENT

The second essential element in the FM of any enterprise, including social enterprises, is the profit and loss account (PLA).
It provides the financial results of a social enterprise's operations over a period. The task of the PLA is to describe how much money the enterprise earned during its business and what costs it incurred to generate this income. So, the P&L statement shows a company’s ability to generate sales, manage expenses, and create profits.

Source: CFI's Financial Analysis Course

The PLA of an organization is represented over a period, typically a monthly, quarterly or fiscal year.
The main categories that can be identified in the PLA are:

- Revenues: these consist of sales of products or services and recurring income that is not directly related to business activities (i.e. rental income);
- Earnings: these include one-time transactions (such as the sale of property or equipment);
- Expenses: these include all operating costs, such as employee salaries, sales commissions, administrative fees (which range from rental of facilities and equipment to utilities and transportation);
- Losses: As with earnings, these are one-time costs or events that represent a loss for the organization (i.e.the payment of damages in a legal case);
- Net income: Also called "bottom line", this is what the income statement calculates. To calculate net income, all revenues and earnings are added together and expenses and losses are subtracted.

Why is the PLA important?

The PLA provides an analysis of the overview and helps companies identify where they need to refine their business strategy. In this way, companies can control their future direction and profitability.

Comparing different funds statements over the years allows companies to:

- Understand how income and expenses are accumulating over time. Profit and loss accounts can help you understand where costs are coming from, how to cut them and how to maximize net income.
- Planning the future. New or start-up companies include a profit and loss statement as part of the business plan. Even though a new business may not have actual profits or losses to report, it will probably illustrate to prospects officers how it expects to make profits over time.
- Finalize taxes. Established companies that prepare income statements can use the information in profit and loss reports to complete their taxes.

Beloved you can find a standard report template completed by all the mail categories:

[Company Name] Profit and Loss (P&L) Statement [USD $ millions]	2018												© Corporate Finance Institute
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year
Revenue stream 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenue stream 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Returns, Refunds, Discounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Advertising & Promotion	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Rent	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries, Benefits & Wages	-	-	-	-	-	-	-	-	-	-	-	-	-
Telecommunication	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Expense 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Expense 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings Before Interest & Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings Before Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-

How is profit and loss calculated?

You can calculate profit and loss by subtracting total expenses from revenue in a given period following this equation:
Profit and loss / Net profit = Revenue - Expenses

This requires eight steps (although accounting software can automatically perform a profit and loss calculation, which we will see in the next section):

1. Calculate revenue;
2. Calculate the costs of goods and services that are sold by the company;
3. Subtract the costs of goods from revenue to get the gross profit;
4. Calculate operating expenses (rent, travel, equipment, etc.);
5. Subtract the operating expenses from the gross profit to get the total operating profit;
6. Add the additional income (interest/dividends) to the operating profit to get the earnings before interest, taxes, depreciation and amortization (EBITDA);
7. Calculate interest, taxes due, depreciation and amortization;
8. Subtract interest, taxes, depreciation and amortization from EBITDA to get the net profit.

What is the difference between an operating budget and a balance sheet?

Many people confuse financial statements with balance sheets. Although both provide historical financial data, they approach this information from two different perspectives:

- A **balance sheet** illustrates the value of the company. This means that it reviews the company's assets (what the organization owns), liabilities (loans or money owed to persons or certain entities) and equity (value of shares).

- The **cash flow statement** shows the change in profitability over time. It displays the performance of the organization over a given period and the balance sheet shows the impact of that performance on the value of the company.

4.3 THE CASH FLOW

Cash flow (CF) is the last document required for good FM of the company.
It is a summary of income and outflow, detailing how cash flows into and out of the organization, and is normally recorded in monthly bands.
It is a matter of estimating projected income and expenditure, based on previous years and planned activities for future years. Performing this exercise will allow the organization to assure itself that it has sufficient cash in the bank to remain afloat as activity progresses throughout the year.
CF is obtained as the difference between total cash inflows and cash outflows and represents the amount of cash the organization has at any given time in its life.
Basically, CF analysis is one of the main tools for controlling a company's FM aiming to optimize treasury management by containing funds expenses.

Business management should aim for a positive CF. With the right liquidity, in fact, the organization is able to pay taxes, suppliers and other creditors, as well as employees, without problems. But how can CF be managed more effectively? There are certain tricks that enable us to improve the company's liquidity by careful cash flow planning.
Here are some tips for effective, efficient and positive CF management:

- Implement effective risk management strategies;
- Regularly update budget forecasts;
- Equip in advance with technology to manage CF (there is very effective software on the market to reduce or eliminate cash flow risk and this is discussed in the next section).

4.4 BUDGET INDICATORS

Monitoring the company's performance level is a primary condition for its ongoing growth and expansion.

There are many indicators available to manage corporate performance, but a number of them have established themselves in corporate practice and now boast virtually universal use.
Moreover, a performance evaluation based exclusively on numerical data is certainly insufficient.

Taking into account quantitative parameters alone offers a limited insight into the internal world of the company, allowing one to focus on how to make it the best possible competitor.
For these reasons, the otherwise insufficient indicators of a strict economic-financial type are now supplemented by other so-called Key Corporate Performance Indicators (KPIs), among them the consideration of the level of innovation and internal organization satisfaction, or the flow of new and vice versa lost customers.

1. **Return on investment (ROI)**

It measures the gain or loss generated on an investment relative to the amount of money invested.

ROI = (Net Profit / Cost of Investment) x 100

2. **Return on equity (ROE)**

It indicates the interest return of the capital supplied by the shareholder.
ROE = (Net Income / Shareholder's Equity) x 100

3. **Return on sales (ROS)**

It is an indicator of how efficiently an organization turns sales into profits.
ROS = Operating Profit / Net Sales

4. **Return on assets (ROA)**

It is an indicator of how profitable the organization is relative to its total assets.
ROA = Net Income / Total Assets

A conscious and intelligent monitoring of the company's performance makes it possible to assess how many and which objectives have been achieved, so that the entrepreneur is in a position to draw up a business plan for the future that knows how to make up for any weaknesses and build on strengths.

5. AUTOMATION AND FINANCIAL MANAGEMENT

5.1 BIG DATA FOR REAL-TIME MANAGEMENT

Nowadays, one of the most important assets of an organization is data and its agile management. In order to keep up with modern technology, a company, and in this case a social enterprise, can receive numerous advantages in the FM of real-time data. Any organization can use up-to-date data to collect information and evaluate strategies to be implemented in the short and long term which is also followed by an increase in efficiency and accuracy of the strategy.

The budget analysis and business plan software allow entrepreneur and social entrepreneur to make assessments based on indices related to:

- economic situation
- financial situation
- balance sheet situation

Processing the balance sheet and profit and loss account dat it is possible to carry out a self-assessment of the company, identifying any areas of risk at an early stage.
The Balance Sheet and Business Plan Analysis software is the ideal tool for defining strategies to minimize business risks.

Value of automating process

Automating financial processes, from compiling to reading and understanding funds statements, has the follow main benefits:

1. **Time savings:** Manual tasks such as analyzing balance sheet variances can be a considerable waste of time and effort. Thanks to sophisticated accounting tools, these no longer need to be performed manually.
2. **Reduced probability of errors**: However much the team dedicated to finance and account management may excel, it is still a human being. Automating processes can reduce the margin for error.
3. **Better use of data**: Automated real-time data collection increases the utility of business information, allowing people to identify and resolve problems in a timely manner. This reduces the potential for loss.

5.2 TOOL TIPS

Cash flow management does not have to be a challenge.
If you choose the correct software, you can feel safe in the knowledge that when you look at your cash flow data, you are shown accurately and in real time.
There are numerous tools that can be used, depending on the needs, requirements and costs of each business. Listed below are some of them:

Cube
Cube is a next-generation platform offering dynamic financial planning solutions. From cash flow preparation to the analysis of future scenarios.
This platform is the only software that can automatically transfer data from any type of spreadsheet to a multidimensional database.
Simply connect all major data sources to Cube and its intelligent mapping transforms the data into a single source that can be analyzed and exploited.

Pros:

- ✔ Intuitive spreadsheet integrations with Excel and Google Sheets;
- ✔ Get smarter, faster insights into your financial data in real time.

Anaplan
Anaplan is a cloud flexible and collaborative software that helps better orchestrate business performance.
It’s designed to help businesses of all sizes solve financial-related challenges. Using the suite of tools included in the Anaplan platform, users can streamline financial processes and better understand everything from day-to-day cash flow to complex financial solutions.

Pros:

- ✔ Ability to connect to any number of planning streams via a single dashboard;
- ✔ Intuitive user interface with a good deal of customisation;

- ✔ Detailed reports can be obtained in real time with just a few clicks.

Vena

Vena is a cloud-based financial planning and cash flow software.

Pros:

- ✔ Uses Excel
- ✔ Knowledgeable support staff on-hand and online training materials;
- ✔ Flexible reporting options make it easy to analyze data;
- ✔ Cloud-based with mobile support

Planful

Planful is a cloud-based financial planning and analysis platform.
The main feature is that the platform is divided into four areas that can be used all together or individually and are: structured planning, dynamic planning, consolidation and reporting.

Pros:

- ✔ Very flexible and easy-to-use budgeting, forecasting and cash flow analysis models;
- ✔ Capable of handling complex reporting needs;
- ✔ Excel-like interface.

Adaptive

It is an enterprise-wide budgeting and financial planning software.
This software facilitates financial planning and collaboration across an entire organization without the need for other manual processes.
You can simply create budgets, forecasts and scenarios.

Pros:

- ✔ Scenario planning and forecasting functions support visualization of future cash flows.

Reflection / Self-Assessment

1) How would you build your business plan if you were a social entrepreneur manager?
2) What are the key social finance objectives to keep in mind if you are an entrepreneur?
3) How can digital tools benefit the financial management of social enterprises?

References

https://www.ntaskmanager.com/blog/best-resource-planning-tools/

https://dynamics.folio3.com/blog/financial-management/

https://peachyessay.com/blogs/business-plan-writing-guide/

https://medium.com/@georgesioutzos/managing-stakeholders-a-challenging-ba-task-a8c0b3a1802f

https://blog.commlabindia.com/elearning-design/dealing-with-difficult-elearning-stakeholders

https://welldoneby.com/blog/best-project-management-tools-for-teams/

https://medium.com/@Aden.VaughanWilliams/can-you-apply-the-pareto-principle-to-recruitment-efe54234d657

https://www.fsb.org.uk/resources-page/what-is-a-business-plan.html

https://www.planview.com/resources/guide/resource-management-software/resource-planning/

https://www.thebalancemoney.com/business-plan-2947267

https://medium.com/swlh/the-80-20-rule-of-time-management-stop-wasting-your-time-1ca93026dd52

https://open.lib.umn.edu/principlesmanagement/chapter/1-5-planning-organizing-leading-and-controlling-2/#:~:text=Planning%20is%20the%20function%20of,organization%20and%20forecast%20future%20conditions.

https://corporatefinanceinstitute.com/resources/accounting/balance-sheet/

https://www.unipa.it/amministrazione/direzionegenerale/sspinternationalrelationsoffice/u.o.programmiedordinamentididatticiinternaz./.content/documenti/Abbate_Slides/Indici-di-bilancio.pdf

https://www.ptc.com/en/blogs/iiot/what-is-real-time-analytics-in-big-data