Executive Summary

The key concepts and theories from MSA 602 course “Financial Analysis, Planning & Control” are presented in this research and are applied to an administrative issue. The course focuses the study of financial analysis, planning and control techniques/methods emphasizing mechanisms used to determine the overall financial health of private, public and non-profit organizations. Key concepts of the course include the scope and environment of financial management, the valuation of financial assets, investment in long-term assets, capital structure and dividend policy, and working-capital management and international business finance. Financial decisions impact all individuals in an organization, including the project manager(s), and different aspects have different impacts.

The purpose of this research is to study the impact that financial decision making has on the project manager and the result of such impact. The overarching question is: What are the effects of poor project management on the overall success of a project at SignArt, Inc? All aspects of project management can have different effects on the project’s success. Just as financial decisions in an organization impact the project manager and project team, the project manager also has to make financial decisions within the project that impact project success. The organization of focus for the research is SignArt, Inc. in Kalamazoo, MI, a full-service sign company with a team of sales specialists, sales support, and project managers who lead the projects completed for SignArt’s local and national accounts.

A literature review of resources outside of the course was completed and is presented in this paper. The topics of focus include financial management skills, financial performance, and understanding financial risk. These topics are important as they relate to financial management in business and references from several studies are presented to support their importance. Each
topic also relates to the author’s project management concentration and administrative issue sub-question.

The topics covered relate to project management because project managers must be able to maintain a project budget, which includes making financial decisions. In order to make successful financial decisions, project managers must understand key financial concepts. The recommendations include developing an effective financial management plan that includes all factors necessary for making successful financial decisions. Proper development, execution, and monitoring of a financial management plan is essential to project success. Resources are referenced to support the findings on how project managers at SignArt, Inc should address the impact of financial decision making.
Paper 4: The Impact of Financial Decisions on Project Managers

MSA 602 Financial Analysis, Planning & Control

MSA 698 Directed Administrative Portfolio

Central Michigan University

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Introduction

Project managers play a vital role in the success of a project. Project managers are responsible for planning, executing, monitoring, and controlling a project from start to finish. Project managers are impacted by financial decisions that are made within their organization and are responsible for making financial decisions related to the project. Financial knowledge of a project manager includes being familiar with the basic financial statements and key accounting terminology, ability to analyze and act on the financial reports prepared for internal use, and ability to analyze and justify capital investments and strategic projects, including cash flow management, asset impairment, and depreciation (Bigas, 2018, p. 36). Lack of such knowledge can impact how financial decisions are made, which can negatively impact project success.

The organization selected for this research paper is SignArt, Inc. in Kalamazoo, MI. This organization is made up of approximately 60 full time employees in office, manufacturing, and field settings. SignArt, Inc. is a full-service sign company which provides services from design to installation and maintenance. The company has been in business for 47 years under the same ownership. A team of sales specialists, sales support, and project managers lead the projects completed at SignArt’s local and national accounts.

The administrative issue related to the author’s Master of Science in Administration (MSA) concentration is: What are the effects of poor project management on the overall success of a project at SignArt, Inc? What can be done to solve this problem? The sub-question related to the MSA 602 course is: What impact does financial decision making have on the project manager? What are the results of such impact and what needs to change on future projects? The main concepts of MSA 602 will be illustrated and relative concepts will be applied to the administrative issue.
MSA 602 Course Overview

The Master of Science in Administration Course 602 is titled Financial Analysis, Planning & Control. The course focuses on the study of financial analysis, planning and control techniques/methods emphasizing mechanisms used to determine the overall financial health of private, public and non-profit organizations. The MSA 602 textbook states “The fundamental goal of a business is to create value for the company’s owners. This goal is frequently stated as “maximization of shareholder wealth” (Keown, Martin, & Petty, 2017, p. 3). Financial decision making should reflect the goal to maximize shareholder wealth. The core topics covered include the scope and environment of financial management, the valuation of financial assets, investment in long-term assets, capital structure and dividend policy, and working-capital management and international business finance.

The concepts of finance are derived from five main principles which guide the finance manager in decision making. The five principles that form the foundations of finance include: cash flow is what matters, money has a time value, risk requires a reward, market prices are generally right, and conflicts of interest cause agency problems (Keown et al., 2017). It is essential to understand each principle in order to understand finance. It is also important to understand the role of finance in business, which Keown et al. (2017) defines as “the study of how people and businesses evaluate investments and raise capital to fund them” (p. 12). The study of finance addresses three basic issues: What long-term investments should the firm undertake? How should the firm raise money to fund these investments? How can the firm best manage its cash flows as they raise in its day-to-day operations? The areas of finance related to these questions are capital budgeting, capital structure decisions, and working capital
management. The following section illustrates these areas of finance along with other course highlights.

**Course Highlights**

Understanding whether a project should be accepted or rejected involves the process of capital budgeting. Keown et al. (2017) define capital budgeting as “the process of decision making with respect to investments made in fixed assets” (p. 327). Key topics and concepts associated with capital budgeting are finding profitable projects, capital budgeting decision criteria, capital rationing, ranking mutually exclusive projects, guidelines for capital budget, calculating a project’s free cash flows, risks of investment decisions. It is important that organizations implement a strategy for generating capital budgeting projects. There are four decision criteria’s commonly used in business for determining whether a project should be accepted. These include the payback period, the net present value, the profitability index (benefit-cost ratio), and the internal rate of return (Keown et al., 2017, pgs. 328-338). There are also several guidelines that should be followed to measure the value of a proposal, such as considering incremental expenses and accounting for opportunity costs. In addition to the criteria, guidelines, and other considerations, must be measured and included in project acceptance decision making.

How an organization will raise money to fund the accepted investments involves capital structure decisions. Capital structure is defined as “the mix of interest-bearing short- and long-term debt plus equity funds used by the firm” (Keown et al., 2017, p. 421). The key topics and concepts associated capital structure are break-even analysis, sources of operating leverage, capital structure theory, basic capital structure management tools, and dividend policy. Two tolls that are commonly used in the evaluation of capital structure decisions are EBIT-EPS Analysis
and the use of financial leverage tools for analysis. Financial leverage tools include comparative leverage ratios, industry norms, net debt ratios, and balance-sheet leverage ratios (Keown et al., 2017). Organizations should strive for optimal capital structure by using a mix of financing sources.

The final area of focus in the course highlights involves working capital management, which is defined by both gross working capital and net working capital. Grossing working capital is a firm’s investment in current assets and net working capital is the difference between the firm’s current assets and its current liabilities (Keown et al., 2017, p. 487). The key topics and concepts associated with working capital management are managing current assets and liabilities, determining the appropriate level of working capital, the cash conversion cycle, estimating the cost of short-term credit, and sources of short-term credit. Current assets include cash and marketable securities, accounts receivable, inventories, and other assets that the firm’s managers expect to be converted to cash within a year or less. Current liabilities are liabilities that are payable in a year or less, such as accounts and notes payable (Keown et al., 2017, p. 487). Understanding all the concepts of capital budgeting, capital structure decisions, and working capital management are crucial to successful financial management.

**Literature Review**

The purpose of this section is to review and analyze scholarly literature related the topics and concepts of financial management in business. Extensive literature exists about this subject; a number of such resources have been selected and organized into sub-topics that best relate to the research topic. The topics include financial management skills, financial performance, and understanding financial risk. These topics are best suited for the presentation of literature.
because they are directly related to the subject and to the research sub-question related to MSA 603.

**Financial Management Skills**

In order to successfully manage the financial aspects of a business, there are certain skills and competencies that financial managers and those with decision-making authority must possess. While businesses generally have a designated finance team, all managers have financial responsibilities in their areas of responsibility. According to Bigas (2018), “A strong understanding of financial concepts will enable leaders to make better business decisions and manage their financial performance more effectively” (p. 34). It is important that managers understand how the financial decisions they make are impacting the organization as a whole. Understanding financial concepts is the first step necessary, prior to making financial decisions.

Bigas (2018) illustrated the key financial competencies and skills that managers should have. The competencies include the ability to identify business transactions that give rise to assets, liabilities, revenue, and expenses, prepare and manage a budget, read and analyze financial statements, and financially justify significant investments. For each competency, there are a number of skills that managers should have, such as basic accounting terminology, how to estimate revenue and costs, and return on investment analysis. Bigas (2018) offered some suggestions of how organizations can structure a training program that helps managers acquire the necessary skills. These include gaining senior management team’s commitment, customizing the training program to the work environment, understanding the individual needs of the managers who will participate in the program, identifying the most effective delivery mechanism to achieve the required competencies and skills, and ensuring you have a follow-up mechanism to monitor whether participants are applying to the job the skills they have acquired (p. 37).
Regardless of the method of training selected, the training program must offer managers the help they need to gain the skills identified as necessary for success in financial decision making. It is important to remember that “financial skills are part of any manager’s fundamental toolkit. Training professionals should ensure that their leadership programs provide these financial skills based on the manager’s individual needs and the role one plays in the organization” (Bigas, 2018, p. 37). Programs should be developed based on the specific needs of the individuals and the organization as a whole. Without proper training, an organization is at risk of poor financial decision making, which will impact financial performance.

Financial Performance

Understanding and evaluating financial performance is crucial to the success of an organization. Financial performance impacts, and is impacted by, all individuals within an organization. Financial performance refers to “the degree to which financial objectives are or have been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm’s policies and operations in monetary terms” (Verma, 2017, para. 1). There are many forms of measurement of financial performance evaluation. It is important to know which forms of measurement are appropriate for one’s organization and to develop a financial performance strategy.

A common form of financial performance measurement, arguably the most common, is earnings per share (EPS). Earnings per share are defined as “a company’s profit divided by its number of common outstanding shares” (Nasdaq, 2018). An article written by Johannes de Wet (2014) illustrated the results of a study in which 400 financial executives in the United States were surveyed and reported that the majority agreed that earning were the most important performance measure. EPS is easily calculated and is highly valued by business executives;
“EPS neatly summarizes the earnings generated for shareholders and the shareholder’s view appeals to investors and management alike” (as cited by de Wet, 2014, p. 23). Although there are many benefits to EPS, there are also limitations, which include the inability to reflect shareholder wealth creation, EPS management, and bias towards positive EPS growth. Results calculated using EPS can be inaccurate due to limitations. “EPS does not take into account the cost of equity and as a result, does not reflect the full cost of running a business” (de Wet, 2014, p. 24). Such limitations should be considered when an organization is considering the use of EPS in measuring financial performance.

An organization’s business strategy has a significant impact on financial performance. Two common strategies developed by Porter (1979) to gain a competitive advantage over other organizations are product differentiation and cost leadership. A differentiation strategy has a “strategic orientation toward differentiation through product innovation with little emphasis on cost leadership is an innovative differentiation strategy and strives for product innovations to develop a unique image of the firm's products by providing customers with unique value” (Booth, Choe, & Hue, 1997, p. 410). Companies who follow a differentiation strategy set themselves in a unique position in their industry, and can charge a higher price than competitors due to their unique position. Cost leadership strategy has a “strategic orientation toward cost leadership with little emphasis on product innovation and reflects a firm's intention to strive for the lowest cost or most efficient producer position in the industry by achieving a sustainable cost advantage in producing products” (Booth et al., 1997, p. 410).

A number of studies have suggested that differentiation strategies lead to more sustainable financial performance (as cited by Joiner, Salmon, & Spencer, 2009). However, Joiner et al. (2009) reported on a study completed in 2004 finding that “there is no relationship
between product flexibility differentiation strategy and financial organization performance” (p. 96). The study found that the use of financial performance measures enhance both financial and non-financial organizational effectiveness. As stated in the study results, “A strategic emphasis on product flexibility is not, of itself, associated with high financial organization performance; financial organization performance is only affected through the appropriate design and use of a financial performance measurement strategy” (Joiner et al., 2009, p.96). The results of this study emphasize the importance of developing a financial measurement strategy.

**Understanding Financial Risk**

For every financial decision made, some level of risk is associated with the decision. One of the areas with the highest amount of associated risk is investment decisions. Financial risk, defined in the context of investments, is “the potential variability in future cash flows. The wider the range of possible events that can occur, the greater the risk” (Keown et al., 2017, p. 409). In other words, risk is the uncertainty associated with return on investment. Risk should be strictly evaluated before making any investment decision(s). Investors looking to expand their wealth should be prepared for high risk. There are four types of risks associated with investing: Market Risk, Default Risk, Inflation Risk, and Mortality Risk. “To evaluate an investment, you should consider the different types of risk that could affect its performance in order to determine whether the investment is appropriate for you” (Landes, 2012, para. 4).

To help manage potential risk, a risk response plan should be developed. According to Kraten, Ryack, & Sheikh (2016), there are three important risk factors that must be considered when evaluating risk and creating a long-term financial plan. These include risk need, risk capacity, and financial risk tolerance. Risk need is the amount of risk required to meet a particular financial goal, risk capacity is the client’s ability to absorb a possible financial loss
resulting from financial risk, and financial risk tolerance reflects an individual’s willingness to accept uncertainty related to the outcome of a financial decision (p. 54). By identifying and evaluating these factors, a suitable plan can be developed. Failure to develop some form of risk response plan can lead to poor financial performance.

**Relation to Concentration: Project Management**

The concepts of financial management in business relate to the author’s MSA concentration of project management because financial decisions impact the project manager and project team. In addition, project managers are responsible for making financial decisions concerning the project. Therefore, project managers are responsible for understanding financial concepts in order to make successful financial decisions and maintain strong financial performance. Financial knowledge needs vary based on position; financial knowledge of a project manager includes being familiar with the basic financial statements and key accounting terminology, ability to analyze and act on the financial reports prepared for internal use, and ability to analyze and justify capital investments and strategic projects, including cash flow management, asset impairment, and depreciation (Bigas, 2018, p. 36).

To successfully manage finances involved with a project, the project manager must understand the cost concepts. Two of the most important costs to understand are direct and indirect costs. Direct costs can be specifically identified within a project while indirect costs cannot be easily assigned directly to a specific final cost objective (Lundsten & Zimmermann, 2006). There are many factors that play into the costs that the project manager must understand. Some costs are outside of a their control; “A project manager will have knowledge and control over direct costs but will not have the same view of the company’s indirect costs, even though both will affect the profitability of a job” (Lundsten & Zimmermann, 2006, p. 15). Cost concepts
are important in allocating resources, especially when outsourcing. Project managers should develop a financial management plan or system to ensure effective decision making and to monitor financial performance throughout the life of a project.

Just as project success is impacted by financial decisions made by the project manager, projects are impacted by financial decisions made within the organization. One area of strong impact is establishing project budgets. When an organization’s financial team is determining the allowable budget for projects, it is often less than what is required for successful project completion. This may be because the financial team does not have a full understanding of what goes into a given project, or they have to make budget cuts in certain areas. A small budget often leaves the project manager with a big challenge to meet the project objectives within the budget constraints. Where possible, the project manager should be included in determining the allowable budget for a given project. This will help to prepare a suitable budget for achieving the project goals and objectives.

**Application to Issue: Finances in Project Management**

As illustrated in the preceding section, financial decision making impacts the project manager and project team in multiple ways. For the purpose of the MSA concentration application, the author will focus on financial decisions the project manager has to make within a project and the allocated budget. Project managers must ensure they understand financial concepts in order to make successful financial decisions. A current administrative issue related to project management is the impact of poor project management on the success of a project at SignArt, Inc. A sub-problem related to financial management is: what impact does financial decision making have on the project manager? What are the results of such impact and what needs to change on future projects?
Project managers at SignArt, Inc. are responsible for overseeing projects from start to finish. The average project includes providing a quote to customer(s), project initiation upon customer’s approval, obtaining site survey (if necessary), obtaining appropriate permit(s), producing work order for fabrication and installation (install if local), hiring subcontractor (for install out of service area), maintaining project budget and schedule, coordinating install with onsite general contractor, obtaining change order (if necessary), and project close-out. The director of project management provides quotes to the customers for the proposed signage and, upon approval, awards each project to individual project managers. The project manager must allocate resources and complete the project deliverables within the agreed upon budget. Recently, SignArt has had issues with outsourcing labor for signage installation within the project budget.

SignArt’s project team, or key stakeholders, generally includes the project manager, the director of project management, the customer (including site general contractor), design and fabrication individuals (including directors), and self-perform installers (including director) or subcontractor. A subcontractor is required for signage installation when the project location is outside of the six states where SignArt self-performs installations. When subcontracted services are required, the project budget is generally higher because outsourcing increases labor costs. This is where it becomes very important that the project manager makes financial decisions that will positively impact process success. It can be challenging to attain the necessary labor resources within the project budget.

Poor financial decisions by the project manager can lead to a lack of necessary resources, schedule delays, and increased project costs. To successfully execute and maintain financial management throughout the life of a project, the project manager should develop a financial
management plan. The financial management plan, regardless of the format, should include all project-specific factors to make successful financial decisions. Although these factors will vary from one project to the next, some factors to include are project goals and objectives, project budget and source of funding, resource requirement identification, direct/indirect cost identification, method of estimating costs, timekeeping system/timesheet, and employee expense reports. “The most common cause of cost overruns is failure to meet project schedules. Unfavorable variances between the actual and budgeted costs should be reviewed to identify whether a possible loss is anticipated” (Lundsten & Zimmermann, 2006, p. 20). The change request process should also be identified in the plan.

The project manager is responsible for executing and monitoring the financial management plan. It is important that the project manager monitors the plan throughout the life of the project, rather than just during the planning and execution project phases. “The data generated by integrated project accounting and management systems is useful on many levels. Project managers should use these systems to establish "critical path" steps for keeping projects on their established schedule and budget.” (Westerman, 2004, p.30). The project manager is also responsible for maintaining strong communication with the accounting and/or finance departments of an organization. Such departments must receive a copy of the financial management plan upon acceptance and approval and frequent status reports. Financial management plans in project management are crucial to project success.

Through implementation and proper execution of a financial management plan, poor financial decisions will be reduced by SignArt’s project managers in future projects. SignArt’s project managers should have a common understanding of financial knowledge requirements. A financial management plan will allow the project managers to effectively monitor the project
budget and ensure sufficient funds are available for outsourcing. Improved financial decision making will reduce the negative impact on project success.

**Summary, Conclusion, and Recommendations**

Financial planning, decision making, and management are arguably the most important aspects of an organization. Finance is business is defined as “the study of how people and businesses evaluate investments and raise capital to fund them” (Keown et al., 2017, p. 12). In order to successfully manage the financial aspects of a business, there are certain skills and competencies that financial managers and those with decision-making authority must possess. The concepts of financial management in business relate to project management because financial decisions impact the project manager and project team. In addition, project managers are responsible for making financial decisions concerning the project. Therefore, project managers must understand financial concepts in order to make successful financial decisions and maintain strong financial performance.

In order to make successful financial decisions, effective financial management must be executed, monitored, and controlled throughout a project’s life. The preceding sections identify key concepts of financial management in business and a real-world example of an administrative issue and the relation project management. The administrative issue related to project management is the impact of poor project management on the success of a project at SignArt, Inc. A sub-problem related to financial management is: what impact does financial decision making have on the project manager? What are the results of such impact and what needs to change on future projects?

Based on the information presented above, the author recommends that SignArt project managers evaluate the project budget, goals, and objectives in order to develop an effective
financial management plan. The financial management plan should include all project-specific factors necessary to make successful financial decisions such as source of funding, resource requirement identification, direct/indirect cost identification, method of estimating costs, timekeeping system/timesheet, and employee expense reports. The project manager is responsible for executing and monitoring the financial management plan and maintaining strong communication with accounting and/or finance departments.
References


