



What makes a Good Management's Discussion and Analysis?

An Annual Report is a document that summarizes the results of operations and financial status of a Company for the past year and outlines plans for the future. This report includes financial statements, various reports and the Management's Discussion and Analysis (MD&A). In the whole report, the MD&A is a section where the Management interacts with its investors, future clients, members of its business support systems and others associated to whom the performance of the business is important. The Management discusses numerous aspects of the Company, both past and present within the limits set by the Company's competitive position. It is important to understand that the MD&A should reflect the thoughts of the Management. It is not a research document analyzing the performance of the Company with its peer groups. If done well, the MD&A provides the clearest window into the performance and potential of a Company.

MEANING

Management's Discussion and Analysis is a section of a Company's annual report in which the Management discusses numerous aspects of the Company, both past and present. Amongst other things, the MD&A provides an overview of the previous year of operations and how the Company fared in that time period. The Management also usually talk about the upcoming year, outlining future goals and approaches to new projects. The MD&A is a very important section of an annual report, especially for those analyzing the fundamentals, which include Management and Management style. Although this section contains useful information, investors must heed caution as the section is unaudited and strictly represents the management's views. For this reason, it is paramount that the accuracy of the content and style of writing the MD&A exudes credibility and clarity.

AUDIENCE

Second to the Chairman's and Managing Director's statement, the MD&A is the ideal platform for one to one communication between the Management and the Company's stakeholders. A common perception is that the audience of the Annual Report is limited to just investors, future clients, members of its business support systems and others to whom the performance of the business is important. But it should be kept in mind that an Annual Report is a public document which could be referred by any individual who would like to know the truth about the Company. This includes the competitors in the industry and government officials. Therefore one should be sensitive about what information should be included in the MD&A.

OBJECTIVE

The objective of writing the MD&A is to reflect a true picture of the macro

and micro environment in which the Company operates in and its strategic positioning. It should also state how the Company is prepared to gain from market forces, while keeping intact its broad social commitments. Writing the MD&A involves research work with interviews and in-depth discussions with the Management of the Company. A structured approach is crucial to bring out all the important facts and management ideas in the MD&A.

SUCCESS

The success of the MD&A lies in the in-depth research carried out along with the insight provided by the client. Co-ordination of the project is the key to completing the project on time and meet the expectations of the client. The genuineness of the MD&A is reflected in the authenticity of information which is supplied. It is of paramount importance to include the source of disclosure and statistics to support the credibility of the MD&A.

SECTIONS

According to Security Exchange Board of India, the MD&A should at least include discussion on the following matters within the confidentiality limits set by the Company:

- Industry structure and developments
- Opportunities and Threats
- Segmentwise or product-wise performance
- Outlook
- Risks and concerns
- Internal control systems and their adequacy
- Discussion on financial performance with respect to operational performance
- Material developments in Human Resources / Industrial Relations front, including number of people employed

One must remember that the disclosure is not limited to the above mentioned categories. A Company can include other issues in the MD&A which they feel are important to communicate to its stakeholders.

TEAMWORK

The best MD&A's are written where there is genuine interchange and collaboration taking place between the Management and the agency. Outsourcing this activity is more to do with quality and less to do with saving on resources. The MD&A requires an unflinching collaborative effort involving dedicated personnel from both sides to work as a team. When a Company is outsourcing its MD&A to an agency, it should always have a view to foster a long term relationship in mind. The first year is always a challenge as it represents a learning curve for the agency. However, in subsequent years, the concept of outsourcing is less daunting and in fact becomes highly rewarding.

“The MD&A is a very important portion of the Annual Report and a Professional firm is better equipped in conceptualizing, visualization and presenting information. The flow of information and layouts has to be well thought out. It involves understanding of the Company's business with a detailed study of the same. We evaluated different firms and decided that Dickenson would be best suited given our needs. The final results showed that they did a good job.”

**Mr. Kiran Bade, Company Secretary
of Lupin Limited (INR 12 billion
pharmaceutical major)**

The primary objective of an agency is to deliver an MD&A which truly communicates and reflects the Management vision and future plans to its audience. It is crucial for the Management to provide their clear inputs to make the MD&A as comprehensive as possible. A good MD&A requires at least 3 to 4 rounds of interaction with key personnel and constant exchange of thoughts with the client. These rounds of reviews with the Management enable the agency to achieve its targets with respect to reflecting the Management's state of mind completely and accurately.

CONCLUSION

To deliver a quality product to the client, a dedicated team of researchers, graphic designers, visualisers and copy-writers are essential. The process of preparing an MD&A is complicated and cumbersome. Dickenson Intellinetics implements its unique structured and analytics approach to provide a cost-effective turnkey solution that is focused on delivering quality. This structured approach is the key to taking away the clutter out of the process and ensure that facts and credibility blend together to reflect the sentiments of the management. By operating as a Knowledge Process Outsourcing Company for the finance sector, Dickenson Intellinetics has extensive research and analytical capability. Apart from its structured approach, this integrated capability gives an extra edge to Dickenson Intellinetics in understanding and reflecting the Company's position within the MD&A of an Annual Report.

What do investor's expect from the MD&A?

- Sincere and accurate comments from the Management.
- Discussion of significant financial trends over past couple years.
- Company's plan to achieve its mission and vision.
- Mentioning potential risks or uncertainties and its strategies to de-risk these factors.

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