The right analysis tools

Finance

At a recent meeting, one of your coworkers d that " Using the right analysis tool will compensate for inexperienced managers How would you reply to your coworker? Consider the following items:

Based on the remark of my co-worker I would tell him that his assumption is completely wrong. There is no way that some analytic tools could be more valuable that a manager or managerial team even if they are inexperienced. For a person to get a managerial job they have to have very good credentials, and typically people that lack experience are given those types of jobs when they have very good educational credentials including being MBA graduates which offsets any lack of business experience they may have. The use of any analytical tool is as good as the person that interprets the results and takes action about it. For instance if an analytic tool such as the net margin ratio revealed that the firm's profit margin was low, the analytical tool by itself would not give the person that found those results any type of plan on how to fix the problem. The managers are the people that interpret the data to determine the best course of action to fix the issue the firm is facing. Analytical tools without a manager or decision maker competent to make good decisions on how to remedy the situation are virtually worthless.

2. Do the tools help only in certain situations such as routine, daily or rather mundane decisions, like cost controls, quality controls or staffing questions (in term of number of people needed)?

The use of financial analytical tools help increase the credibility of the information been released by the management team of a company (Dooley). The use of analytical financial tools can greatly help a manager's ability to make routine decisions. For instance a company can have daily income statements to determine the profitability of a firm on a daily basis. If a manager notices that the profitability of a firm goes down for several consecutive days he can then check and audit the numbers to determine the factors that caused the profitability of the firm to go down. Analytical tools can also help in quality and staffing considerations. It is important for the HR department of firms to use analytical tools to evaluate the performance of each of their employees.

3. How can analysis tools help the finance or accounting arms of a company more so than operations managers? (For example, do computers really think? Do they learn from their mistakes? Can they manipulate or change their environment?)

Analytic tools to evaluate operation management are important, but I believe that analytical tools to evaluate the finances or accounting or a company can be more valuable. The reason for my opinion is based on the fact that finance analytical tools can help managers determine critical information about the status of an ongoing operation. For example the current ratio is a finance analytical tool that helps managers determined whether a company has the ability to pay off its short term debt (Accountingformanagement, 2011). For a manager it would be more vital to know whether a company has the ability to pay its short term debt than any data that an operating metric could provide. If a company is not able to pay off its short term obligations it most likely will go out of business within a few months.

4. What happens if the data entered is wrong?

If a manager or a business analyst of a company enters data into analytical formulas that is wrong the results could be devastating. Bad data could lead to results from the formulas that could be completely wrong. For instance a bad data concerning the cash flow position of a firm could cause a manager to invest all their liquid funds on a project under the assumption that the firm had enough capital left to operate. If the numbers were wrong the firm would instantly face liquidity problems.

References

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