

PRINCIPLES OF BUSINESS ANALYSIS

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Key words and phrases: complementarity; complexity; customer (or client)-oriented approach; employee-involvement; process approach; system approach.

Abstract: Modern principles of economic analysis are considered. Practical application of this principles and their particular qualities are studied for the purpose of managing business.

The analyst serves as the liaison between the business community and the society. Practical skills are required to succeed and grow in the business as well as key concepts used in analytical practice. To understand the profession of the analyst it's better to start with the discussion of the principles of company's performance analysis. The main approach to economic analysis (methodology) has been developed on the basis of economics, economic statistics and management.

Often people say – it's the matter of principle. But what is principle?

According to Wikipedia “A principle is an abstract object which signifies a point (or points) of probability on a subject (e.g., the principle of creativity), which allows for the concrete formation of rule or norm or law by (human) interpretation of the phenomena (events) that can be created” [1].

The core principal of economic research is *system approach*.

One aspect of the system approach is connected with the system approach to management. An enterprise is managed as a complex opened dynamic self-organised system, as the system of the enterprise consists of different elements which also have their own parts and characteristics – elements of the second order. The elements of the economic system influence one another. External environment influences the enterprise as well. An analyst studies the elements of the economic system and their feedback within the enterprise and the relations among different economic systems in national and global economy.

Another aspect of the system approach is connected with the approach to the analysis. In order to study the economic system and to evaluate the results of

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its performance the analyst compiles the system of indicators and metrics and forms the methodology of their analysis. The system of indicators and measuring tools is determined regarding the goal and practical tasks of the analysis. Usually the analyst is familiarized with this system since it is formed under the microeconomic theory and theory of management and finance. But to handle the problem of certain business it is useful to compile the system of indicators and metrics that is closely connected with the special conditions of the business and its characteristics.

A complex approach to the enterprise analysis is the very thing that distinguishes the Russian approach to the analysis from the European and especially American ones. The complexity of the analysis means that the analyst studies the enterprise and its performance by all directions and trends. A complex analysis includes all indicators and metrics for the organisational and technological level of the enterprise's development and the evaluation of financial position and profitability.

We can divide the system of indicators and metrics of complex analysis into three main blocks: business environment (management, markets and clients, personnel); production; finance.

Complementary approach as analytical technique is closely related to optimization. This approach is quite new for economic research, but it is widely used by physicists, biologists, mathematicians and psychologists.

In *physics*, complementarity refers to a basic principle of quantum theory: a single quantum mechanical entity can either behave as a particle or as wave, but never simultaneously as both.

In *molecular biology*, complementarity is a property of double-stranded nucleic acids such as DNA and RNA as well as DNA: RNA duplexes. Each strand is complementary to the other in that the base pairs between them are non-covalently connected via two or three hydrogen bonds.

In *mathematics*, complementarity is a concept related to optimization. In mathematics, the term optimization, or mathematical programming, refers to the study of problems in which one seeks to minimize or maximize a real function by systematically choosing the values of real or integer variables from within an allowed set.

In *social psychology*, complementarity is the idea that people seek others with characteristics that are different from and complement their own, the idea that opposites attract.

In *economy* complementarity means that analyzing business we can discover new properties and characteristics of the subjects of the analysis and thus gain unknown competitive advantages.

Customer (or client)-oriented approach to management and analysis has widely spread in management over the past 20 years. In the mid 20th century businessmen were focused on the production process and profit maximization as the technological and informational development competition had become stronger. Production costs control and effective pricing couldn't lead to profit maximization. Moreover, profit maximization was no more the main objective of doing business since gaining profit in the current period could lead to losses in the future. Since 1990s customer satisfaction has become the main business objective. Customers' requirements are examined or even formed in order to speed sales and to enforce the strategy implementation.

We consider *the analysis as a process* according to the business process approach.

In the daily life everybody deals with the processes. The process of function fulfilment foreseen by the job description, the process of active rest – we practically deal with it every day. What is a physical matter of the process approach? It seems that different, absolutely dissimilar to each other events, for example, going to work or active rest, have one general feature – dynamics. Somehow or other dynamics consists in the complex of consistent operations which mutually stipulate each other. Dynamics is one of the key crucial characteristics of every process. In our world everything is in constant movement and change, the quiescent state is comparative and short. The philosophical dialectics laws manifest this rule. It means that the world is a complex of many mutually crossing and interacting processes.

Thus the process approach is an ability to examine the actual reality as a dynamic consistency of the fulfilled actions.

The process is a logical consistency of actions extended in time which lead to the change of the intermediate states of the system, in which this process flows, and transform the base (input) resources into final (output) resources.

A process is a logical, consistent and interrelated set of the arrangements which uses the resources of a supplier, forms a value and gives the result to a consumer. This definition describes the processes of activity in the artificial organizational structures. Under the definition we can construct the diagram of the type process (Fig. 1).

The analysis can be interpreted as a process. The analysis enables to examine the actual reality of certain business. To settle a problem an analyst arranges a logical consistency of actions, that is the methodology of analysis. Its application leads to the change of the intermediate states of the information of the system's performance and transforms the input business information into factual data for the managerial decisions.

Core problems of each business are solved during the standardized analysis, for example – liquidity analysis, operations analysis, profitability analysis. To develop the standardized analysis' methods different types of *metrics* are used. Performance metrics are critical in prioritization of what has to be measured. It is frequently said that one cannot manage what cannot be measured. The analysis helps in identifying the key metrics, in determining how they are to be measured and in monitoring and scenario modelling as well.

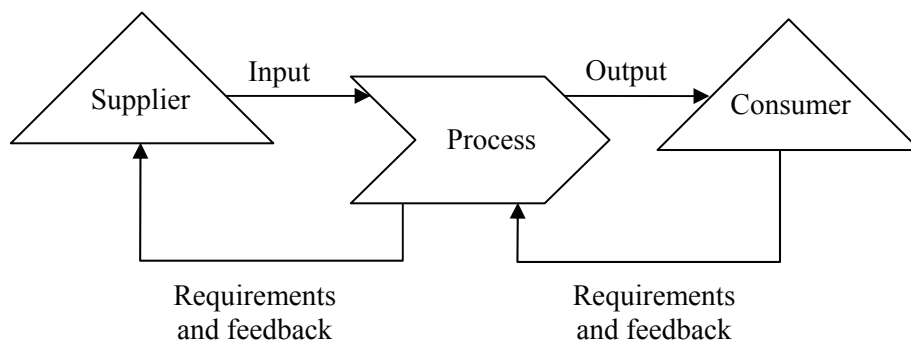


Fig. 1. The diagram of the type process

Continuous improvement of performance and its analysis. Continuous Improvement Process (CIP) is a management process whereby processes are constantly evaluated and improved in the light of their efficiency, effectiveness and flexibility. As far as we consider the analysis to be a process it has to be improved continuously as well. Management specialists see Continuous Improvement Process (CIP) as a meta process for most management systems. In the same way we could say about the analysis as the only continuous improvement makes it valuable for the management system.

Employee-involving analytical process possesses the best quality analytical data for managerial goals. Employees are supposed to be involved in the accounting process as well. Thus delegation of powers and personal responsibility for the operations and their effectiveness give better results.

Concrete nature and accuracy of analytic data could simplify the analytical process and the process of using analytical data as well.

Profitability of analytic process and results means that the cost of analytical procedures and the effect of their application are properly balanced.

The application of the principles of economic analysis serves as training as well. The principles of economic analysis are not an academic exercise, but the guide to business performance development and improvement.

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Принципы бизнес-анализа

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Ключевые слова и фразы: вовлечение сотрудников; клиенто-ориентированный подход; комплексность; комплементарность; процессный подход; системный подход.

Аннотация: Рассмотрены актуальные принципы экономического анализа деятельности организаций. Исследованы практическая значимость принципов анализа, особенности их применения для решения управленческих задач.

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