

Investigation of Financial Statements Under the Framework of Harvard Analysis

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ABSTRACT

In the last decade, great changes have taken place in financial transactions. The number of investors has increased significantly. In view of the instability of the financial market, the trading volume does not grow steadily. Many investors do not understand the development of the enterprise, but only conduct a superficial analysis of the enterprise's public financial data. Such behavior may result in investors not receiving the expected returns. Therefore, this paper helps investors invest rationally by examining the Harvard Analytical Framework to take a holistic view of corporate financial statement data.

Keywords: Harvard analytical framework; financial statement analysis; strategic analysis

INTRODUCTION

Financial statement analysis is a kind of economic and financial management activity, which is based on enterprise accounting, statements and other financial related statistical data, and analyzes and evaluates the daily financial operation and development of enterprises and other economic management organizations. The Harvard analytical framework, named after three outstanding Harvard economists, has obvious advantages over most traditional economic and financial analytical frameworks, and has been widely used in western financial analysis [1]. First of all, we should grasp the external macro environment faced by the enterprise from the height of strategy. Under the guidance of strategic analysis, we should analyze the quality of accounting information disclosed by the enterprise to ensure the authenticity and reliability of financial data. On this basis, we should analyze the financial statement data and predict the development prospects, so as to comprehensively analyze and evaluate the financial situation and development of the enterprise.

The importance of financial analysis

Financial analysis, also known as financial statement analysis, is an act of analysis based on a company's financial operations. It is a technique that combines various aspects of data with financial statement information as the main content. Since financial analysis is inevitable, a range of analytical techniques are employed [1]. Its purpose is to forecast the actual profitability and operational management capabilities of the business. At the same time, this analysis method can find the change trend of enterprise related financial indicators, and provide valuable information for the management of enterprise financial statements [2]. This is beneficial to the financial and economic analysis and decision-making of enterprises. The main contents of financial statements include: balance sheet, income statement and cash flow statement. It is the basis for evaluating the business performance of an enterprise. At the same time, through

the report analysis, we can tap the potential of the enterprise, so as to predict the development trend of the enterprise. It not only provides managers with correct ideas to understand the enterprise, but also meets the needs of decision-making outside the enterprise.

Financial analysis method

The method of financial analysis adopted by users of financial statements is determined by the purpose of financial analysis. Different purposes and emphases lead to different analysis methods. The common analysis methods are: ratio analysis, comparative analysis, trend analysis.

• Ratio analysis

Ratio statistics is the most basic tool for financial statistics and analysis of enterprises. Through the calculation of some indicators and ratios in the financial statements, we can analyze the current financial situation of enterprises and their operating results. It is a tool and method used to determine and analyze the current and past financial management development of enterprises.

• Comparative analysis

Comparative analysis usually compares enterprises horizontally and vertically. Vertical comparison is to compare the financial data of enterprises in different periods and years, while horizontal comparison is to compare their own data with those of other enterprises. Horizontal comparison can effectively help enterprises to further understand the future development and operation status of China's financial industry. Comparative analysis can help enterprises find the gap between data and comparison objects, which is conducive to the next step of enterprise management.

• Trend analysis

Trend analysis is mainly to comprehensively analyze and compare the important financial data of several enterprises in recent two periods or continuous development periods, to

determine the direction, quantity and range of changes, and to find problems. After trend analysis, it is more conducive to find the development direction for enterprises.

Defects of traditional financial statement analysis

Due to the inaccurate use of the traditional financial statement analysis method, the financial indicators and the statement itself make the financial statement analysis have some defects. The analysis of financial statements itself has a certain lag in technology [3]. The untimely analysis of users of financial statements may directly lead to the decrease of the usefulness of some financial information disclosed in financial statements. In many cases, due to some special reasons, some financial information provided by the users of financial statements is not true to a certain extent, and cannot correctly reflect the actual financial situation of an enterprise, which has misled the users and customers of these financial statements.

Financial statement analysis under Harvard analysis framework

The basic concept of Harvard analytical framework has been put forward for the first time by three famous Harvard professors from the United States in their book "using financial statements for enterprise analysis and evaluation". The current view is that the basic concept of Harvard financial analysis technology framework is considered to be a new technology framework suitable for enterprise financial statement analysis, to investigate and find out the root causes of those who did not achieve the strategic objectives, and to find out the causes and roots of those problems. It integrates strategic analysis, accounting analysis, financial analysis, prospect analysis and other technologies into the analysis of the financial situation of enterprises, and combines qualitative and quantitative analysis [4]. These analyses are interrelated and progressive with each other. It analyzes the financial situation of enterprises from a strategic height, and analyzes the advantages and disadvantages in the development of enterprises. It makes the analysis of financial statements more practical and can scientifically predict the future development trend of enterprises. The following figure shows the framework of Harvard analysis, showing the logical relationship of the four kinds of analysis, as shown in FIGURE 1.

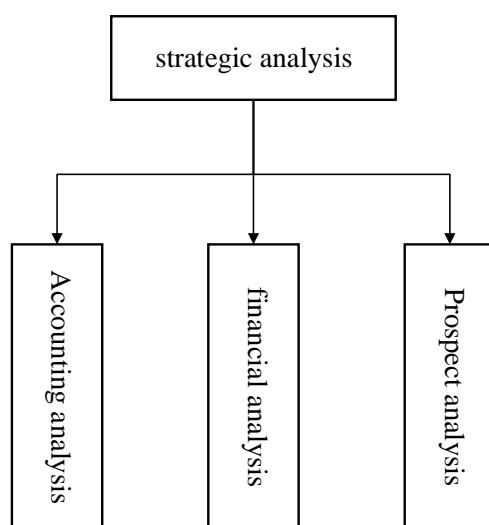


FIGURE 1: Harvard Analysis Framework

• Strategic analysis

Strategic analysis is the basis of Harvard analysis framework. Its main purpose is to comprehensively analyze the internal and external market operation and environmental changes of enterprises. The internal environment analysis mainly uses

SWOT Two kinds of analysis models are used to analyze the internal operation and environmental changes of enterprises. The analysis of external environment is mainly the environmental analysis of industry and other macro environmental analysis.

• Accounting analysis

The first step of accounting analysis is how to ensure the integrity and accuracy of accounting and financial data. The accuracy and integrity of financial data has always been an important prerequisite for accounting and financial data analysis. Through the analysis of accounting data, financial analysis can comprehensively evaluate the efficiency and quality of financial accounting of the company and the enterprise according to the national accounting and financial policies and the accounting and financial estimates of the enterprise, and reflect the actual production, operation and financial situation of the enterprise and the company.

• Financial analysis

The financial analysis under the framework of Harvard analysis does not simply analyze the disclosed financial data, but on the basis of enterprise accounting analysis, after accounting analysis, correctly and completely confirm the financial data for financial analysis. Financial analysis is mainly the comparison and calculation of financial data, analysis of various financial indicators, understanding of the company's solvency, operating capacity, profitability and development ability. Financial analysis is to find out the reasons why the strategic objectives have not been achieved and the root causes of the problems.

• Prospect analysis

The prospect analysis of enterprises can not only help investors make investment decisions, but also help managers to make future development plans. The prospect analysis under Harvard analysis framework, combined with enterprise strategic analysis, accounting analysis and financial analysis, comprehensively analyzes the past and future of enterprises, and analyzes the sustainable development value of enterprises. Prospect analysis is to adjust and solve the problems found after the above analysis, formulate the next strategic plan, and put forward reasonable suggestions for the future development of the enterprise.

Comparison and evaluation of Harvard analytical framework and traditional financial analysis

The traditional financial analysis is mainly based on the financial data disclosed by the enterprise. Through the research on the financial data, it mainly analyzes the operation ability, solvency, profitability and other aspects of the enterprise. However, in reality, there are many virtual statements of enterprises, which are not published in strict accordance with the standard, which makes the traditional financial analysis has great limitations and is not suitable for the existing investment needs.

Harvard analysis framework is an extension of the traditional financial analysis. It makes up for the shortcomings of the traditional analysis methods. Starting from the development strategy of the enterprise, it analyzes the financial data of the enterprise. In the process of analysis, it can find the suspicious places in the report data. Through some methods, it can get more real and comprehensive results, and provide guarantee for investors to make decisions.

To sum up, Harvard analysis framework first analyzes and studies the financial data of enterprises from the perspective of strategic development through strategic analysis of enterprises. On this basis, it conducts accounting analysis, financial analysis and Prospect Analysis of enterprises.

Harvard Analysis Framework perfectly makes up for the defects of traditional analysis framework, which can't understand the real business situation of enterprises. Under the analysis of Harvard analytical framework, investors and business managers can have a clear grasp of the development of the enterprise, point out the direction for the development of the enterprise, and provide reliable opinions for investors' rational investment.

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