HBR Guide to
Finance Basics
for Managers
Contents

Section 1: FINANCE BASICS
Don’t Be Afraid

Finance Quiz .......................... 5
  Do you know the basics?

The Key Financial Statements .... 9
  Learn your way around a balance sheet,
  an income statement, and a cash flow
  statement.

The Fundamental Laws of Business 33
  Get a grip on any company, regardless
  of size or location.
  BY DAVID STAUFFER

Section 2: MAKING GOOD DECISIONS—
AND MOVING THOSE NUMBERS

Using Statements to Measure Financial Health 43
  Interpret what the numbers mean through
  ratio analysis.
Grow Your Profits by Streamlining Your Business 57

*Three ways to simplify for profitability*

BY JAMIE BONOMO AND ANDY PASTERNAK

Working Your Assets to Boost Your Growth 63

*Focus your supply chain on customers’ needs—and increase your return on invested capital.*

BY MILES COOK, PRATAP MUKHARJI, LORENZ KIEFER, AND MARCO PETRUZZI

Profit ≠ Cash (and You Need Both) 73

*Here’s why it’s critical to understand the difference—especially for a growing company.*

BY KAREN BERMANN AND JOE KNIGHT, WITH JOHN CASE

Why Cash Matters 83

*It helps you see what’s going on now, where the business is headed, and what senior management’s priorities are likely to be.*

BY KAREN BERMANN AND JOE KNIGHT, WITH JOHN CASE

Your Balance Sheet Levers 87

*Closely manage days sales outstanding and inventory—and have more cash at your disposal.*

BY KAREN BERMANN AND JOE KNIGHT, WITH JOHN CASE

What’s Your Working Capital Model?

A Case Study 95

*Lessons learned from Dow Jones, a business that transformed itself without going hat-in-hand to investors*

BY JOHN MULLINS AND RANDY KOMISAR
Learn to Speak the Language of ROI 105

Get your ideas and projects funded even when money is tight.

BY JOHN O'LEARY

Practical Tools for Management Decisions 113

How to analyze costs and benefits, estimate ROI, calculate how quickly you’ll recoup an investment, and more

Section 3: THE LIMITS OF FINANCIAL DATA

What the Financial Statements Don’t Tell You 127

Keep a sharp eye on nonfinancial data, too—and avoid the missteps of Merrill Lynch and BP.

BY JOHN CASE

The Five Traps of Performance Measurement 139

What they are—and how to steer clear of them

BY ANDREW LIKIERMAN

Finance Quiz 153

How much have you learned?

Glossary 159

Index 169