Chapter No.1
Research Methodology

1.1 Introduction:

The concept of corporate supremacy is not new. Almost for last one century, different companies are trying to achieve the most coveted position of being the best and most acknowledge corporation. These corporations try to enhance their performance on different yard stick. Companies prefer to get themselves on the top spot. Hence, the Researcher intends to study the performance of these companies and draw some inference from it as to why and how these companies are able to be on the top spot.

Business organizations always have carved for certain things which include higher market share, higher profitability and large size of organizational network. This very desire to be ahead of other has introduced an element of competition in the total process of business development. Business organization in a competitive environment cannot sustain, unless and until it works hard to overcome the competition. Competitive spirit is the essence of every business purpose; staying ahead, overcoming competition, winning customers, influencing stakeholders, attracting investors and satisfying expectation of society are various purposes for which business organization strive hard.

In order to assess the performance, both internal and external measures can be effectively used. Some simple, but effective measures include Balance sheet and Financial Statement analysis, Productivity and efficiency measurement and SWOT analysis etc. the external measures include business analysis or ranking of business by external agencies and development of comparable indicators of performance. Since last few decades, these measures have become popular because of their extra-ordinary utility from stakeholders point of view.

Business ranking though is an established exercise, however, only after emergence of independent financial analyst and agencies, these exercise has gained momentum. Business consultant, management consultant, professional business rating agencies, business publication, credit rating agencies all have started the exercise of business rating and ranking of performance. Initially, these
activity was a formal and closed circle activity, which gained importance only after increased in the stakeholders awareness and large based of investors.

Today, business ranking and performance rating have become a very important business exercise. Many professional and independent business agencies go for this exercise independently. Today, it has become essential to analyse the phenomena of business ranking and professional rating. Considering its role in decision making and corporate image building, the said study has a great relevance.

1.2 Statement of the Problem:

The present study deals with the analysis of business performance. The term business performance is very comprehensive and broad based, it covers a variety of aspects related with activities, performance, achievement, failure and strength and weakness of business on different parameters. Business performance is a very important criterion from the point of view of all the stakeholders. Different stakeholders have different expectation from the organization. Hence, theses stakeholders look from different perspective. They rank the companies accordingly on different parameters. Therefore, analysing the company’s performance is an important aspect in order to evaluate the performance of the company from different perspective. Hence, the title of the present study is, “A Study of Business Performance Analysis of Select Indian Companies”

1.3 Objectives of the Study:

For the purpose of the present study the research has certain objectives in mind. These objectives are as follows:

Major Objectives:

(i) To study the factors responsible for business success and better business performance.

(ii) To understand the ingredients constituting higher business performance and giving an edge to one business over others.
Figure No. 1.1: Dimension of Objectives of the study

Source: Researcher

Minor Objectives:

(i) To examine the performance of select business corporations on the basis of their achievements.

(ii) To study the achievements of successful business corporations on select business parameters.

(iii) To establish interrelationship between various factors responsible for business success.

1.4 Justifications of Objectives:

The justification of the objectives of the present study is narrated below:

Major Objectives:

(i) Justification of Objectives no.1, "To study the factors responsible for business success and better business performance"

Every business works in a competitive business environment. In order to survive in such a challenging environment, it is necessary that a business
must focus on improving its performance. There are certain select factors that work as contributors or promoter of high business performance. A business tries to relay more on such and achieve improved performance by encashing such opportunities. Therefore, it is useful to study what factors are responsible for improved and higher business performance.

(ii) Justification of Objective no.2, “To understand the ingredients constituting higher business performance and providing an edge to one business over others”

A business tries with the help of certain strength and key factors. Success of the business depends on how these key factors are effectively utilized. In most of the cases a business gets an advantage of competitive advantage due to superior technology, high skilled labour, adequate low cost capital, easy availability of raw material, locational advantages and the most important is superiority of managerial skills and talent to catch the business opportunities. It is worth to study which factors contribute to business success and how these factors improve the chances of performance.

Minor Objectives:

(i) Justification of Objective no.1, “To examine the performance of select business corporations on the basis of their achievements”

The purpose of laying down this objective is to assess how different companies perform on select set of parameters especially on common parameters of assessment and business assessment. It helps to have a rational and honest examination of a company’s performance.

(ii) Justification of Objective no.2, “To study the achievements of successful business corporations on select business parameters and providing an edge to one business over others”

A business tries with the help to certain strength and key factors. Success of the business depends on how these key factors are effectively utilized. In most of the cases, a business gets an advantage of competitive
advantage due to superior technology, high skilled labour, adequate low cost capital, easy availability of raw material, locational advantages and the most important is superiority of managerial skills and talent to catch the business opportunities. It is worthwhile to study which factors contribute to business success and how these factors improve the chances of performance.

(iii) Justification of Objective no. 3, “To examine the performance of select business corporations on the basis of their achievements”

The purpose of laying down this objective is to assess how different companies perform on select set of parameters especially on common parameters of assessment of financial and business assessment. It helps to have a rational and honest examination of a company’s performance.

1.5 Hypotheses of the Study:

The purpose of the study the researcher has certain presumption, which he has formulated as a hypothesis for the purpose of the study. The following are the set of hypothesis:

(i) Consistency of contribution of different business factors has its own impact on business success. Total business success is the result of synergic contribution of all the constituents of a business.

(ii) A business performance is a dynamic term; a business cannot retain its leadership for long due to various internal and external factors.

1.6 Justifications of Hypotheses:

(i) Justification of Hypothesis no.1, “Consistency of contribution of different business factors has its own impact on business success. Total business success is the result of synergic contribution of all the constituents of a business.”
The first hypothesis indicates that a corporation giving satisfying performance shall continue to give similar satisfactory performance for long. The reason for this belief is based on following assumption:

\[ a) \] Successful organizations have continuity of performance and higher performance is the indicator of true success.

\[ b) \] Successful organizations have a perfect internal and external bearing of contributing factors.

\[ c) \] A large number of factors are responsible for continuity of performance. Changes in the contribution of any of the factors may cause a favourable or adverse performance.

(iii) Justification of Hypothesis no.2, “A business performance is a dynamic term; a business cannot retain its leadership for long due to various internal and external factors.”

Business performance keeps on changing because of changes in the contribution of different factors. Both internal and external factors keep on changing continuously; the dynamism of business is reflected through time and market dimension. It is the quantitative aspect of performance that decides the leadership. No business can control in totality – External and Internal Environment. The gap between the control span influence leadership position favourably. No business can have permanent leadership position in any sector.

1.7 Parameters of the Study:

For the purpose of fulfilling the objectives of the research, the Researcher has identified few select Parameters in order to evaluate their performance. These parameters are based on the different perspectives of stakeholders i.e. Investors perspective, Owners perspectives, Creditors perspective and Management perspectives.
(a) **Investors’ perspectives:**

In order to evaluate the performance of the companies under study from the perspective of investors, the following parameters are deployed:

(i) **Earnings per share**
(ii) **Dividend per share**
(iii) **Operating profit per share**

(b) **Owners’ perspectives:**

The researcher has used the following parameters to evaluate the performance of the companies from the owners’ perspective:

(i) **Operating profit margin**
(ii) **Return on capital employed**
(iii) **Return on Net worth**

(c) **Creditors’ perspectives:**

It is this group of the stakeholder how provide funds required by the company other than the owners themself. For which they undertake certain risk of associated with lending of their funds to the company. Therefore, they expect certain benefits in return. Henceforth, In order to evaluate the performance of the company from the creditors’ perspective, the researcher has employed certain parameters which are stated below:

(i) **Quick ratio**
(ii) **Debt-Equity Ratio**
(d) **Management’s Perspective ratio:**

The fact which exist, that in a corporate form of business organization there is a difference between the ownership and management of the organization; the management of an organization are expected to fulfilled the expectation of the owners. Henceforth, the researcher, in order evaluates the efficiency of the management has used certain parameters which are stated below:

(i) **Inventory turnover ratio**

(ii) **Debtor turnover ratio**

(iii) **Investment turnover ratio**

(iv) **Total Asset turnover.**
1.8 Selection of Companies:

With the objectives of the study in mind, the researcher has selected 8 Indian companies based on the revenue for the last 5 years in order to constitute the 8 companies as the sample of the study. How the companies are being selected by the researcher as duly explained below:

Stage-1:

The first step in the process of selecting the company lies in the basis on which the company has to be selected. After preliminary study and necessary advices from various professional experts and experts in the field of research, it has been decided that the annual revenue earned by the Indian companies should be the basis of selecting the companies for the purpose of the study. While collecting the necessary information it has been found that Economic Times has been ranking Indian companies on the basis on Revenue. Henceforth, in order to reduce the time which will be consumed in calculating the revenue of different companies for 5 years, it has taken help of ET500 (Economic Times ranking of 500 companies based on revenue) for selecting the companies for the purpose of the study.

Stage-2:

With the help of ET500 for the last five years (i.e. 2008 to 2012), the researcher has selected those companies which has appeared in the list of the top 10 companies in either of the period from 2008 to 2012. After, scanning through the list of top 10 companies (ET500), it has found out that, altogether 12 companies has appeared in the list of top 10 companies in the ranking done by Economic Times from the period between 2008 to 2012. The tabulation of the companies which has appeared in the list of top 10 companies, based on revenue is given below:
Table No. 1.1: List of Companies which has appeared in the Top 10

<table>
<thead>
<tr>
<th>Name of the companies</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Oil Corporation</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Bharat Petroleum Corporation Ltd.</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3.6</td>
</tr>
<tr>
<td>Hindustan Petroleum Corporation Ltd.</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4.8</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Tata Motors Ltd</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>12</td>
<td>8.2</td>
</tr>
<tr>
<td>Oil and Natural Gas Corporation Ltd.</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>6.4</td>
</tr>
<tr>
<td>Tata Steel Ltd</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>5.8</td>
</tr>
<tr>
<td>Coal India Ltd</td>
<td>9</td>
<td>13</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>-</td>
</tr>
<tr>
<td>Hindalco Industries Ltd</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>ICICI Bank Ltd</td>
<td>13</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Steel Authority of India</td>
<td>20</td>
<td>16</td>
<td>13</td>
<td>12</td>
<td>10</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source: Economics Times

Note: -
This list is based on the number of times it has appeared on the list of Top ten companies on the basis of Revenue earned for the period 2008-2012

Stage-3:

The Researcher, after considering the ranking of companies has found out that two Banking companies has appeared among the list of 15 companies. Because of the difference in the nature of Business in banking companies; the elements/components/composition of the Balance Sheet and Profit and Loss Statement are different. Hence, it will be hard for the Researcher to have a Comparative Analysis of the select companies; therefore, the two Banking Companies i.e. State Bank of India Ltd. and ICICI Bank Ltd. has dropped has been drop from the list of companies to be studied. It was further found out that information regarding the ranking of Coal India Ltd. from the period 2008 to 2010 were not available. Hence, in order to eliminate bias in the process of selection of the companies, the Researcher has dropped Coal India Ltd. from the list of companies to be studied by the Researcher.

Further, it has been found out that Steel Authority of India has appeared in the top 10 rank for only once i.e. 2008. As said by Bob Vause, “Never Judge a
company on the basis of one year’s figures\(^1\)” and also to eliminate the element of luck, Steel Authority of India has been dropped from the list of companies to be studied.

**Stage-4:**

In order to make the companies appear in the list of; in the order of their performance in the ranking based on revenue; the Researcher has calculated the average of their ranking. The Researcher has further arranged the list of 8 companies based on the average of their ranking in an ascending order. The arrangement of the companies depicts that the company with a lower average in their ranking is better than the companies with a higher average of their ranking. The list of 8 companies which as formed the part of the study (arranged in an ascending order) is given below:

<table>
<thead>
<tr>
<th>Name of Companies</th>
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<td>6</td>
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<td>8</td>
<td>12</td>
</tr>
<tr>
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<td>10</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

*Source: Economics Times*

### 1.9 Techniques Used

The researcher has used a variety of techniques having quantitative dimension. This research basically analyse quantitative performance, especially financial performance. As such, it has become necessary to use certain technique of financial performance analysis and certain other techniques of statistical analysis.

The researcher, for fulfilling the purpose of the study has used Trends and Time Series Analysed for which 10 years financial information of the select

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Indian companies was collected. Even though, only 5 years financial information has been used to select the companies for the purpose of study; the researcher has analysed 10 years financial statement, this is because, it is generally known that there are certain business activities which may be undertaken years back but the benefit is obtained by the company in the present days.

For the study following techniques are used:

1. Ratio Analysis
2. Time Series Analysis
3. Performance Rating Analysis

1.10 Scheme of the Report:
At this point the researcher gives a short outline of the report. A short outline is given as the report is structured into chapters and the researcher tries to give a brief introduction of each chapter that so as to lay out in more details as to what it covers.

Table No. 1.3: Scheme of the Report

<table>
<thead>
<tr>
<th>Chapter Number</th>
<th>Title of the chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter no.1</td>
<td>Research Methodology</td>
</tr>
<tr>
<td>Chapter no.2</td>
<td>Review of Literature</td>
</tr>
<tr>
<td>Chapter no.3</td>
<td>Concept and Nature of Business Performance</td>
</tr>
<tr>
<td>Chapter no.4</td>
<td>Business Performance and its role in business rating</td>
</tr>
<tr>
<td>Chapter no.5</td>
<td>Business Performance Analysis and Ranking Methods</td>
</tr>
<tr>
<td>Chapter no.6</td>
<td>Business Performance Ranking and Business Ranking Agencies</td>
</tr>
<tr>
<td>Chapter no.7</td>
<td>Profile of Companies</td>
</tr>
<tr>
<td>Chapter no.8</td>
<td>Analysis and Interpretation of data</td>
</tr>
<tr>
<td>Chapter no.9</td>
<td>Ranking Analysis of Business Performance</td>
</tr>
<tr>
<td>Chapter no.10</td>
<td>Observations and Conclusions</td>
</tr>
</tbody>
</table>