Chapter – 4
Various Modules for Analysis – A Theoretical overview

4.1 The Selection of Frame Work of Analysis

4.1.1 Sample survey Analysis

4.1.2 Financial analysis

4.1.3 Strength Weakness Opportunity & Threats Analysis

4.1.4 Project management analysis
In this chapter theory pertains to the frame work adopted for the analysis and evaluation working of the organization is furnished. The frame work marks the first step in the investigation of the subject matter of the research. An attempt is made to evaluate the working of the organisation. The conceptual frame visualised aspects like the working of the company in all aspects. This is done by way of survey of sizable sample of employees. The frame work is designed to find the financial position, financial sustainability through turnovers and profits in the decade from 2001 to 2010. The SWOT analysis model embedded with 5 – Force analysis, value chain analysis and 7-S frame work analysis are applied. The overall organisational efficiency levels could be accurately assessed by this model is explained in detail. The project performance evaluation of the company in managing of projects and its success is also considered for evaluation.

4.1 Selection of frame work of analysis:

This research is basically concerned with the analysis and evaluation of the working of the organisation. The frame work of the analysis is as follows:

I   Sample survey analysis
II Financial analysis
III SWOT analysis using models like: 1) Michael Porter’s Five Force analysis
                                           2) Value–chain analysis
                                           3) Mckinsey- 7-S Framework- analysis
                                           4) PERT and CPM analysis
Fig 4.1 Strategic framework is depicted in the following diagram:

Evaluation of working of KRIDL

- Sample survey analysis
- Financial analysis
- SWOT and other analysis

Using SWOT framework:

- Corporate Strengths of organization
- Corporate Weakness of organization

Further analysis includes:

- Five Force analysis
- Value-chain analysis
- 7-S analysis
- PERT&CPM analysis

Competitive advantage Evaluation
Operational efficiency Evaluation
Overall performance Evaluation
Project performance Evaluation
4.1.1 Sample survey Analysis

The framework of sample survey forms the next important portion of the research. The evaluation of working pattern of the company, the operational efficiency, the style and effectiveness of financial systems, inventory management systems, audit systems and the quality of human resource management and personnel management systems which will lead to critical evaluation of overall working of the company is being achieved by the sample survey of the sizable sample of employees by way of separate set of questionnaire distribution to technical staff working on-site as well as in the head office and other branches and the staff working in different departments of company like purchase, finance, stores, etc. This framework of the survey also includes discussions and interviews with the top-management officials and customer base of the company.

4.1.2 Financial analysis: Turnover and profits for decade between 2001-2010,
Profitability Ratios, Asset Ratios, Current Ratios to evaluate the financial working of the company.

Types of ratio analysis and inferences:

Barry Render, Ralph M. Stair, ¹ “Quantitative Analysis for Management”, the author states different accounting ratios as follows:

Accounting ratios The relationship between various accounting figures, which are connected to each other, expressed in mathematical terms is called accounting ratios. According to Kennedy and Macmillan, "The relationship of one item to another is expressed in simple mathematical form known as ratio."

Robert Anthony defines ratio as – "simply one number expressed in terms of another"

Classification of various profitability ratios:-

a. Gross Profit Ratio
b. Net Profit Ratio
c. Operating Net Profit Ratio
d. Operating Ratio
e. Return on Investment or Return on Capital Employed.

f. Return on Equity.

g. Earnings per Share.

4.1.3 SWOT analysis:

The evaluation overall organisational efficiency of working of the company using the SWOT analysis model embedded with 5 – Force analysis, value chain analysis and 7-S frame work analysis.

The authors Hill, T. and R. Westbrook² states swot analysis as follows: SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. Strategic Planning has been the subject of much research.

Strengths: characteristics of the business or team that give it an advantage over others in the industry.

Weaknesses: are characteristics that place the firm at a disadvantage relative to others.

Opportunities: external chances to make greater sales or profits in the environment.

Threats: external elements in the environment that could cause trouble for the business.

Identification of SWOT is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOT.
First, the decision makers have to determine whether the objective is attainable, given the SWOT. If the objective is not attainable a different objective must be selected and the process repeated.

The SWOT analysis is often used in academia to highlight and identify strengths, weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

**Internal and external factors:**

The aim of any SWOT analysis is identification of the key internal and external factors that are important in achieving the objective. These come from within the company's unique value chain. SWOT analysis groups key pieces of information into two main categories:

**Use of SWOT analysis**

The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. Examples include: non-profit organizations, governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability study/survey.

Forward-looking companies conduct a structured corporate analysis on a regular basis. Depending on the structure of the company, the analysis may take place on an annual basis as part of the preparation for presentation to shareholders. In other instances, the corporate analysis may be conducted annually or biannually as a means of evaluating and refining the general operations of the business.

**John A. Pearce and Richard B Robison** in their strategic management book state about Porter’s Five Forces -a model for industry analysis as follows

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have
affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

**Fig 4.2 Porter's Five Forces - a model for industry analysis**

Porter's five forces analysis is a framework for industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. It draws upon industrial organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit.

Three of Porter's five forces refer to competition from external sources. The remainder is internal threats.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to understand better the industry context in which the firm operates.
I. **Rivalry**
In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies in industries, and the strategic analysts are interested in these differences.

II. **Threat of Substitutes**
In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

III. **Buyer Power**
The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monophony - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopolies exist, but frequently there is some asymmetry between a producing industry and buyers. The following table outline some factors that determine buyer power.

<table>
<thead>
<tr>
<th>TABLE 4.1: Buyer’s weakness and strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buyers are Powerful if:</strong></td>
</tr>
<tr>
<td>Buyers are concentrated - there are a few buyers with significant market share</td>
</tr>
<tr>
<td>Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized</td>
</tr>
<tr>
<td>Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival</td>
</tr>
</tbody>
</table>
Buyers are Weak if:

| Producers threaten forward integration - producer can take over own distribution/retailing | Movie-producing companies have integrated forward to acquire theatres |
| Significant buyer switching costs - products not standardized and buyer cannot easily switch to another product | IBM's 360 system strategy in the 1960's |
| Buyers are fragmented (many, different) - no buyer has any particular influence on product or price | Most consumer products |
| Producers supply critical portions of buyers' input - distribution of purchases | Intel's relationship with PC manufacturers |

IV. Supplier Power

A producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it with the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following table- 4.2 outlines some factors that determine supplier’s power.

### TABLE 4.2: Supplier’s weakness and strength

<table>
<thead>
<tr>
<th>Suppliers are Powerful if:</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credible forward integration threat by suppliers</td>
<td>Baxter International, manufacturer of hospital supplies, acquired American Hospital Supply, a distributor</td>
</tr>
<tr>
<td>Suppliers concentrated</td>
<td>Drug industry's relationship to hospitals</td>
</tr>
<tr>
<td>Suppliers are Weak if:</td>
<td>Example</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Significant cost to switch suppliers</td>
<td>Microsoft's relationship with PC manufacturers</td>
</tr>
<tr>
<td>Customers Powerful</td>
<td>Boycott of grocery stores selling non-union picked grapes</td>
</tr>
<tr>
<td>Many competitive suppliers - product is standardized</td>
<td>Tire industry relationship to automobile manufacturers</td>
</tr>
<tr>
<td>Purchase commodity products</td>
<td>Grocery store brand label products</td>
</tr>
<tr>
<td>Credible backward integration threat by purchasers</td>
<td>Timber producers relationship to paper companies</td>
</tr>
<tr>
<td>Concentrated purchasers</td>
<td>Garment industry relationship to major department stores</td>
</tr>
<tr>
<td>Customers Weak</td>
<td>Travel agents' relationship to airlines</td>
</tr>
</tbody>
</table>

V. **Barriers to Entry / Threat of Entry**

It is not only incumbent rivals that pose a threat to firms in an industry. The possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter market or make exit and if free entry and exit then profits should always be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market and these are barriers to entry.

Barriers to exit are similar to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of industry's entry and exit barriers can be summarized as follows
TABLE 4.3: Barriers of new entrants – porter’s model

<table>
<thead>
<tr>
<th>Easy to Enter if there is:</th>
<th>Difficult to Enter if there is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common technology</td>
<td>Patented or proprietary know-how</td>
</tr>
<tr>
<td>Little brand franchise</td>
<td>Difficulty in brand switching</td>
</tr>
<tr>
<td>Access to distribution channels</td>
<td>Restricted distribution channels</td>
</tr>
<tr>
<td>Low scale threshold</td>
<td>High scale threshold</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Easy to Exit if there are:</th>
<th>Difficult to Exit if there are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saleable assets</td>
<td>Specialized assets</td>
</tr>
<tr>
<td>Low exit costs</td>
<td>High exit costs</td>
</tr>
<tr>
<td>Independent businesses</td>
<td>Interrelated businesses</td>
</tr>
</tbody>
</table>

Generic Strategies to counter the Five Forces

Vern Terpstra and Ravi Sarathy⁴ in their book on international marketing state that Strategy can be formulated at three levels:

1. Corporate level
2. Business unit level
3. Functional or departmental level.

The business unit level is the primary context of industry rivalry. Michael Porter identified three generic strategies (cost leadership, differentiation, and focus) that can be implemented at the business unit level to create a competitive advantage. The proper generic strategy will position the firm to leverage its strengths and defend itself against the adverse effects of the five forces.

The Value Chain analysis of companies:

Michael E. Porter⁵ states that for a better understanding of the activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the value chain. In his 1985 book “Competitive Advantage”, Michael Porter introduced a generic value chain model that comprises a sequence of activities.
found to be common in a wide range of firms. Porter identified primary and support activities as shown in the following diagram:

**Porter's Generic Value Chain:**

Inbound logistics → operations → outbound logistics → marketing & sales → service

Margins these process produce Firm-infrastructure, HR management, Technology, development, procurement -margin optimization due to the above activities of firm. The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

**The primary value chain activities are:**

- **Inbound Logistics:** the receiving and warehousing of raw materials and their distribution to manufacturing as they are required.
- **Operations:** the processes of transforming inputs into finished products and services.
- **Outbound Logistics:** the warehousing and distribution of finished goods.
- **Marketing & Sales:** the identification of customer needs and the generation of sales.
- **Service:** the support of customers after the products and services are sold to them.

**These primary activities are supported by:**

- The infrastructure of the firm: organizational structure, control systems, company culture, etc.
- Human resource management: employee recruiting, hiring, training, development, and compensation.
- Technology development: technologies to support value-creating activities.

**Cost Advantage and the Value Chain analysis:**

A firm may create cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain.

Porter identified 10 cost drivers related to value chain activities:

1. Economies of scale
2. Learning
3. Capacity utilization
4. Linkages among activities
5. Interrelationships among business units
6. Degree of vertical integration
7. Timing of market entry
8. Firm's policy of cost or differentiation
9. Geographic location
10. Institutional factors (regulation, union activity, taxes, etc.)

**Differentiation and the Value Chain:**

A differentiation advantage can arise from any part of the value chain. For example, procurement of inputs that are unique and not widely available to competitors can create differentiation, as can distribution channels that offer high service levels.

Sometimes however, the firm may be able to reduce cost in one activity and consequently enjoy a cost reduction in another, such as when a design change simultaneously reduces manufacturing costs and improves reliability so that the service costs also are reduced. Through such improvements the firm has the potential to develop a competitive advantage.

**The Value System:**

Supplier value chain $\rightarrow$ firm value chain $\rightarrow$ channel value chain $\rightarrow$ buyer’s value chain.

**7-S Framework McKinsey analysis of company:**

Ethan M. Rasiel and Paul N. Friga in their book\(^6\) state that the 7-S Framework of McKinsey is a management model that describes 7 factors to organize a company in holistic and effective way. Together these factors determine the way in which a corporation operates. Managers should take into account all seven of these factors, to be sure of successful implementation of a strategy large or small. They're all interdependent, so if you fail to pay proper attention to one of them, that may affect all others as well. On top of that, the relative importance of each factor may vary over time.
Origin of the 7-S Framework History

The 7-S Framework was first mentioned in "The Art of Japanese Management" by Richard Pascal and Anthony Athos in 1981. They had been investigating how Japanese industry had been so successful. Around the same time that Tom Peters and Robert Waterman were exploring what made a company excellent. The Seven S model was born at a meeting of these four authors in 1978. It also appeared in "In Search of Excellence" by Peters and Waterman, and was taken up as a basic tool by the global management consultancy company McKinsey. Since then it is known as their 7-S model.

Fig 4.3: 7-S Framework- Mckinsey analysis of company:

The meaning of the 7 S

Shared Values (also called super ordinate Goals).

The interconnecting centre of McKinsey's model is, Shared Values. What does the organization stands for and what it believes in central beliefs and attitudes. Compare: Strategic Intent.

Strategy : Plans for the allocation of firms scarce resources, over time, to reach identified goals, Environment, competition and customers.

Structure : The way in which the organization's units relate to each other: centralized, functional divisions (top-down); decentralized; a matrix, a network, a holding, etc.
Systems : The procedures, processes and routines that characterize how the work should be done: financial systems; recruiting, promotion and performance appraisal systems; information systems.

Staff : Numbers and types of personnel within the organization.

Style : Cultural style of the organization and how key managers behave in achieving the organization's goals. Compare: Management Styles.

Skills : Distinctive capabilities of personnel or of the organization as a whole. Compare: Core Competences.

Strengths of the 7-S Model Benefits:
Diagnostic tool are for understanding organizations that are ineffective and guides organizational change. It combines rational and hard elements with emotional and soft elements. Managers must act on all Ss in parallel and all Ss are interrelated.

4.1.4 Project management analysis:
This Company is basically involved in execution of projects in the sphere of rural infrastructure developments and consultancy projects. Project management tools like, PERT, CPM and work break down structure are plays important role in development of organisation.

Wiest, Jerome D.; Levy, Ferdinand K\(^7\) define Project management as the discipline of planning, organizing, securing and managing resources to bring about the successful completion of specific project goals and objectives.

The project management analysis would find the strengths and weaknesses of company with regard to usage of Project management and control tolls by the project and site Engineers. This analysis would help the company in redefining their project management training and utility needs to bring better operational efficiency of the project execution. The three aspects that would be analysed in the organisation are:

a) Awareness level of Project management tools like PERT and CPM etc.

b) The implementation level of the project management tools by technical executives.

c) The training requirement with regard to the project management tools.
REFERENCES


