

Portfolio Analysis of Manufacturing Companies in Oman

by

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CHAPTER 1: INTRODUCTION

Business organizations are usually involved in numerous companies and products.

Initially they start with a single business or product, but in order to adapt with opportunities for growth in the market, they adopt diversification (Chesbrough, 2010). Management of different organizations and multi-companies is a big challenge; however, this diversity can be a great source of competitive advantage, as well as a basis of different problems. These companies in the organizational portfolio have different potential growth, entails a variety of strategic decisions, and operate in different environment of business to guarantee the success of overall organizational goals (Chesbrough, 2010).. As noted by Strickland and Thompson (1996), with respect to various segments of the business, managers in a diversified organization are required to develop strategic plan for multi-industry and multi-sector.

This purpose of this study is to provide a discussion of portfolio analysis, and highlights its benefits and limitations. Moreover, this study is concerned with identifying the practical implication of portfolio analysis with respect to manufacturing companies in Oman, by highlighting the benefits and risks associated with portfolio analysis. In addition to this, this analysis will also highlight the future prospects of portfolio analysis in manufacturing companies in Oman.

Background of the Study

Portfolio analysis has a great impact in simplifying the strategic planning problems of an organization (Freeman, 2010). These procedures are established to effectively respond to the evolving needs, which are found in different variants, in order to achieve the concentration of decisions that have important strategic problems with industrialized organizations. The major benefit of these procedures stand out as a medium for comparison of various organizations in

relation with the activities of these organizations, with the objective of identifying favorable and non-favorable and undertaking decisions accordingly (Freeman, 2010). Large organizations usually have large strategic business units and numerous activities, due to which they encounter complicated situations. As a result, with regard to portfolio analysis, strategic options are effectively analyzed and assessed.

Portfolio matrix as an analytical support tool, which is widely used to improve strategic decision making (Oh, Yang and Lee, 2012). Analytical matrix identifies the fact that SBU strategies depend on the overall strategy of the joint venture, also referred as a corporation. Obtaining an understanding and deep insights with respect to the current product life cycle (PLC) is an important aspect of portfolio analysis. The industrial lifecycle model, as shown in Figure 1, involves the introduction, growth, and maturity of the industry and phase negation. The life cycle of different industries is different. In modern and highly technological industries, strategies can be researched, adapted and controlled at that time using the industrial life cycle. Because some products or services make a large sum of money, apart from the PLCs, data on cash flows are key factors in the field of research.

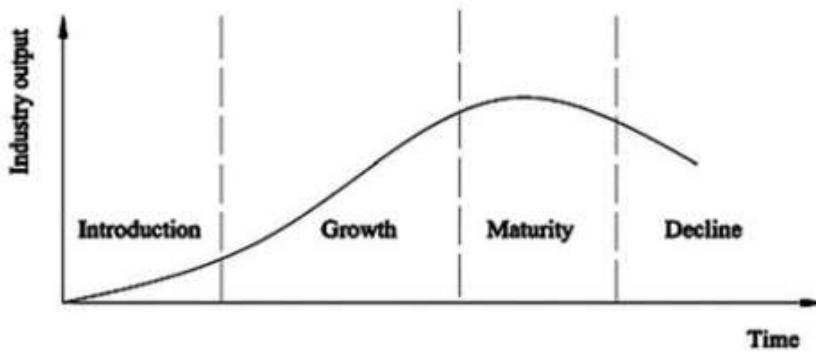


Figure 1: Life Cycle Model of an Industry

Furthermore, based on the above figure, the lifecycle of an industry is being represented. Various stages of an industry are demonstrated, which starts from growth, moves on to maturity

and then declines, and have variations in their span (Oh, Yang and Lee, 2012). Moreover, in regard with highly modernized and technological organizations, the life time cycle of the organization is utilized to assess, develop and monitor the strategy of the organization. This is due to the fact that certain goods and services are more profitable in contrast with other.

In 2013, the economy of Oman experienced a growth of 4.2%, in contrast with a growth of 5.7% in 2012, which was derived due to the hydrocarbon sector of Oman (economics.rabobank.com). In 2012, the increase in the activity of Oman's service sector, which was 6.9%, led to a growth in the hydrocarbon sector of Oman by 10.6%. In spite of the persistent attempts to diversify the government, Oman's economy remains strong in the hydrocarbon sector, particularly the oil sector, which reached 50% of GDP in 2013 (economics.rabobank.com). In 2013, the prices of oil increased slightly in the global market; however, the major impact was caused by an increase in the prices of the barrels of crude oil that rose to 941,700 barrels per days in 2013, in contrast with 915,600 barrels per day in 2012 (economics.rabobank.com). However, the growth of oil exports depleted, due to an increase in consumption by 5% in the first half of 2013, in contrast with 2012. This was due to the fact that the Asian region, which is the main market for export of Oman's oil experienced lower growth in its economy.

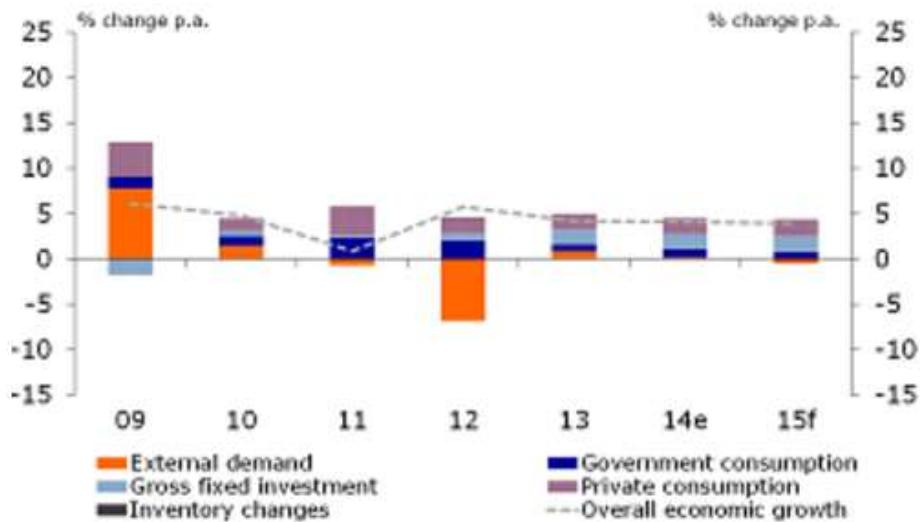


Figure 2: Performance and Growth in Oman

Furthermore, as compared to a figure of 19.2% in 2012, the consumption of the government rose by 19.75% in the year 2013, and it is expected that for the period 2014-2017, it will grow even further (economics.rabobank.com). In addition to this, to increase the rate of employment of Oman, limitation on foreign workers was imposed in 2013, which accounted for 33% of the total population of Oman. Oppositely, the need for overseas workers in manufacturing, oil, services and construction sector was acknowledged by Sultan Qaboos bin Said, the Sultan of Oman, due to which, the number of overseas workers in Oman was not restricted to such an extent.

However, the Sultan of Oman, Sultan Qaboos bin Said, recognizes that large numbers of foreign workers are needed for skilled jobs in the oil, construction and services industries, making it difficult to restrict the number of foreign workers (economics.rabobank.com). Although increased unpredictability is observed in the manufacturing sector of Oman, it is expected that the growth in economy will remain stable due to the service industries of Oman, growing on an average of 4% for the period 2013-2017.

Aims and Objectives of the Study

By considering an increase in the application of portfolio analysis, the aim of this study is to obtain an insight regarding the impact of portfolio analysis in manufacturing companies in Oman.

In addition to this, the objectives of this research are as follows:

- To discuss various components of portfolio analysis
- To evaluate the benefits of portfolio analysis in manufacturing companies in Oman
- To assess the risk associated with portfolio analysis in connection with manufacturing companies of Oman

Research Questions

With regard to this research, the study seeks to obtain results for;

Q. What are the components of portfolio analysis?

Q. What are the benefits of portfolio analysis in manufacturing companies in Oman?

Q. What are the risks associated with portfolio analysis in manufacturing companies of Oman?

Proposed Methodology for the Research

Both quantitative and qualitative research method will be used by the researcher in order to achieve the objectives of this study. For the purpose of accumulating quantitative data, survey questionnaires will be utilized by the researcher.

Conversely, to acquire qualitative data, interviews will be used by the researcher, in which, the researcher will conduct interviews by selecting eight people from manufacturing companies in Oman.

Moreover, the researcher will also use secondary data by using past researches, published articles, books, online databases and journals.

Framework of the Study

This research is bifurcated on the basis of five chapters. The first section of this research is the introduction chapter. In this section of the research, the researcher provides an overview and the purpose of conducting the study. This section comprises of the background of the study, highlighting the concept of portfolio analysis, along with the aims and objectives that this study seeks to achieve.

The second section of this study is identified as literature review. This section provides a discussion of previous theories, literature and studies conducted with respect to portfolio analysis. It also highlights the studies and research conducted with regard to the manufacturing companies in Oman and the application of portfolio analysis in such scenario.

The third section of this research is the methodology chapter. This section identifies the proposed design of the research, the technique used for sampling, the method used for collection of data, and the technique, which will be utilized for analyzing the acquired data.

The fourth section of this study is classified as the results and findings chapter. After utilizing a mixed method of research for acquiring data, the acquired data will be analyzed by the researcher, to provide the results and findings.

The final section of this paper is the conclusion and recommendation section. In this part of the research, the complete summary with regard to successful execution of the research is discussed.

CHAPTER 2: LITERATURE REVIEW

Introduction

The objective of the evaluation of the literature is to analytically examine the study of previous researchers, which helps the researcher to derive a summary with respect to detailed areas of research (Creswell, 2013). All past researches and literature that are relevant with our research will be incorporated in this chapter, while all the unnecessary portions will be ignored.

Moreover, in this section, general information about a particular topic and the purpose of the complexity of the research will be discussed in detail. All kinds of significant information and theories provided by theorists from past are communicated in this chapter.

In addition to this, this chapter will help the reader to identify the objective of the study, as this chapter is considered as a significant element of the research to draw the attention of the readers.

Models for Portfolio Analysis

According to West, Ford & Ibrahim (2010), portfolio analysis focused on allocation of resources, such as financial, human resources, time and equipment between the strategic business units (SBU) or different organizations companies to guarantee the success of the entire organization

This opinion is also communicated by Pierce, Saunder and Hooley (1998), who argued that different organizations should explore procedures to direct the allocation of resources and with respect to its portfolios, consider the balance of organizations. Portfolio analysis is a conceptual framework, which is designed to direct the strategic direction and facilitate the management of strategic business units (Kotler and Armstrong, 2010).

Since the 1960s, several models of portfolio analysis have developed, which comprises of the following:

- Boston Consulting Group (BCG) Matrix
- Abell and Hammond investment opportunity matrix
- The General Electric/McKinsey matrix
- Arthur D. Little strategic condition matrix
- Shell directional policy matrix

The “Boston Consulting Group” (BCG) is the oldest and simplest growth model (Hofer & Schendel, 1994) and better recognized (Wilson & Gilligan, 1992). It is associated with the usage of cash in a company and can be used for performing analysis. The model used several indicators to regulate both the attractiveness of the market and the firm's strength, but it was disapproved due to the absence of consistent variables and its characteristic that was subjective. Another enhancement of the BCG matrix was classified as the “Shell Directional Policy Matrix”. This model had the characteristics of “GE matrix”, which determined the profitability perspective of a particular sector on the horizontal axis, while the vertical axis consisted of the competitive of the company. However, this model was being condemned, as for analyzing the analytical procedure of a company and assessing the prospects of any business, this model assumed all available factors as being applicable universally, rather than specifically.

In comparison with other models, the model of Arthur D. Little was different, as it incorporated the lifecycle dimension of the industry (Zic, Hadzic and Ikonic, 2009). According to critics, deficiencies of this model, according to critics, this model required a standard life cycle and required evaluation of the variables of the model objectively, which was deficient in it (Tudor & Valeriu, 2011)

Concept of Portfolio Analysis

Some manufacturing companies operate in different markets, have resource needs and have growth potential (Kramer and Porter, 2011). These manufacturing companies are unsuccessful as unified strategy is required to create an optimal combination of lost business and opportunity, and to obtain an understanding complexity of the business, dynamics and competitiveness of the business complex. There is increased focus on the basic requirement for managers to establish a "significant quantitative relationship" concerning their businesses and their specific markets.

Portfolio analysis provides assistance to differentiated companies to evaluate the balance of operations in its portfolio and direct the allocation of resources (Salo, Keisler and Morton, 2011). This is performed by apportionment of valuable resources to more lucrative firms, which particularly focuses on its fundamental operations, while no or very insignificant portion to be allocated to companies with little or no profits.

Furthermore, the objectives of the portfolio analysis comprises of assessing the current portfolio of the company, selecting the business in which the highest portion of the resources should be invested (Salo, Keisler and Morton, 2011).. Moreover, it also involves development of strategies for introducing products and support strategies for growth and undertakings in the portfolio.

Furthermore, the purpose of this tactical action is to guarantee the best combination of business, opportunities for growth and a balanced portfolio for the business (Salo, Keisler and Morton, 2011).. A balanced portfolio is identified as one that assists an organization to meet its aim of profitability and attain its growth prospective through adoption of effective strategy of business and minimizing risk as far as possible.

Overview of Oman Manufacturing's Sector

The critical review of manufacturing sector of Oman by Oxford Business Group has described that this sector has not revealed any significant growth. According to the analysis carried out by this group, the manufacturing sector of Oman is considerably still during the recent decade. The growth reported in this sector is only 0.4% in the year 2014 and this department has reached to OR3.2bn (\$8.3bn) which is not significant increase (www.export.gov). The recent approaches that are being implemented to enhance the growth of this sector included development and implementation of in-country value (ICV) scheme that has the specific role to address the gas and oil industry and is aimed towards the development of local content for energy sector servicing.

During last two decades, the industrial sector of Oman has become the focus of the diversification strategy designed by the government. With the end of the first six months of year 2014, the total number of projects related to the “Public Establishment for Industrial Estates (PEIE)” were 1468 while the projects in 2013 were 1409 and thus, the average growth reported was 4.2% and OR4.94bn (\$12.8bn) was total investment (www.export.gov). The first industrial estate Sultanate at Rusayl that is located in close to Muscat capital has 100% occupancy and currently having a significant expansion. On the other hand, Sohar has attracted an investment of OR1.75bn (\$4.5bn) for the industrial estate while the investment for the free zone is approximately OR240m (\$621.4m). Based on the economic plan for next five years undergoing preliminary work, the development strategy for economy of Sultanate, the focus will be towards the industrial policy (www.export.gov). The top priorities that will be considered would be focused on providing support to local industry and value chain for the generation of sustainable and skilled jobs for Oman people. The best prospects of sub-sector are the manufacturing

technology supply, providing materials and technology for food, chemicals, plastics, composites, metal work, machine tools as well as the training opportunities.

Opportunities

A 40% stake has been acquired by the state-owned Oman Investment Fund (OIF) in the Sigit Spa which is an Italian auto parts maker. This is considered as the precursor for laying the foundation of an industry in the Sultanate that will be an auto manufacturing industry (www.export.gov). The fund for this industry is already a 30% partner a landmark venture (Omani-Qatari) i.e. Karwa Auto Motors and this company is establishing its first ever bus assembly in Mudhaibi. It is first ever unit in the North Al Sharqiyah Governorate and the total investment in this unit is approximately \$200 million. 70% of the total shareholder of this project is Mowasalat which is a transport company of Qatar. The reason for designing this plan is to ensure assemblage of 2,000 busses each year that will be distributed to North Africa, Gulf, and Middle East. Furthermore, the plan of the Oman Sugar Refinery Company is to make refinery that will be first ever sugar refinery in the Sohar Port in Oman (www.export.gov). The initial capacity of this plant will be 700,000 tonnes and within three years, the capacity will be increased to one million tons.

Portfolio Investment in Oman

The total volume of overseas direct investment in Oman was estimated to be RO 6.48 billion in 2012, which constitutes \$16.83 billion as per the National Center for Statistics and Information (NCSI) (www.export.gov). In contrast with 2011 with a figure of RO 5.9 billion, a growth of 9.6% was recorded in 2012, as inflows from overseas investment in Oman made up to \$1480.30 billion in 2012, which further represented a growth of 41% in 2012.

Foreign investment in Oman is increasing, as businesses grow internationally by identifying opportunities in the substantial investment program associated with infrastructure and differentiating from gas and oil especially with falling prices (www.export.gov). The growth reached 8% in 2014, reflecting the main activities related to infrastructure. As per the National Statistics and Information Center in Oman, 4.63% of nominal GDP rose in 2014, followed by a decline of 14.2% in 2015 (www.export.gov). The reduction of 2015 was mainly due to lower oil prices, in spite of a nominal growth of 4.7% in non-oil sector. The differentiation promoted by the government, aiming on mining, logistics, manufacturing and tourism, have not influenced the economy as yet. Regardless of the decline in the prices of oil, the Government of Oman continues to spend on investments and infrastructure.

Benefits of Investing in Oman

A number of benefits have been identified which reflect favorable conditions with respect to investing in Oman.

The business environment of Oman is favorable for investment, as a result of Free Trade Agreement between Oman and US (www.export.gov). The business law framework of Oman is modernized, which promotes free markets. In addition to this, the rate of tax is relatively lower which promotes disposable income.

Furthermore, the work force in Oman is bilingual and mostly well educated. Oman is considered as a prosperous country with great opportunities for promotion for its manufacturing companies, due to its modernized infrastructure, while the transport system of Oman is well established, convenient and developing constantly.

In addition to this, due to the geographical location of Oman, the country has great access to the Subcontinent and Africa, which is significant with respect to growth prospective of the manufacturing industry (www.export.gov).

Moreover, the Government of Oman has invested significantly in its infrastructure, particularly with regard to development of airports, seaports, free zones, roads and railways, airports, seaports, along with facilities of education and health.

CHAPTER 3: PROPOSED METHODOLOGY

Introduction

This chapter looks at the outline of the methods of research, the design of the research and the approach that is being adopted by the researcher to perform this study. In addition, this chapter also shows details about the technique being used for the purpose of collecting and the procedure for analyzing data, while matter dealings with ethics are also discussed in this section.

The purpose of this section is to elaborate on the methods, which is being used for this research. In this study, both quantitative and qualitative data have been used by the researcher to attain the purpose of the entire study.

Design of the Research

This study is designed to use both quantitative and qualitative methods for completing this study. Under qualitative research, the researcher will use instruments like interviews for gathering primary data.

Conversely, for obtaining secondary data, the researcher will utilize other sources, such as past researches, published articles, books, online databases and journals.

On the other hand, quantitative method of research will also come into play for gathering primary data. The results of participants' samples using quantitative methods may be used for the overall population sample extract. For this study, survey questions will be used to access the data.

Method for Collecting Data

The researcher will utilize the usage of interviews for the purpose of performing quantitative method of research. As a result, the research will seek to hold interviews with eight employees from different manufacturing companies of Oman.

Furthermore, survey questionnaires will be used in this study as quantitative method of performing research. Consequently 25 employees, belonging to manufacturing companies in Oman will be provided with survey questionnaires.

In addition to this, for the purpose of compiling information, the secondary study will be used by the researcher through application of past researches, published articles, books, online databases and journals.

Techniques for Sampling

The data for this research will be collected using sampling methods. Instead of using probability method of sampling, the researcher will use non-probabilistic sampling method, which allows researchers to judge and will also facilitate researchers to collect data at a lower price, and less time comparatively.

Furthermore, the method of sampling that will be used in this study will be convenience sampling. Using this technique for sampling, the researcher will gather data from the chosen sample that will be comprehended easily. The reason for the use of this sample choices is to ensure accessibility and keep the available time and budget under control.

Tools for Analyzing Data

Under this study, since both quantitative and qualitative method of research will be used, different tools will be used by the researcher. For primary qualitative data, which will be collected

using interviews, the research will use content analysis. It is a technique for performing research, in which the researcher effectively interpret the data that has been collected.

Apart from interviews, survey questionnaires will also be used in this study. Since data collected from questionnaires is primary, SPSS will be implemented for assessing and analyzing the data that will be collected. The responses obtained from the selected sample will be evaluated from this technique, which will then be used to produce frequencies by inputting data into MS Excel and transferring them into the file of SPSS.

Justification for Using Quantitative and Qualitative Data

With the aim of analyzing the qualitative data of this research, the qualitative technique will be used by the researcher. In this study, qualitative data will be acquired from interview with eight employees belonging to manufacturing companies in Oman.

In addition to this, to obtain and ensure that understanding with respect to the subject matter has been gained, the quantitative method will be implemented by the researcher in this study.

Limitation of the Study

It is almost impossible to perform a research without encountering difficulties and coming across any limitations during the research. In this study, survey questionnaires will be used, for which a sample of employees will be chosen, therefore, due to busy schedule, the selected participants will find it difficult to fill the questionnaires.

In addition to this, it is also not so feasible to enter and gain access to a particular employee anytime, since they may not be available easily. Also due to issues of confidentiality and confidence, many participants of the sample may not be comfortable to respond to all the questions being asked.

As a result of encountering these issues and difficulties, the time assigned for the research will exceed, which will increase the overall duration of the project. Apart from this, there is also a possibility that the set budget set for the research may fall short of the actual expense incurred in this research.

Ethical Concerns

To improve the quality and value of the study, it is necessary that ethical concerns are given necessary attention. This can be determined by guaranteeing that any data, which will be obtained from a respective participant have been acquired from the consent of the participant. Not only this, ethical concerns also involves the responsibility of the research to certify that the information acquired from participants remain confidential, during and even after the research ends.

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