

## Organizational Effectiveness of Listed Companies in Food & Beverages sector Sultanate of Oman

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### ABSTRACT

*The financial conditions of Omani firms may have been the closest approximation to learn the influential effect of the country's economy. In order to evaluate the organizational effectiveness of the Omani companies in Food and Beverages sector, the current paper is following concept on different ratio analyses to measure the company's performance for a period of the year 2008 to year 2011. The paper clearly focuses on MSMS listed companies of Oman which are listed at the Muscat Security market (MSM) Oman, to note the level of effectiveness and performance of the Omani food & beverages companies, the paper is dependent on secondary data concerning the financial statements of various listed companies on MSM Oman. Other variables are obtained from the general economic condition of the country. Approximately 19 listed companies' were found to be listed in the sector of food & Beverages, on The MSM website, from 19 firms 3 firms were completely into loss. The data is considered for the span of 4 years and the data of the companies which were in loss was not considered.*

**Keywords:** *Organizational effectiveness, Food& Beverages, publicly listed, Sultanate of Oman*

### 1. INTRODUCTION

One of the most difficult questions that come in organisation with respect to the study of an organisation is: How do you determine the extent to which any given organisation is effective. A frequent response to that question is, well, you determine if it is meeting its objectives.” However it isn't all that simple. Concerning uncertainties, scholars usually took an approach on either an internal or external insight (Clampitt and Williams, 2000). As people may have easily predicted, internal insights were more concerned with the overall impact of uncertainty on employees, rather than organizations. External insights, on the other hand, portrayed other major sources of uncertainty from the external organizational environment. Uncertainties can simply appear from the latest development that occurred regionally, like socio-political disruptions in the Middle East and North Africa, the world's price fluctuation in oil and food-related products, money market volatilities, capital market variability, terrorists' threats, labor strikes, changes in public policy, information and communication technology revolution, natural disaster, and many other incidents. According to Brashers (2001), uncertainties existed when details were relatively ambiguous, complex, unpredictable, and also when information were scarce/inconsistent. Since organizations operated in dynamic environments, uncertainties created multiple challenges for firms (Clampitt and Williams, 2000).

According to Henri (2004), the studies on organizational effectiveness have become as being one of the most researched issues since the early development of organizations, and theory of the firm (Anantadjaya, 2008; 2009; Hage, 1980; Henri, 2004).

### 2. LITERATURE REVIEW

Daft (2001) prescribed ways in trying to achieve the ultimate organizational effectiveness, which were; goal approach (Jeffrey, et al, 2006), resource-based approach (Ancarani, 2001; Helfat and Peteraf, 2002), internal approach (Filatotchev and Nakajima, 2010), and contingency approach (Beersma, et al, 2002). The goal approach (Daft, 2001; Jeffrey, et al, 2006) concerned with organizational results. Its most favorable indicator was unquestionably profitability. This goal approach appeared to be the pioneer in the accounting and financial studies. The resource-based approach (Anantadjaya, 2008; Ancarani, 2001; Daft, 2001; Helfat and

Peteraf, 2002) attempted to assess organizational effectiveness via direct observations of processes, and evaluations on resources to achieve high performance. According to the resource-based approach, several common indicators of organizational effectiveness included; financial resources (Anantadjaya, 2007; Henri, 2004), raw materials, human resources (Anantadjaya, 2009), knowledge, and technology, or the ability of the organization to respond to changes in the environment.

According to Richard, et al (2008), organizational performance encompasses three specific areas of firm outcomes; (1) financial performance of the company (such as; return on investment, return on assets, profit); (2) Companies market performance (such as; sales, market share); and (3) shareholder return (such as; total shareholder return, economic value added). Moreover, organizational performance can also be evaluated using four characteristics (Mitchell, 2002); relevance, effectiveness, efficiency, and financial viability. These four measures of organizational performance were said to be affected by the organization's motivation and capacity, including interactions with the externalities. Hence, it became apparent that a framework for measuring organizational performance was indeed required to assess (1) how well the organization was functioning; (2) whether managerial decisions were good; and (3) any organizational change (Waheed, et al, 2010).

### 3. HYPOTHESES

Based on the current study about the company's performance, we can test the following hypotheses: Organizational effectiveness is positively influencing the organizational performance.

### 4. RESEARCH METHODOLOGY

The present study is purely based on secondary data with analyzing the company's effectiveness for a period of 2008-2011 year. This study focuses only on the listed companies in the sector of Food & Beverages. 19 MSM listed companies were considered (as available on MSM website). The data of companies were not available for the year of 2012. All financial statements like balance sheet and profit & loss accounts were downloaded from MSM website. Financial information was considered to represent various financial ratios. General economic conditions of companies were represented by Oman's gross domestic product ("GDP"), and inflation rate, to evaluate organizational effectiveness and its performance.

Organizational effectiveness is represented by (1) profitability ratios : to measure companies' ability in generating returns (Block and Hirt, 2008; Frederica, 2012; Hooks, 2003; Richard, et al, 2009; Wild, et al, 2005), which included; ROA (Return on Asset), ROE (Return on Equity), and ROS (Return on Sales), (2) asset utilization ratios: to measure the speed of turning over firm's assets (Anantadjaya, 2009; Block and Hirt, 2008), which included; Receivables Turnover (RETO), Inventory Turnover (ITO), and Total Asset Turnover (TATO), (3) liquidity ratios: to measure the firm's ability in meeting its current obligations (Block and Hirt, 2008), which included; current ratio ("CR"), and quick ratio ("QR"), (4) debt utilization ratios: to measure the prudence of the debt management policies of the firm (Block and Hirt, 2008), which included; debt to asset ratio ("DAR"), and debt to equity ratio ("DER"), and (5) tangible assets ("TAN"): to show the comparison between property, plant and equipment, and total assets (Frederica, 2012; Hooks, 2003; Wild, et al, 2005), (6) earnings-to-total-assets ratio ("ETAR") : to show the comparison between earnings before interests and taxes ("EBIT") and total asset ("TA") (Frederica, 2012; Hooks, 2003; Wild, et al, 2005). And Company's performance is represented by sales growth (Hooks, 2003).

### 5. TESTING OF HYPOTHESES

Following the prescriptions from Block and Hirt (2008), profitability ratios was used to measure the level of company's effectiveness (Anantadjaya, 2009). The study revealed that "growth", "ROE", "ROI", "ROA", "ROS", and "ITO" seemed to support the level of effectiveness of human resources in performing various tasks inside organizations. As human resources department became more effective, it was expected that there would be a faster turnover in the organizational inventory. As a result, an organizational growth would rise. This would be translated into higher ROS, ROE, ROI, and ROA (Anantadjaya, 2009). Hence, it can be hypothesized that Organizational effectiveness is positively influencing the organizational performance.

### 6. RESULTS WITH TABLES

The economy of Oman, had witnessed a significant recovery during the year 2010, and was able to continue its sustainable growth momentum during the year 2011. In first half for the year 2011, GDP at current prices was seen with a growth by 20.7% to Riyal Omani 13,001 million with an increase of 33% to Riyal Omani 10,769 million, related to the period of previous year. (Shown in table -1). In the activity related to industries, the highest growth of the manufacturing companies was recorded (26 %), and construction was to be followed with (12%), water supply & electricity (10%). In the other sector like

services sector, it is also seen in 'transport storage and communication' was impressive on growth of (17%), 'wholesale and retail trade' was followed by (14 %), financial intermediation (10%). Central bank of Oman- Economic Research and Statistical Department(website: [www.cbo.gov.om](http://www.cbo.gov.om) ).

**Table 1: GDP at Current Market Prices(RO. Million)**

SR. NO	Industry Activities	Year 2008	Year 2009*	Year 2010**	January 2010*	June 2011**	change of % Year (11/10)
1.1	General Industry (Sr. No. 1.1 + 1.2)	15614	10643	14053	6778	8566	26
1.2	Non-Petroleum Industrial Activities	3839	3325	3721	1666	1997	20
2	Agriculture & Fishing	244	259	270	150	159	6
3	Services	7651	7519	8343	4069	4542	12
4	Total-Non-Petroleum Activities(1.2 + 2 +3)	11734	11103	12334	5885	6698	14
5	Less-Financial Intermediation Services-Indirectly Measured	360	420	465	222	253	14
6	GDP at Producers Prices (1.1+4-5)	23149	18000	22201	10775	13014	21
7	Plus: Taxes less Subsidies on Products	139	20	42	-6	-12	106
8	GDP at Market Prices (6+7)	23288	18020	22243	10769	13001	21

\* Provisional

\*\* Preliminary

Source: MONE.

### Price Situation

The pressure of Inflation was seen to be on higher side, during the year of 2011, it was seen to be under control in Sultanate of Oman. Which was up to month of September for the year of 2011, the average inflation rate measured by annual variation in the Consumer Price Index stood higher at 4 % in compared to 3 % a year ago (Table 2), the fall in inflation rate till the month of September in the year 2011, was mainly attributed to high base as against 4% a year ago. Item wise, an average inflation rate was seen to be the highest in non-alcoholic beverages (24%), sea products and fish (20%), 'other services' and personal care items (15%), and 'spices and salt' (10%) (Shown in table 2). Though the average inflation rate remained under control, and due to sustained domestic demand inflation expectations remain largely. The inflation rate for 'food, beverages and tobacco', was 30%, which remained above 5% for the year 2011. Central bank of Oman- Economic Research and Statistical Department (website: [www.cbo.gov.om](http://www.cbo.gov.om) ).

**Table 2: Sultanate of Oman CPI (2000 = 100)- consumer Price Index**

Items Consuming	Weight	Year 2009	Year 2010	Year Jan 2010	Year Sep 2011	Change % year (2011/10)
Food - Beverages & Tobacco	30.385	151.300	154.400	153.0	160.9	5.100
Textiles, Clothing & Footwears	7.211	104.500	104.500	104.500	104.900	0.400
Housing Materials & Furniture	4.989	109.400	110.100	110.200	112.800	2.400
Medical Care items	1.727	97.400	98.000	98.100	99.800	1.800
Transportation & Communication	22.194	107.300	110.500	110.500	112.100	1.500
Entertainment & Recreations	2.673	100.400	100.300	99.900	99.500	-0.400
Services related to Education	3.322	128.400	133.500	133.500	133.900	0.300
Personal Care Items & Other Services	6.085	170.300	191.800	188.300	217.200	15.400
Water, Fuel, Electricity, Rent	21.414	129.300	134.300	133.800	137.600	2.900
General Price Index	100.000	129.500	133.700	132.900	138.500	4.200

## Notes:

1. The measurement of weights are based on Household Expenditure and Income Survey, year 1999-2000.
2. Musandam Governorate and AL Wusta Region were excluded in collecting the data.
3. Present data are on the basis of 8101 items related to goods and services of 1571 sources.
4. Data for rent were collected by considering a sample of 1260 rented units.

Taken from Source: MONE

## 7. FINDINGS

The companies listed in food and Beverages sector at MSM indicates that organizational effectiveness of the companies are able to show some of influence which vary from 11% to 88%, DAR and DER were the most contributors in effectiveness of the organisation. As the country's inflation is rising the companies are facing toward higher working capital. The higher requirement on working capital may likely be financed via external funding. Hence, the fluctuation on DAR and DER may provide better signals towards effectiveness of the organizations. Though DAR and DER are much better measurements for the level of organizational effectiveness, other indicators were also influential for the organizations effectiveness but they were at lesser degrees. The result also shows that organizational effectiveness toward organizational performance was at 83% influential. This means that improvements on the firm's level of effectiveness over time favors the firm's performance. This appears to be logical since internal improvements are mainly targeted to boost organizational performance. These statistical evidences provide supports on managerial objectives toward the futures.

## 8. CONCLUSION AND SUGGESTIONS

The study produces the conclusions that indicators of organizational effectiveness and organizational performance are different from each other, some influences were relatively minimal, DAR, DER, QR, and CR appear to be the major contributors to organizational effectiveness. Organizational performance was measured by considering sales growth of the company. Future studies can be recommended to incorporating longer years, cover a much greater range of data set, and utilizing more variables and indicators.

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