

METHODOLOGY OF DIAGNOSING ENTERPRISE ACTIVITY AND TECHNIQUES OF DIAGNOSIS

Mihaela Cristina ONICA

"Dunărea de Jos" University, Galati
cristina_mihaela@yahoo.com

The diagnosing methodology, on one hand, should allow liberation of the main elements for elaboration of the survey and, besides that, for thorough research in case of abnormalities and, on the other hand, should neglect the accidental elements which do not have an utility to the studied field. This double necessity drives the analyst's efforts in eliminating the difficulties of diagnosing method, which should avoid two possible limits, that is: performing a very analytical and expensive survey when compared to the information it provides or elaborating a too global survey, which can cause some omissions, among which some important issues for the final consideration and for the action plans which are to be set can be lost. Therefore, only a rigorous activity diagnosis method can convince the study beneficiary as to the competence and value of the specialist expert called and of the fact that the result of analysis does not include a multitude of useless, unessential information.

1. Inspecting the premises

Visiting the enterprise premises involves examination of production and storage installations, laboratories, commercial or administrative departments. This offers an overall image of the *enterprise operation* and at the same time provides an evaluation of its *internal climate*: staff activity, dynamism, inter-individual and collective relationships, etc. Moreover, this stage offers the possibility of practical learning of the enterprise, very useful for the *understanding of actual signification of documents* on which the analyst is about to operate. Inspecting the enterprise also allows making some first judgments on the *enterprise running situation*: volume, quality, age, equipment maintenance, conditions of hygiene and security, importance and quality of stocks, organization, existence of "bottlenecks" in the production process, value and quality of administrative means utilized (staff sheets, documents, materials) etc. Moreover, visiting the enterprise premises *draws analyst's attention to the specific aspects* (apparent abnormalities, unbalances; for instance, in some shops, in which stocks in production accumulate, there are difficulties in the movement of staff and products, scrap and important rejects etc). Visiting the installations offers *knowledge of order of magnitude* which facilitates distinguishing between the normal and abnormal

phenomena and detecting the abnormalities with the occasion of subsequent surveys of files provided.

2. Examining the market share, by segments

In this stage, the diagnose essence consists in *analyzing the file* with gathered documents and information. Elaboration of the analysis file requires getting together the following elements, at least:

- *legal documents* regarding the enterprise (statute and statutory modifications; statements of Administration Board reunions, minutes of Shareholders General Assembly, annual reports of the administration and of the account commissioners, etc); *accounting and financial documents* (balance sheets and result accounts of latest 3-5 years, usually treasury tables, financing and investment plans, budgets, cost analyses, margins, board records etc); *organization documents* (enterprise organization chart and charts of various positions and departments; procedure manuals; documents regarding definition of jobs and job specifications; accounting and financial organization; organization of inventory control; organization of information processing system, copies of various documents (receipts, tickets) received, issued and sent by the

- enterprise; diagrams of documents circulation etc);
- *commercial documents* (catalogues, delivery conditions, rates, consumption notes, published and advertising documents, statistics of sales, customers and suppliers etc). Depending on necessities and enterprise particularities, some additional documents can also be required. Moreover, during the survey, the analyst will be led, according to the elements that need to be studied thoroughly, to other documents and materials. Independent of the enterprise-related documents, setting a diagnosis also requires gathering information by *fields* (professional statistics, survey reports), information regarding the *main competitors* in order to allow performance of some comparative diagnoses. All centralized documents will be subject to variable exploration according to their content: legal analyses, plausibility and coherence tests, estimations, verifications, surveys, calculation of rates, statistical surveys, comparative tables, reference to norms, standards, range analysis, graphics etc.

3. Meetings and discussions

With the occasion of the initial visit to the enterprise, the analyst wants the explanation of *how the main departments work*. This is a stage that follows the examination of documentation, which he or she can use effectively in the thorough discussions with the main responsible persons. The objective of meetings and discussions with the appropriate persons of the enterprise can refer mainly to:

- determination of the actual organization characteristics and operation of each department, including comparison with those included in the documentation;
- identification of organization week points;
- clearing up the abnormal situations occurred at the moment of initial visit, when studying the file or when filling in the questionnaires;
- knowing the opinion of each responsible person on its own activity, on the operation of analyzed department and on his/her relationship with other bodies, on the enterprise etc;

4. Questionnaires

Analyst's interviews can be guided by questionnaires. Quality of analysis report that

is to be issued, as well as the correctness of decisions within the action plan which aims at rectifying the enterprise activity, largely depend on the degree of information and knowledge of company by the analyst. His or her discussions with the management team and with the responsible persons for various enterprise departments or objectives play a determinant role. Especially important in analyst's documentation and information are the *sociological methods*, as well as the questionnaire and the interview, which can represent both a supporting technique of discussions with various responsible persons, and a way of *specific approach*, being used as independent representative methods. In this case, the questionnaire can be distributed to the various enterprise departments, adapted for each of them and filled with a range of information additionally gathered by communication with certain people from the studied system. These data are separately interpreted and complete the information gathered by the questionnaire technique. Questionnaires *interpretation* can be done in different manners.

These data are separately interpreted and complete the information gathered through the questionnaires technique. Questionnaires *interpretation* can be done in several manners:

- either by studying, separately, the answers of each department considered of interest for the economic activity diagnosis (for instance, if the inventory control department of an enterprise in the industrial field answers that it is not possible to know the time of individual work for each order, this answer can be enough for identification of a week point of the enterprise). The answers can also be judged by checking the evidences brought by other information elements, gathered from other sources (visit notes, accounting information, statistics, radios etc);
- or questionnaires processing can be done by studying the answers of various departments, regarding the same subject (called procedure of processing by comparison);
- an initial questionnaire, handed to all departments, will focus on gathering general information on enterprise operation, on the way in which each of them conceives their role, on the image which they generate on each other and on the enterprise in general. At the same time, this questionnaire offers the

possibility to collect some numerical information that can fill accounting documents;

- functional questionnaires, used for detail study of each enterprise position;
- thorough questionnaires, that offer depth investigations, as they are adapted to the specific issues discovered by previous studies.

The discussions with specialists, as well as the questionnaires can be, by the nature of questions asked and answers expected, of two kinds:

- closed, in which the interviewed person must offer a precise answer (an example of such a question could be "What is the average number of monthly invoices?");
- open (without direction), which refer to a general issue for which the interviewed person can freely build his/her answer (for example "What do you think about the stock management system?").

5. Check-lists

The technique of check-lists can be used on the occasion of visiting the installations, for setting up the enterprise file, for the control of discussions/meetings with the specialists, for creation of questionnaires and for the exploration of assembly of gathered information. It consists in performing an *exhaustive enumeration* of operations that are to be fulfilled (documents gathered, observations made, interrogated persons, issues raised, processing of collected information etc). This method also allows a systemic approach and a warranty against omission. Each specialist, when diagnosing the enterprise, has his/her own check-list.

6. Synthesis table

During information gathering, the analysis requires and generates an important data volume (facts, numbers, values, options) and, in the end, implies integration of these data in order to create a synthesis table, which should allow:

- concentrating the information of the same nature, which derive from various sources;
- confronting the information;
- appreciating the strong points and the week points on the whole of enterprise.

Some synthesis tables can be created for each great function of the enterprise (management, financing, supply, production, commerce, research) as well as *for each of the important non-functional aspects* of the enterprise (environment, profitability, offer, increase,

organization etc). It is understood that each of the tables achieved has a specific content, adapted to the characteristics of each enterprise or activity. Any table analyses various aspects of management pertaining to the researched field (supply for instance). For each aspect, operation of the enterprise complies with one or the other of the following systems:

- rating / framing each researched element into one of three operation categories: "normal", strong point", "week point";
- rating each aspect according to a rating system (from 1 to 20 for example); in this case, if a weighting system is also there for the importance of each of the investigated phenomenon of inventory, there is the possibility of synthetic summarizing of each studied function through a note. At the same time however, although they are not easy to put into practice and they accentuate a natural tendency, the rating systems also have some drawbacks. They sometimes determine a decrease of the role of certain quality data as a result of applying some weighing coefficients to them, whose seize is arbitrarily determined. There is therefore the risk of distorting the reality creating an illusive accuracy impression.

Diagnose stages

Methodical performance of diagnose implies a certain number of stages, absolutely necessary in elaborating a pertinent study. After presenting the main techniques of diagnosing in a succinct manner, we have considered useful to enumerate the main stages of diagnose, with the purpose of forming an image of importance and complexity of the economical and financial analysis. These would be:

✚ *gathering the information elements*, required to draw up the enterprise file, involves: reuniting the documents, visiting the enterprise premises, creating, diffusing and re-grouping the questionnaires, discussions with the responsible persons from various departments etc;

✚ *analysis of gathered information* with regard to the enterprise: global analysis and analysis of various functions. Usually, in this stage, certain phenomena that recently occurred are identified such as abnormalities, deficiencies or week points, which require gathering some additional information (new document requests, new discussions and questionnaires);

- ✚ *identification of determined facts*, includes an evaluation of situation of enterprise operation as a whole and by departments. A critical comment is done here on various aspects analyzed, pointing out the activity strong and week points;
- ✚ *inventory of possible improvement of enterprise organization and operation*: modification of activity structure, application of established procedures, instituting new procedures, creation or modification of some documents, performing some changes in the general policy and in the enterprise running policies;
- ✚ *critical examination of various improvements proposed*, each of them being the object of some discussions with the responsible persons of directly involved departments and with the enterprise management with the purpose of:
 - knowing their *objections* and appreciating the validity, which can lead to abandoning or to application of proposed solutions;
 - obtaining the *adhesion* to the proposed changes;
 - choosing, when there are *several alternatives*, the ones considered more appropriate for the situation of enterprise;

7. Establishing the action plan.

This stage takes place when the improvements proposed for achievement are definitely adopted. In this case, they must be inserted into the **action plan**, including:

- laying out the reasons;
- defining the objectives to accomplish;
- necessary means;
- scheduling in due time of their accomplishment (including breakdown into stages);
- defining the practical ways of accomplishment: purchase of equipment, staff training, occurrence of innovations and of other novelty elements proposed etc;
- putting into practice the means of pursuing the achievement of the measures proposed and of tracing their effectiveness on various stages anticipated as well as establishing some methods of adopting new action plans in case of occurrence of unforeseen events.

Editing the diagnose report, which involves performance of a synthesis regarding the above mentioned aspects. The main elements which the analysis report must include are:

- evocation of reasons for achievement the diagnosis and the proposed objectives;
- indication of methods involved: documents used, responsible persons interviewed, processing procedures for the information used;
- evaluation of the existing situation: strong points and week points of the general situation and of the enterprise functions;
- critical study of improvements proposed and list of proposals to apply;
- action plan with the description of practical means of application and determination or responsible persons.

9. Conclusions

Any diagnose involves utilizing several complementary techniques for accentuation and analysis of concerned aspects. The advantage of resorting to a multi-sided approach is double: on one hand it allows *verification of argument evidence* which increase analyze security (for example, inspecting the inventory of stocks is recommended to be done starting from the financial documents and to continue with a study of the stock calculation and observation procedures, as well as with their physical examination: storage conditions, rotation, status of stocks, etc). On the other hand, it allows *identification of the most appropriate procedures*, adapted to the studied fields, as any technique has its limits and can only be used in various percentages for examination of structures, functions or processes inspected.

Bibliography:

- Mironiuc M., *Technical and Financial Analysis. Technical and Methodological Elements and Applications*, Ed. Sedcom Libris, Iași, 2006
- Mironiuc M., *Analysis of Enterprise Economical and Financial Performances*, Ed. Junimea, Iași, 1999
- Petrescu S., *Financial and Accounting Diagnosis and Analysis. Theoretical and Applied Guide*, Ed. CECCAR, București, 2006
- Petrescu S., Mironiuc M., *Economical and Financial Analysis*, Ed. Tiparul, Iași, 2006