KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI.

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KNUST SCHOOL OF BUSINESS (KSB)

CRITICAL ASSESSMENT OF INVESTMENT ACTIVITIES AT ANGEL HERBAL PRODUCTS INDUSTRY LIMITED

A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BY

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DECLARATION

I hereby declare that this submission is my own work towards the MBA, and that, to the best of my knowledge it contains no material previously published by any other person or material which has been accepted for the award of any other degree of the university except where due acknowledgement has been made in the text.

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ABSTRACT

The recent global financial turmoil popularly referred to as the Credit Crunch has seriously exposed the inefficiencies, inadequacies and the lapses in corporate administration and management the world over. This answers the question of whether theories can fail or whether there are human errors in the handling of corporate affairs in the contemporary world. The lessons of the global financial downturn became an eye-opener for all corporate managers to be more focused, more prudent and to adopt better acceptable practices to achieve corporate goals.

Basically, it is the critical assessment of investment activities of a corporate entity that would help identify whether financial management and performance of products in the markets really pay-off, and to identify which product or products need(s) restructuring to realize more revenue.

It is upon this background that the author resorted to critically understudy the performance of the products vis-à-vis the investment activities of Angel Herbal Products Industry Limited. This is the first time such a study is carried out about the company as it distinguishes itself as one of the fastest growing company in the Traditional Herbal Industry both in Ghana and the sub-region.

Though some of the products especially the *Fatwikeke* did not perform well in terms of volume of sales due to certain production bottlenecks, the trend analysis of the volume of production and volume of sales of the products revealed that all the products of the company rake in a substantial amount of revenue to the company, and the financial ratios revealed the financial position of the investment made over the years under review.

Based on the available data from the managers of the company, the results indicate that the company is strategically positioned to be the market leader in the Ghana Traditional Herbal Industry. The products are well differentiated and efficacious. Patronage is exceptional as

traditional herbal medicine is a close substitute or an alternative to the orthodox medicine. However, the major problem affecting the company's financial development is its comparative low level of capital which compelled the company to resort to debt finance in order to support its funds with its attendant cost.

It is expected that the strong recommendations given would be given the needed attention. These include acquisition of modern equipment to minimize production bottlenecks, penetration into foreign markets, further research to improve on the finishing and packaging, and incorporation of information technology as a means to facilitate accessibility and enhancement of growth of the company.

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Without hesitation, I wholeheartedly dedicate this piece to no other person closer than my better half Josephine Philicity Adom (Mrs.) and our lovely daughter Delase who supported this project both physically and spiritually to make it a reality. Josephine and Delase, I love you.

TABLE OF CONTENT

CHAPTER FIVE

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

1.0 GENERAL INTRODUCTION

1.1 BACKGROUND

The dynamics in today's global financial growth are intricate and winding. The more firms emerge, the more complicated the financial matters arise.

The current global financial recession has slowed down the performance of many businesses, and there are sceptisms and uncertainties of the prospects of affected businesses, and the global economy as a whole.

Theories and capital injections are failing. Consequently, businesses irrespective of their magnitude and size are folding up, and there are mergers, acquisitions and take-overs. This phenomenon is gradually creeping into infant and smaller businesses which now suffer from cash inflows.

The cumulative effect, if pragmatic efforts are not taken will be the collapse of businesses which may have a devastating effect on economies, and the livelihood of majority of the people especially in developing countries, which to a large extent depend on remittances and Foreign Direct Investments (FDIs).

For a company to survive in the mist of all these financial turmoil, it has to have a competent managerial expertise with the business acumen to turn around the fortunes of that company.

The way forward to know how strong a company's financial position is is to embark on effective and vigorous performance assessment of that company, and to determine which product(s) to be assessed to avoid financial wastage.

Performance assessment has been regarded as the panacea to unravel the intricacies in corporate financial matters. Corporate managers in both small and large companies have resorted to assessment of the performance and management of their finances, products and the business as a whole. They therefore use internal and external expertise to perform this function.

If the recent financial melt-down as a result of the global credit crunch is anything to go by, then there is the need for proper accounting and financing reporting regulations in the appraisal of the financial performance of many businesses including Angel Herbal Product Industry Ltd.

Lenders, suppliers and investors' decisions are guided and influenced by the prudent financial performance of a company and the kind of produce of the company. As a lender or an investor, how do you predict and address the risks of new financial instruments? How do you weigh the financial prospects of your investments? Are the securities similar or some are riskier than others? The analysis and good judgment of the entire above can only be done through rigorous product evaluation and financial assessment.

1.2 Statement of the Problem

Many companies in Ghana appear or seem to be performing well because of the extravagance on the part of the managers in the eyes of the public. Some are in distress as they are technically in –operative. This means that even though a company may be carrying out its business, and even recording and reporting some gains from year to year, it is not performing to the required expectations due to the following.

i) Failure to appreciate and manage the inter-connection between the risks inherent in the business activities, management and remuneration incentives.

ii) Weaknesses in reporting on risk and financial transactions

iii) Lack of proper accounting and financing reporting standards.

These problems among others could be attributed to the effects of conscious or unconscious managerial incompetence on the part of management and other players over a period of time.

The performance of Angel Herbal Products Industry Ltd which was founded in September 2003 leaves a lot to be desired.

The company has a standard infrastructure with the requisite skilled and unskilled labour in the various departments. Management is content with the quality of labour force in place, and they are content with the work output and delivery. The employees on the other hand are not satisfied with the kind of remunerations that are received. To them, it does not commensurate with the experience, qualifications and the kind of delivery given.

The employees hold the view that management can improve upon their lot as it is obvious that the performance of the company in terms of product branding and marketing is appreciable, and it has an edge over its competitors as the company has a sizeable market share. This study is done to critically study the performance of the products in the market, and to assess the financial performance of Angel Herbal Products Industry Ltd. over five years of its establishment and operational life, thereby identifying its weaknesses if any, and suggesting recommendations for the attention and consideration of management to address them as it is the company's plan to increase its market share by expanding its operations in the ensuring years.

1.3 Objective of the Study

The study looks at the performance of the products and the assessment of the financial management of Angel Herbal Products Industry Ltd. over a period of five years. The study assesses its financial ability and risk of failure in relation to the various products in the years to come if there are no interventions in its operations.

Specifically, the objectives of the study are:

i) To undertake a comparative study of the herbal products and rank them according to their potential profitability to the company.

ii) To examine the sustainability of the raw materials and market in ensuring the survival and growth of the company.

iii) To use a trend analysis to determine the performance of the company over the period in question using the appropriate models

iv) To assess the efficiency of the company for the period under review using financial ratio analysis.

1.4 Relevance of the Study

The global financial turmoil is a wake-up call for every organization to adopt the acceptable standards of financial reporting and accountability and to tailor products to the demands of the consuming public.

The financial crisis has become a serious problem for the handlers of the world economy. The phenomenon which started as a localized problem in the sub-prime mortgage market in the United States has turned into the most serious global financial crisis in recent years. Its impact is increasingly being felt throughout the world including emerging economies and developing countries such as Ghana. It behoves companies and organizations to adopt best practices and due diligence in their financial reporting regulations, identify inherent risks and take serious pragmatic measures to minimize the incidence of corporate failures and downturns.

The level of financial sophistication in our part of the world is lower as compared to highly developed countries, and this may mean there are problems with our mode of operations. Some companies waste resources in developing products without critically assessing the relevance, the efficacy and the taste of the needy consumers.

In our part of the world where illiteracy heightens information asymmetry, the burden is on the most highly informed group to ensure that best practices are adopted, and unsuspecting businessmen and businesswomen are not ensnared by complex exotic practices which may be irrelevant to achieve the desired goals.

Ghana is part of the global financial web, and has experienced the collapse and failures of a lot of companies and organizations. Some are in existence but they are faced with daunting financial and managerial challenges. These companies need government interventions to get them resuscitated. The collapse of Kumasi Shoe Factory, Asutsuare Sugar Factory, Kade Matches Factory, and Sabat Motors among others is an empirical evidence of bad practices in our corporate governance. In the financial sector, the Ghana Co-operative Bank and the Bank for Housing and Construction (BHC) failed due to credit issues and lack of required standard practices. Lack of best financial practices and proper monitoring might have caused the demise of these promising companies. Unfortunately, they are all defunct and moribund. The study will provide greater understanding of the symptoms and causes of financial distress among organizations and will suggest strategies to combat this phenomenon. The study will also assist on the enhancement of the overall performance of Angel Herbal Products Industry Ltd.

Incidentally, this is the first comprehensive analysis of the assessment of the company since its establishment in September, 2003. With the recommendations that will be made, management will be guided in the correction of any short-comings that the study will reveal. This is believed to enhance product development and marketability, the human capacity development and profit marginalization of the company.

1.5 Scope and Limitation of the Study

The study focuses on the comparative study of the products and the financial performance of Angel Herbal Products Industry Ltd. in the assessment of its risk of collapse and also to assess its performance in terms of leverage, profitability, liquidity and efficiency.

Financial management of organizations involves several indicators such as market share, ratio analysis, technology regulatory compliance and public confidence. This study concentrates on the financial management of Angel Herbal Products Industry Ltd. by focusing on the comparative study of the products, rank and relates them to the ratio analysis of the financial statements of the company in assessing its performance in terms of profitability, leverage, efficiency and liquidity.

CHAPTER TWO

LITERATURE REVIEW

2.1 THE CONCEPT OF ORGANIZATIONAL PERFORMANCE MANAGEMENT

Performance Measurement can be best understood through considering the definitions of the words '**Performance**' and '**Measuremen**t.' According to the Baldrige Criteria: Performance refers to output results and their outcomes obtained from processes, products, and services that permit evaluation and comparison relative to goals, standards, past results, and other organisations. Performance can be expressed in non-financial and financial terms. Measurement refers to numerical information that quantifies input, output, and performance dimensions of processes, products, services, and the overall organization (outcomes). Performance measures might be simple (derived from one measurement) or composite.

2.1.1 Testing the effectiveness of Performance Management

Performance appraisal is one of the popular concepts among the multinational and local companies. The concept has been defined by DeVries *et al* (1981) as the process which allows firms to measure and consequently evaluate an employee's achievements and behavior over a certain period of time. The basic purpose of using performance appraisal techniques within an organization is to align the employee's efforts with the overall objective of the firm.

There has been a widespread discussion within the academic circles as to how to define performance Papers4you.com (2006). Drawing upon Briscoe & Schuler (2004) performance can be viewed as a combination of several variables, such as motivation, ability, working conditions and expectations. It has been established that there are certain factors that affect employees' performance more than others. These factors, according to Dowling *et al* (1999) include the compensation package; the nature of task; support from higher management; the working environment and the overall corporate culture.

There are many advantages mentioned in the literature regarding the use of performance appraisals within an organization Papers4you.com (2006). It has been suggested that it improves the communication between the higher to lower level management; identify areas of improvement; show employees training needs; help in promotion, retention and termination decisions; and means of managerial control Fletcher (1992). In order to take full advantage of the performance appraisals, the goal in designing such systems should be congruent to the overall aim and vision of the company. For instance, it is evident that there is a direct correlation between the performance of employees and their rewards as businesses do seek creation of wealth as their primary goal. Therefore one of the increasingly adopted uses of performance appraisals is to motivate employees to perform better by linking it with reward packages. The concept and its uses can be further explained with the help of the example of Nokia. Nokia has incorporated performance appraisals in its compensation plans for its employees. The company has adopted the philosophy of pay-for-performance and therefore measuring and gauging different performance indicators of each employee is essential to the company. Nokia is an innovative firm with a global matrix structure and a typical line management configuration at the country level. Therefore the performance appraisal system called 'Investing in People' has been designed as 360 degree feedback and electronic briefing sessions Pollitt (2004), which are perfectly aligned with the structure and overall aim of the company. The challenge for organizations today is how to match and align performance measures with business strategy, structures and corporate culture, the type and number of measures to use, the balance between the merits and costs of introducing these measures, and how to deploy the measures so that the results are used and acted upon.

All organizations measure performance to some extent. However, there is a large disparity among organizations in terms of which performance measures are used with many primarily focusing on financial measures. There has however, been a general move away from financial measurement since the early 1980's. This was accelerated in the 1990's and 2000's by the worldwide acceptance of business excellence models and performance measurement frameworks that address all stakeholders' needs.

Performance measurement is one of the cornerstones of business excellence. Business excellence models encourage the use of performance measures, but in addition and more importantly, they consider the design of performance measurement systems to ensure that measures are aligned to strategy, and that the system is working effectively in monitoring, communicating, and driving performance.

A recent report presented by the Performance Measurement Association (PMA) on one of the new performance measurement frameworks, the Balanced Scorecard, demonstrated the popularity of this particular method. The PMA presented evidence that 39% of FTSE 100 companies were actively using the scorecard, and other researchers have reported that between 40% and 60% of Fortune 1000 companies have attempted to implement the Balanced Scorecard. With the movement away from financially based measurement systems only gaining momentum in the early 1990's this represents a significant change in organizational practices in such a short space of time. What are the common challenges associated with the Performance Measurement approach? The performance measurement revolution has seen a move away from the problems of past measurement systems. Five common features of out-dated performance measurements systems were: Dominant financial or other backward-looking indicators, Failure to measure all the factors that create value, little account taken of asset creation and growth, Poor measurement of innovation, learning and change, A concentration on immediate rather than long-term goals

The focus in performance measurement is now on achieving a balanced framework that addresses the issues described above. Examples of these new frameworks are Kaplan and Norton's Balanced Scorecard, Skandia's navigator model and the Performance Prism. Others recommend that the results sections of business excellence models should be used to generate a balanced set of performance measures.

2.1.1.1 Balanced Scorecard Basics

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Kaplan (Harvard Business School) and Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the Tableau de Bord – literally, a "dashboard" of performance measures) in the early part of the 20th century.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve centre of an enterprise

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

2.1.1.4. The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

2.1.1.5. The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

2.1.2. Examples of Organizational Performance Management Systems

There are numerous, major methods and movements to regularly increase the performance of organizations. Each includes regular recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. Typically, these become integrated into the overall recurring management systems in the organization (as opposed to being used primarily in one-time projects for change. Any or all of the following approaches will improve organizational performance depending on if they are implemented comprehensively and remain focused on organizational results. Some of the following, e.g., organizational learning and knowledge management, might be interpreted more as movements than organization performance strategies because there are wide interpretations of the concepts, not all of which include focusing on achieving top-level organizational results. However, if these two concepts are instilled across the organization and focus on organizational results, they contribute strongly to organizational performance. On the other hand, the Balanced Scorecard, which is deliberately designed to be comprehensive and focused on organizational results, will not improve performance if not implemented from a strong design.

2.1.2.1 **Benchmarking**:

Benchmarking uses standard measurements in a service or industry for comparison to other organizations in order to gain perspective on organizational performance. For example, there are emerging standard benchmarks for universities, hospitals, etc. In and of itself, this is not an overall comprehensive process assured to improve performance; rather the results from benchmark comparisons can be used in more overall processes. Benchmarking is often perceived as a quality initiative.

2.1.2.2. **Business Process Reengineering**:

It aims to increase performance by radically re-designing the organization's structures and processes, including, by starting over from the ground up. Continuous Improvement: Focuses on improving customer satisfaction through continuous and incremental improvements to processes, including by removing unnecessary activities and variations. Continuous improvement is often perceived as a quality initiative.

2.1.2.3 Cultural Change:

Cultural change is a form of organizational transformation, that is, radical and fundamental form of change. Cultural change involves changing the basic values, norms, beliefs, etc., among members of the organization.

2.1.2.4. ISO9000:

ISO9000 is an internationally recognized standard of quality, and includes guidelines to accomplish the ISO9000 standard. Organizations can be optionally audited to earn ISO9000 certification. Another major quality standard is the Baldridge Award. ISO9000 is a quality initiative.

2.1.2.5. Management by Objectives (MBO):

Management by objectives aims to align goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identifying their objectives, time lines for completion, etc. It includes ongoing tracking and feedback in process to reach objectives. MBO's are often perceived as a form of planning.

2.1.2.6 Program Evaluation:

Program evaluation is used for a wide variety of applications, e.g., to increase efficiencies of program processes and thereby cut costs, to assess if program goals were reached or not, to quality programs for accreditation, etc.

2.1.2.7. Strategic Planning:

Strategic Planning includes organization-wide process to identify strategic direction, including vision, mission, values and overall goals. Direction is pursued by implementing associated action plans, including multi-level goals, objectives, time lines and responsibilities. Strategic planning is, of course, a form of planning.

2.1.2.8 Continuous Improvement:

Continuous Improvement focuses on improving customer satisfaction through continuous and incremental improvements to processes, including removing unnecessary activities and variations. Continuous improvement is often perceived as a quality initiative.

2.1.2.9. Knowledge Management:

Knowledge Management focuses on collection and management of critical knowledge in an organization to increase its capacity for achieving results. Knowledge management often includes extensive use of computer technology. In and of itself, this is not an overall comprehensive process assured to improve performance. Its effectiveness toward reaching overall results for the organization depends on how well the enhanced, critical knowledge is applied in the organization.

There are a number of challenges that are faced when designing an effective Performance Measurement System, these include the following: How to measure non-financial performance, what measures to choose and why, how to use them, what to do with the results, who should be responsible for using the results, how and to whom to communicate the results The resources are needed to consider the above and design and deploy the measurement system.

There are other major requirements that an organization needs to consider before an effective performance measurement system can be designed or installed. Apart from lower level measures that may be vital for the operation of processes, all measures need to be chosen to support the attainment of specific performance or behavior identified by the organization's leaders as important or necessary to work towards the organizational goals. This being the case, there must be clearly defined goals/objectives and strategies chosen to reach them before measures can be chosen to support their attainment. Similarly the key processes, drivers of performance, and the core competencies required by employees need to be identified before effective performance measurement can be achieved.

2.1.3 Performance Measurement Process

Performance measures are recognized as an important element of all Total Quality Management programs. Managers and supervisors directing the efforts of an organization or a group have a responsibility to know how, when, and where to institute a wide range of changes. These changes cannot be sensibly implemented without knowledge of the appropriate information upon which they are based. In addition, among many organizations within the Department of Energy (DOE) complex, there is currently no standardized approach to developing and implementing performance measurement systems. As a result, performance measures have not been fully adopted to gauge the success of the various quality management programs practiced by members of the Department of Energy Nevada Operations Office (DOE/NV) Family Quality Forum.

To address these issues, the steering committee members commissioned a work group to study the development, implementation, and operation of performance measurement systems. This guidance document, the product of the work group, provides a comprehensive, step-by-step explanation of how to develop performance measurements at any level within an organization and how to evaluate their effectiveness.

The implementation of performance measurements for a specific process should involve as many cognizant employees as possible to stimulate ideas and reinforce the notion that this is a team effort requiring buy-in from all involved in order to succeed. Substantial benefits are realized by organizations implementing performance measurement programs. These benefits are realized almost immediately through an improved understanding of processes by all employees. Furthermore, individuals get an opportunity to receive a broadened perspective of the organization's functions, rather than the more limited perspective of their own immediate span of control.

As a process, performance measurement is not simply concerned with collecting data associated with a predefined performance goal or standard. Performance measurement is better thought of as an overall management system involving prevention and detection aimed at achieving conformance of the work product or service to your customer's requirements. Additionally, it is concerned with process optimization through increased efficiency and effectiveness of the process or product. These actions occur in a continuous cycle, allowing options for expansion and improvement of the work process or product as better techniques are discovered and implemented. Performance measurement is primarily managing outcome, and one of its main purposes is to reduce or eliminate overall variation in the work product or process. The goal is to arrive at sound decisions about actions affecting the product or process and its output.

2.2 TRADITIONAL HERBAL MEDICINE

Records extracted from ancient Egypt, Assyria, China and India show that the use of plants for medicinal purposes extends back to earliest recorded history. Indeed, their use is probably a natural progression from the instinctiveness of animals to utilize such plants and constitute a recognition of the complete spectrum of consumable plants, commencing with those that are purely dietary; passing through those foods known to be necessary for health (fresh vegetables, carrots, fruits, which quantity as foods but known to have medicinal effects e.g. figs, prunes, mucilages acting as mild laxatives); and finally the recognition of purely medicinal plants, some apparently quite 'safe' and others more potent (e.g. containing cardioactive glycosides), which can be consumed only in small quantities but which at such dosage are suitable for the treatment of certain diseases.

During the course of history, the cure of disease and the use of medicinal plants have been much influenced by religious practice and the exercise of magical rites.

Thus, the philosophy of the 'Doctrine of Signatures' introduced by Paracelsus in the sixteenth century held considerably sway for four centuries and was not completely abandoned until the modern era of photochemistry and pharmacology gave an alternative system for the rationalization of the use of plants in medicine.

Strictly speaking, a herbal remedy is one in which the main therapeutic activity depends upon the plant or fungal metabolites which it contains and is not definable in terms of the particular system of medicine in which it is employed. As Professor Shellard has observed, we cannot really differentiate between Senokot or Cascara Evacuant (both used in orthodox medicine), on the one hand, and a Laxative Tea based on Cassia angustifolia or a preparation of the bark of Alnus frangula (both herbal remedies), on the other. Therefore, from a pharmacognostical viewpoint the study of herbal medicines differs little from that for the allopathic medicinal plants. In practice, however, many herbal remedies have not been as extensively studied either pharmacologically or phytochemically as their orthodox medicinal counterparts.

It is important also to distinguish between herbal medicine supplied by a qualified medical herbalist as a result of a consultation, and those herbal remedies freely available to the public for self-medication at retail outlets.

2.2.1 Role of Traditional System of Medicine in Primary Health Care

India has produced a respectable health system, Ayurveda, which encompasses the entire system of human health and contributes to the positive health of an individual. But due to certain inimical interferences with the system over the ages, a need has arisen to unify the entire system and codify it. In this context, laying down the standards of Ayurvedic drugs is of paramount importance. This is more so because these days Ayurvedic drugs are increasingly coming from the industry rather than the Ayurvedic physician compounding them impromptu. Moreover, commercially Ayurvedic drugs can make a dent in the international market which is looking towards alternative medicine for the cure of ailments to which even modern system has no answer. These ailments include metabolic to degenerative disorders like arthritis, life – style induced problems of heart, diabetes and cancer, dementia and age- related disorders, immunological disorders and gynecological problems. There is a big market for these products. Firstly there is a bird's eye view of the status of plant based products globally, and underlines the thinking in other countries on these drugs, and tries to reflect the scenario. Globally there is an increasing interest in traditional systems of medicines. Traditional use of herbal medicine is the basis and integral part of various cultures, which was developed within an ethnic group before the development and spread of modern science. The herbal medicines as the major remedy in traditional medical systems have been used in medical practice for thousands of years. Theses have made a great contribution in maintaining human health. A majority (65-80%) of the world's population i.e. around three billion people still rely on herbal medicines to meet its health needs. The practice continues today because of its biomedical benefits and its place in cultural beliefs in many parts of the world.

2.2.2 Production and Supply of herbal remedies

In most western European countries there is distinct division between the supply and prescribing of herbal remedies and of those plants used in the allopathic system of medicine. The division has been further reinforced in some instances by legal requirements. In the Eastern bloc countries the supply of all medicine, including herbal remedies, now comes under the control of a pharmacist. Herbal remedies can be obtained in Britain, in theory, via a medical practitioner, through a registered pharmacy, as a result of a prescription from a medical herbalist and from various retail shopkeepers. However, medical practitioners rarely prescribed herbal remedies; medical herbalist, who constitute a small professional body, are not consulted by the majority of the public who purchase herbal products; and until recently few pharmacists have stocked them. Consequently, the principal outlets are the health food stores and similar sources. Herbalists shops as such, which were, until comparatively recently, quiet common, have now largely had their function merged with the supply of health foods in general. A number of 'health' magazines and brochures promote the use of vegetable diets and herbal remedies and bring to public attention the existence of such products as jojoba (Simmondsia chinensis; Fam. Buxaceae) oil in tonic shampoos, evening primrose oil, and the beneficial effects of ginseng, to name but two of the very many examples.

The herbal medicine tradition in some European countries remains strong, with quoted figures for herbalists being 16,000 for Germany and 400 for Denmark. In France, as a result of legislation enacted in 1941, the marketing of herbal products passed very much under control by pharmacists. Many physicians in Europe are now reportedly prescribing an increasing number of medicines based on plant sources, as distinct from synthetic ones. In the USA there is a legal restraint on the use of 'Teas' which contain herbal constituents. A recent survey made in central London on herbal teas (Baldwin *et al.*, Pharma 1987, 239, R10) found that more than 100 varieties were on sale from pharmacies and involved 117 different herbs; they were mainly available as tea-bags containing either single or multi-herb components.

2.2.3 Legal control

Whether it is desirable that in the UK herbal remedies should be available to all without any form of control or advice became a matter of some debate in 1981 (Non-prescription medication, J., 1981, 227, 384) and professionally there was considerable support for general-practice pharmacists becoming more involved in this area. Since then there has been a marked increase in the supply of these preparations from pharmacies but, unfortunately, with a few exceptions, there has not been the necessary supportive education, at the undergraduate or postgraduate level, to give pharmacists a sound background in this discipline.

The supply of medicines is controlled by the Medicines Act 1968 and the Medicines (Retail Sale and Supply Herbal Remedies) Order 1977, SI No 2130, London: HM Stationery Office. Essentially there are a few (13) drugs, including belladonna, digitals, nux-vomica, poppy capsules, rauwolfia, which are obtainable only on the prescription of an appropriate practioner (not including a herbal practioner) some 35 potent plants (e.g. male fern and strophanthus) are under pharmaceutical control; and further 40 plants, including those containing tropane alkaloids cinchona and colchicum, may be supplied by herbalists within certain specified limits.

All these drugs represent but a small proportion of the 550 herbs and their preparations which are in general use in herbal medicine. Some 341 herbal medicines are included in the General Sales List and, therefore, are freely available to the public without prescription. In Britain alone it has been estimated that 6000 - 7000 tons of herbs are extracted annually for use as ingredients of herbal remedies (Phillopson, Pharm. 1981, 227, 387); and for the health-food market in 1983 it was estimated that the sale of herbal, homoeopathic and other remedies amounted to 15M (Anderson *et al*, Pharm 1986, 236, 303). The manufacture of these products is carried out by relatively few companies, who will supply a certificate of quality with their products. As distinct from the sale of an unprocessed herb, these preparations (like other OTC medicines) require a product license for their manufacture and sale and new medicines. Directives of the EEC also specify standards of quality, safety and efficacy applicable to plant-based proprietary medicinal products, and many such, on the market before the latest directives came into force, will be reviewed in the light of the new standards before 1990.

2.2.4 The herbal practitioner

A qualified medical herbalist will be a member of the National Institute of Medical Herbalist, a body founded in London in 1864. Training may be by a four year tutorial course or by an approved full-time diploma course as offered by the School of Herbal Medicine. Tunbridge Wells, England. Qualified practitioners should be distinguished from the unqualified shop vendors of herbs and herbal products. A qualified herbal practitioner will have consulting rooms and will diagnose particulars symptoms and prescribe herbal treatment appropriate for the individual patient.

Such treatment is directed towards restoring a state of homeostasis, or a normal physiological balance of the body, rather than directly attacking the symptoms of the disease. The extracts of the plant or plants prescribed will contain a wide range of plant metabolites, of which some will be therapeutically active. It is maintained that this admixture, containing a spectrum of the constituents of the plant cell is more readily assimilable and gives rise to far fewer side-effects than a single isolated principle. Also, a number of constituents, which on their own may appear pharmacologically inactive, combine synergistically to produce therapeutic effects.

Thus, Convallaria majalis (lily of the valley) is highly esteemed in the treatment of certain heart conditions. It contains glycosides similar to those of digitalis but having a subtly different cardioactive effect. This treatment, as indicated by Fletcher-Hyde, (Pharm 1974, 212, 495) may be combined with, or followed by, according to the individual patient's requirements, administration of Melissa officinalis (antispasmodic and thymoleptic) Selencerus grandiflora (slow-acting myocardial agent) Leonurus cardiaca (sedative to reduce atrial irritability and extrasystoles) and Sarothamnus scoparius (to reduce oedema). Crataegus oxyacantha fruits are employed as hypotensive – they contain a variety of compounds (saponins, flavonoid glycosides, procyanidins) which combine to give a gentle potentiating activity and allow the reduction in dosage of other cardiovascular remedies. Extracts of Viscum album, Tilia platyphyllos and Rauwolfia serpentine are also employed for the treatment of diseases of the digestive system, the respiratory system, the blood and blood-forming tissues, the locomotor system, the connective tissues and the endocrine system

2.2.5 Efficacy, Self-medication and safety

Many of the plants used in herbal medicine contain principles whose effects can be demonstrated pharmacologically and the action of the whole plant extract can usually be related to that of the isolated constituents. However, for most of the herbal remedies it is not possible to demonstrate or evaluate their pharmacological activity, and the situation is complicated by the frequent use of a number of drugs in combination, the supposed active constituents of which have not been elucidated. Arising from this, orthodox medicine came to disregard many such 'polypharmaceutical preparations and concentrated research on the isolation of individual components having, for example, demonstrable anticancer, hypertensive and antimicrobial properties.

Recently there has been a revival of interest in many of the above plants, and the case of valerian demonstrates the desirability of, and further problems resulting from, such a reappraisal. Valerian has long been used for its sedative properties, but the unreliability of its preparations and the lack of association of therapeutic activity with known constituents (essential oils, alkaloids) led to its decline in use in standard medical practice in the UK. In the 1970s, however, it was established that sedative action of the root raided in a group of unstable, hitherto unknown compounds, the expoxyiridoid esters (valepotriates) and these were marketed as a freeze-dried product to avoid decomposition. Unfortunately, further research showed the valepotriates to have cytotoxic activity, although no adverse reactions had been reported as a result of normal medication with the drug. Interest then reverted to the sequiterpene valerenic acid derivatives of the root which also have s sedative action; these are not destroyed by the usual processing of the drug as are the valepotriates. Now efforts are being made to select plants producing high concentrations of these compounds but which are low in valepotriates. Feverfew (q.v.) is another example of an old-established drug which is now of interest because of its potential in the treatment of migraine.

The influence of advertising on the sale of products is very apparent in this area Baldwin *et al.* (Pharm, 1987, 239, R13) report that, for 1986, of the 154 herbal enquiries received by the Welsh Drug Information Centre, involving 74 herbs, the three most prominent drugs were evening primrose, feverfew, and Ginkgo biloba, all of which had been of media interest during the year. In general, most concern involved effects during pregnancy and lactation, potential drug-herb interaction and appropriate doses for children.

It seems to be a general notion that, by and large, herbal remedies, being natural products, are inherently safer than the potent synthetic drugs, which often produce undesirable side-effects. Certainly, mankind's thousands of years of experience with plants has led him to appreciate those with a medicinal value but which in the appropriate dose cause no untoward effects. Nevertheless, and notwithstanding the long list of well-established extremely toxic plants, it is only during the last few decades that we have become aware of the existence in the plant kingdom of such substances as carcinogens, teratogens and other compounds which cause disease and sensitization. This, comfrey (Symphytum officinale), always considered a safe herb has been found to contain small quantities of pyrroliziidine alkaloids which are known to be hepatoxic and which, when administered to rats, cause liver cancer. Are those people who regularly consume comfrey in the form of a tea therefore at risk? Similarly, the alkaloids reserpine, an alkaloid of Rauwolfia serpentine has been reported as a result of the administration of the root extract. A number of cases of toxicity arising from the over-consumption of herbal remedies have been reported, and the principal danger appears to be that arising from the uncontrolled supply and administration of these products.

2.3 VERTICAL INTEGRATION

The degree to which a firm owns its upstream suppliers and its downstream buyers is referred to as **vertical integration**. Because it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation, and other strategic issues, the vertical scope of the firm is an important consideration in corporate strategy. Expansion of activities downstream is referred to as *forward integration*, and expansion upstream is referred to as *backward integration*.

2.3.1. Benefits of Vertical Integration

Vertical integration potentially offers the following advantages:

- Reduce transportation costs if common ownership results in closer geographic proximity.
- Improve supply chain coordination.
- Provide more opportunities to differentiate by means of increased control over inputs.
- Capture upstream or downstream profit margins.
- Increase entry barriers to potential competitors, for example, if the firm can gain sole access to a scarce resource.
- Gain access to downstream distribution channels that otherwise would be inaccessible.
- Facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.
- Lead to expansion of core competencies

2.3.2 Drawbacks of Vertical Integration

While some of the benefits of vertical integration can be quite attractive to the firm, the drawbacks may negate any potential gains. Vertical integration potentially has the following disadvantages:

- Capacity balancing issues. For example, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions.
- Potentially higher costs due to low efficiencies resulting from lack of supplier competition.
- Decreased flexibility due to previous upstream or downstream investments. (Note however, that flexibility to coordinate vertically-related activities may increase.)

2.4 PURPOSE OF FINANCIAL STATEMENTS

The purpose of a financial statement is to enable a business to establish the result of its operations over a period of time and to determine its worth at a specific date. Financial statements are often prepared by business people to assist them in evaluating their financial condition. Sometimes it is necessary to provide specific financial statements at the request of a banker or supplier. Tax returns require a financial statement when a business is involved. In-house monthly financial statements can be in any form that is convenient or acceptable to management. When financial statements are provided to outside parties, however, they are required to be in a standard format and follow specific rules of preparation.

A basic set of financial statements will consist of an Income Statement, which shows the profit or loss over a period of time, and a Balance Sheet, which is a summary of the Assets, Liabilities and Equity of the business at a specific date. Sometimes, a Statement of Cash Flows may be prepared, which summarizes the receipts and disbursements of cash during the period. This is often a useful tool for management and owners to see where the cash is really going.

2.4.1. Financial Ratio Analysis

The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. Apply Ratio Analysis to Financial Statements to analyze the success, failure, and progress of your business.

When using ratios for analyzing financial performance, computation and interpretation is assisted if the analyst uses some sort of analytical framework. Weetman (1999) suggest that a systematic approach to ratio analysis should initially establish a broad picture, before focusing on areas of concern.

Pandey (2003) defined a ratio as 'the indicated quotient of two mathematical expression * and as*the relationships between two or more things' Beaver (1966) compare the financial ratios of 79 manufacturing firms which failed with 79 which remained solvent. His study revealed four ratios which could discriminate between failed and non failed firms. These are: (i) Working capital total assets, (ii) net income to total assets, (iii) total dept to total assets and (iv) current ratios. Gupta (1979) attempted a refinement of Beaver's method in the Indian context. His study revealed five ratios with a high degree of predictive power which are: (i) Earning s before depreciation, interest and taxes (EBDIT) to sales. (ii) Operating Cash flow to sales (OCF) (iii) EBDIT/Total assets including accumulated depreciation, (iv) OCT/Total assets including accumulated depreciation and (v) EBDIT/Interest +0.25 dept). This ratio measures the extent of the firms estimated dept servicing ability.

Salmi *et al.* (1990) researched on the financial ratios of 32 publicly traded companies for 1974-1984 and were able to classify financial ratios into the following three groups:

1) Accruals ratios which include covering liquidity, capital adequacy, profitability and efficiency.
2) Cash flow ratios which include: cash net income to cash from sales, cash operating income to total assets, cash flow to capital investments divided by cash based sales, cash outflow to materials supplies and staff costs divided by cash from sales and cash outflow to interest payments divided by cash operating income.
3) Market based ratio which contain market information and are therefore distinct from the conventional financial ratios by definition. These are divided in the study into the following three groups.
   a) Ratio directly based on financial statement such as the Dividend Payout Ratio.
   b) Ratio where the numerator comes from the financial statement and the denominator from market based information or vice versa, such as Dividend Yield, Price Earning Ratio and market to book Ratio
   c) Ratios based solely on market indicators such as return on security, Security Beta and Security Total Risk.

2.4.2 RATIOS

A ratio is the relationship between numbers and for it to be meaningful it must measure progress over a period and represented graphically. Such graphs helps managers identify deficiencies and take action to improve performance of the business during the period under review Brigham *et al.* (2002). Moreover it must be marked comparing the most recent result with appropriate high quality competition or previous year's results. A definite accounting figures reported in the financial statement does not give the true reflection of the performance and financial position of a company. To a certain extent it is important to note that an accounting figure conveys meaning when it is related to some other relevant information. Thus the relationship between two accounting figure expressed mathematically is known as financial ratio.

Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.

2.4.2.1 Balance Sheet Ratio Analysis

Important Balance Sheet Ratios measure liquidity and solvency (a business's ability to pay its bills as they come due) and leverage (the extent to which the business is dependent on creditors' funding). They include the following ratios:

2.4.2.1.1 Liquidity Ratios

These ratios indicate the ease of turning assets into cash. They include the Current Ratio, Quick Ratio, and Working Capital.

i) Current Ratios

The Current Ratio is one of the best known measures of financial strength. It is figured as shown below: Current Ratio = Total Current Assets / Total Current Liabilities

The main question this ratio addresses is: "Does your business have enough current assets to meet the payment schedule of its current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?" A generally acceptable current ratio is 2 to 1. But whether or not a specific ratio is satisfactory depends on the nature of the business and the characteristics of its current assets and liabilities. The minimum acceptable current ratio is obviously 1:1, but that relationship is usually playing it too close for comfort.

If you feel your business's current ratio is too low, you may be able to raise it by: Paying some debts, increasing your current assets from loans or other borrowings with a maturity of more than one year, Converting non-current assets into current assets, increasing your current assets from new equity contributions, and Putting profits back into the business.

ii) Quick Ratios

The Quick Ratio is sometimes called the "acid-test" ratio and is one of the best measures of liquidity. Quick Ratio = Cash + Government Securities + Receivables / Total Current Liabilities. The Quick Ratio is a much more exacting measure than the Current Ratio. By excluding inventories, it concentrates on the really liquid assets, with value that is fairly certain. It helps answer the question: "If all sales revenues should disappear, could my business meet its current obligations with the readily convertible `quick' funds on hand?"

An acid-test of 1:1 is considered satisfactory unless the majority of your "quick assets" are in accounts receivable, and the pattern of accounts receivable collection lags behind the schedule for paying current liabilities.

iii) Working Capital

Working Capital is more a measure of cash flow than a ratio. The result of this calculation must be a positive number. It is calculated as shown below:

Working Capital = Total Current Assets - Total Current Liabilities

Bankers look at Net Working Capital over time to determine a company's ability to weather financial crises. Loans are often tied to minimum working capital requirements.

A general observation about these three Liquidity Ratios is that the higher they are the better, especially if you are relying to any significant extent on creditor money to finance assets.

2.4.2.1.2 Leverage Ratio

This Debt/Worth or Leverage Ratio indicates the extent to which the business is reliant on debt financing (creditor money versus owner's equity): Debt/Worth Ratio = Total Liabilities/Net Worth

Generally, the higher this ratio, the more risky a creditor will perceive its exposure in your business, making it correspondingly harder to obtain credit.

2.4.2.1.3 Profitability Ratios

Profitability ratios indicate how successful the managers of a company have been in generating profit Watson and Head (2007). Profitability ratios show the combined effects of liquidity, asset management, and debt management policies on operating results. They include the profit margin on sales, the basic earning power ratio, the return on total assets, and the return on common equity Brigham (2002),

i) Return On Capital Employed

This ratio relates the overall profitability of a company to the finance used to generate it. It is also the product of net profit and asset turnover:

ROCE = Net profit margin x Asset turnover.

ii) Gross Profit Margin Ratio

This ratio is the percentage of sales dollars left after subtracting the cost of goods sold from net sales. It measures the percentage of sales dollars remaining (after obtaining or manufacturing the goods sold) available to pay the overhead expenses of the company.

Comparison of your business ratios to those of similar businesses will reveal the relative strengths or weaknesses in your business. The Gross Margin Ratio is calculated as follows:

$$\text{Gross Margin Ratio} = \frac{\text{Gross Profit}}{\text{Net Profit}}$$

Reminder: Gross Profit = Net Sales - Cost of Goods Sold

iii) Net Profit Margin Ratio

This ratio is the percentage of sales dollars left after subtracting the Cost of Goods sold and all expenses, except income taxes. It provides a good opportunity to compare your company's "return on sales" with the performance of other companies in your industry. It is calculated before income tax because tax rates and tax liabilities vary from company to company for a wide variety of reasons, making comparisons after taxes much more difficult. The Net Profit Margin Ratio is calculated as follows:

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit Before Tax}}{\text{Net Sales}}$$

iv) Management Ratios

Other important ratios, often referred to as Management Ratios, are also derived from Balance Sheet and Statement of Income information.

v) Inventory Turnover Ratio

This ratio reveals how well inventory is being managed. It is important because the more times inventory can be turned in a given operating cycle, the greater the profit. The Inventory Turnover Ratio is calculated as follows:

$$\text{Inventory Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory at Cost}}$$

vi) Accounts Receivable Turnover Ratio

This ratio indicates how well accounts receivable are being collected. If receivables are not collected reasonably in accordance with their terms, management should rethink its collection policy. If receivables are excessively slow in being converted to cash, liquidity could be severely impaired. Getting the Accounts Receivable Turnover Ratio is a two step process and is calculated as follows:

$$\text{Daily Credit Sales} = \frac{\text{Net Credit Sales Per Year}}{365\,(\text{days})}$$

$$\text{Accounts Receivable Turnover (in days)} = \frac{\text{Accounts Receivable}}{\text{Daily Credit Sales}}$$

vii) Return on Assets Ratio

This measures how efficiently profits are being generated from the assets employed in the business when compared with the ratios of firms in a similar business. A low ratio in comparison with industry averages indicates an inefficient use of business assets. The Return on Assets Ratio is calculated as follows:

$$\text{Return on Assets} = \frac{\text{Net Profit Before Tax}}{\text{Total Assets}}$$

viii Return on Investment (ROI) Ratio

The ROI is perhaps the most important ratio of all. It is the percentage of return on funds invested in the business by its owners. In short, this ratio tells the owner whether or not all the effort put into the business has been worthwhile. If the ROI is less than the rate of return on an alternative, risk-free investment such as a bank savings account, the owner may be wiser to sell the company, put the money in such a savings instrument, and avoid the daily struggles of small business management. The ROI is calculated as follows:

$$\text{Return on Investment} = \frac{\text{Net Profit Before Tax}}{\text{Net Worth}}$$

These Liquidity, Leverage, Profitability, and Management Ratios allow the business owner to identify trends in a business and to compare its progress with the performance of others through data published by various sources. The owner may thus determine the business's relative strengths and weaknesses.

2.5 ADVANTAGES OF RATIOS

Ratio helps to show the area in which the company may improve its performance or would appear to have differential advantage over its competitors Kaminski *et al.* (2004). Short term creditors would be interested in the current financial position of the firm. Long term creditor's interest would also be on profitability of the firm. While equity shareholders will be particular with their return, and only comments on the firm's financial position when their earnings are depressed.

Furthermore, ratios enable comparison to be made internally with previous years and externally with industrial figures and the performance of competitors. However, in inter-company comparisons, the ratios would be meaningless unless you compare like with like Mydelton (2000).

In addition, ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. For example, current ratio is calculated by dividing current assets by current liabilities. It is tool by which we attempt to measure and compare financial performance.

Besides, analysis also helps to assess the performance of a company to determine whether the company is solvent and financially healthy to assess the risk attached to its financial structure, and to analyze the returns generated for its shareholders and other interested parties Watson and Head (2007).

2.6 DISADVANTAGES OF RATIOS

One problem is that the balance sheet relates to a company's position on one day of the year. If the balance sheet had been prepared three months earlier, a different picture might have been presented and key financial ratios might have had different values. Tax payable and dividends due might not have been included in the current liabilities, for example, and the current ratio could have looked much healthier.

Besides, it can be difficult to find a similar company as a basis for intercompany comparisons. No two companies are identical in every respect and so differences in commercial activity must be allowed for. As a minimum, differences in accounting should be considered.

Finally, the reliability of ratio analysis in the analysis of financial performance naturally depends on the reliability of the accounting information on which it is based. Financial statements have become increasing complex and it is not easy to determine if creative accounting has taken place. Company accounting has been described as 'a jungle with many species of animal- some benign, some carnivorous- and its own rules Smith (1996). Care must be taken to identify off-balance sheet financing or any complex financial instruments which may distort a company's true financial position. As shown by occasional high profile corporate failures, identifying the financial position of a company can be difficult even for experts.

2.7 TREND ANALYSIS

Trend analysis consists of computing the financial ratios of a firm at various points in time to ascertain its progressive performance or deterioration Anderson (2005). Generally shareholders, Board of Directors, Management staff, Customers, The public and Government expect positive and sustained growth of a company. The trend analysis of ratios thus indicates the direction of change.

CHAPTER THREE

3.1 METHODOLOGY AND CASE STUDY PROFILE

The study involves the assessment of the management of the products and the financial performance of Angel Herbal Products industry Ltd over the past five years of its establishment. The study aims at assessing the operational performance, leverage, efficiency and profitability of the company.

3.1.1 Data Sources

Data for the study were drawn from primary and secondary sources but greater emphasis was laid on the secondary sources. The primary sources were from quantitative research interviews, the activities, observations and dialogues with the management and staff of the company. The secondary sources were based on the records of the performance of the various products and the financial statements of Angel Herbal Products Industry Ltd. for the periods 2004 to 2008. Nevertheless, the secondary data were supplemented with the use of desk data, which consist of literature of previous studies about the subject matter such as performance appraisal of related companies, benchmarks, trend analysis, profitability, liquidity and efficiency ratios. It also consists of reviewing financial journals, articles, text books and publications posted on internet websites.

3.1.2 Methods of Data Analysis

Quantitative variable methods such as quantifiable data analysis, liquidity, efficiency, profitability and leverage ratios were used to assess the company's performance over the five-year period to ascertain whether the set objectives were met. Bar charts were used to pictorially assess the trend analysis of the financial performance of A.H.P.I. Ltd in its five years of operation. Calculations using percentages and simple proportions were used to test the A.H.P.I.'s product and financial management in the form of capital savings.

3.2 PERFORMANCE ASSESSMENTS

This is the complex process of evaluating a company's performance in terms of the environment, internal operations and external activities. The study concerns itself with the assessment of the internal performance of the company by analyzing the production and sales of each product which include source of raw materials, chemical composition and efficacy and accounting statements through the use of financial ratios. The key ratios used by corporate analysts to evaluate different dimensions of financial performance include profitability ratios, efficiency ratios, liquidity ratios and leverage or gearing ratios.

3.2.1 ANGEL HERBAL PRODUCTS

The company can boast of the production of five distinct products each of different formulation and efficacy namely: Angel Herbal Mixture, Angel Cream, Angel Soap, Angel Natural Capsules and Angel *Fatwikeke* Ointment. The method of preparation, formulation and granulation of these products is so distinct that their efficacy is outstanding and commendable. These products have Batch Numbers, Manufacturing Dates and Expiry Dates which are duly certified and periodically checked by Food and Drug Board (FDB), the authorized body responsible for certification and use of food and drug in Ghana.

3.2.1.1 Angel Herbal Mixture

Angel Herbal Mixture is a combination of local herbs such as coconut root, tiger nuts, and species of tree leaves which treat the following diseases: Jaundice, Menstrual Pains, Malaria, Fever, Loss of Appetite and Body Pains. The product is widely used by both young and old as well as the aged. Children below age nine (9) years are excluded from the dosage. This has been approved by Food and Drug Board (FDB).

Sources of Raw materials

Breeding farm, clients and the tiger nuts are specifically imported from Nigeria because they are smaller but not watery like those from Ghana, and they contain the chemical content required for the preparation of the mixture.

3.2.1.2 Angel Cream

Angel Cream is a combination of species of local herbs, tree barks, tree leaves, snow-white petroleum jelly, wax, extracted sulphur, essential oil (olive oil) and perfumes which has been approved by Food and Drug Board (FDB) for the treatment of the following diseases: Candysis (White), Boil (*Mponpo*) Shingles (*Ananse*) Ringworm (*Eyam*), Eczema (*Ekro*), Foot rot (*Apropro*) and Rashes. This is widely used by children, the youth, the old and the aged.

Sources of Raw materials

Breeding farm for the leaves and clients

3.2.1.3 Angel Soap

Angel Soap is the combination of local herbs such as cocoa husks, tree leaves, essential oil, and a certain percentage of perfume for the treatment of the following diseases: Dermalophytosis (*Etwefare*), Shingles (*Ananse*), Toothache (*Kaka*), Anal Sore (*Kokobo*) and Body Itching (*Ahokeka*). It is also used for bathing. Men also use it before and after shave. This has been approved and certified by Food and Drug Board (FDB).

Sources of Raw materials

Usually, the raw materials are supplied by clients.

3.2.1.4 Angel Natural Capsules

Angel Natural Capsules is a combination of local herbs such as coconut roots, tiger nuts, species of tree leaves and hard gelatin shell for the treatment of the following: Waist pains in both sexes, sexual weakness for both men and women, and for muscle building. The product is kept out of the reach of children, and approved and certified by Food and Drug Board (FDB).

Sources of Raw materials

Breeding farm, clients and the gelatin shells are imported from India.

3.2.1.5 Angel *Fatwikeke* Ointment

Angel *Fatwikeke* Ointment is a combination of species of local herbs, tree leaves, snow-white petroleum jelly, cassia *alata,* mentor and *Paullina Pinnata* for the treatment of the following: Muscular pains, Rheumatism, Back-ache, Burns and Waist pains. This is widely used by children, the young, the old and the aged, and approval is given Food and Drug Board (FDB).

Sources of Raw materials

Breeding farm for the leaves and clients

3.2.2 Profitability Ratios

These ratios measure the operating efficiency of the firm in terms of four widely used measures of profitability in a company which are assets turnover, return on capital employed, profit margin and net profit margin.

3.2.3 Efficiency Ratios

These ratios indicate how effective a company is utilizing its human and other material resources. Some of these ratios are the operating efficiency ratio, the non-interest expense ratio and interest expense ratio.

3.2.4 Liquidity Ratios

Liquidity ratios measure the ability of a firm to meet its current obligations. This obligation is important in a business since a company's inability to meet its financial obligations can lead to the collapse of the company. These ratios measure the operating efficiency of a firm in terms of the four widely used measures of liquidity of a company which are current ratios, quick ratios, debtors' days and creditors' days.

3.2.5 Gearing Ratios

The gearing or the leverage ratios evaluate the company's overhead structure in order to give a measure of how effective it operates.

3.3 PROFILE OF ANGEL HERBAL PRODUCTS INDUSTRY LIMITED

Angel Herbal Products Industry Ltd. is a herbal industry that prides itself in the manufacture of efficacious body and hair cream, herbal mixture for headache, malaria, jaundice, fever and body pains, capsules for muscular energy, soap for bathing and curing of skin diseases and ointment for burns and boils. The company became well established in September 2003 in Kumasi with the aim of manufacturing varieties of herbal products which are good for the human health, and distributing these herbal products nation-wide and abroad. The company's target groups include infants, the youth, adults and the aged since all these categories of people seek health needs hence the use of the herbal products whose efficacy cuts across these said categories of people by the endorsement of Ghana Food and Drug Board (GFDB), KNUST Department of Pharmacology (Herbal Medicine) and Centre for Scientific Research (CSR) into plant medicine- Akwapim Mampong.

The mission of the company is ***to harness all the chemical elements in our traditional herbs in a well and professionally formulated manner to specifically give relief and satisfaction in bodily pains, and for healthy growth as well as enhancement of natural beauty.*** A.H.P.I.Ltd. does not only manufacture and distribute its products but also offer professional advice to the use of the products. This, the management regards as imperative and ethical in the industry.

3.3.1 Ownership

The company is owned by Dr. Kwaku Oteng. He is the Chief Executive Officer of the company. The day –to-day administration of the company is run by the management headed by the Chief Executive Officer. The management board is made up of the chief executive officer, the chief of staff, the financial controller, the production manager, the marketing manager and the human resource manager. They also double as Board of Directors.

3.3.2 Growth of Angel Herbal Products Industry Limited

The company which was started by one man has been growing steadily, and now command a strong workforce of over one hundred and fifty people made up of managers, traditional medicinal experts, accountants, salesmen and saleswomen, drivers and casual workers.

The company has a branch in Accra and sales points dotted all over the country and abroad. Currently the company is embarking on the construction of a giant state-of-the –art industrial herbal centre at Kronum-Abuohia in Kumasi. The construction is nearing completion. After completion, A.H.P.I. is envisaged to become the market leader with the largest market share in the traditional herbal medicinal manufacturing in Ghana.

3.3.3 THE ORGINAZATIONAL STRUCTURE OF ANGEL HERBAL PRODUCTS LIMITED

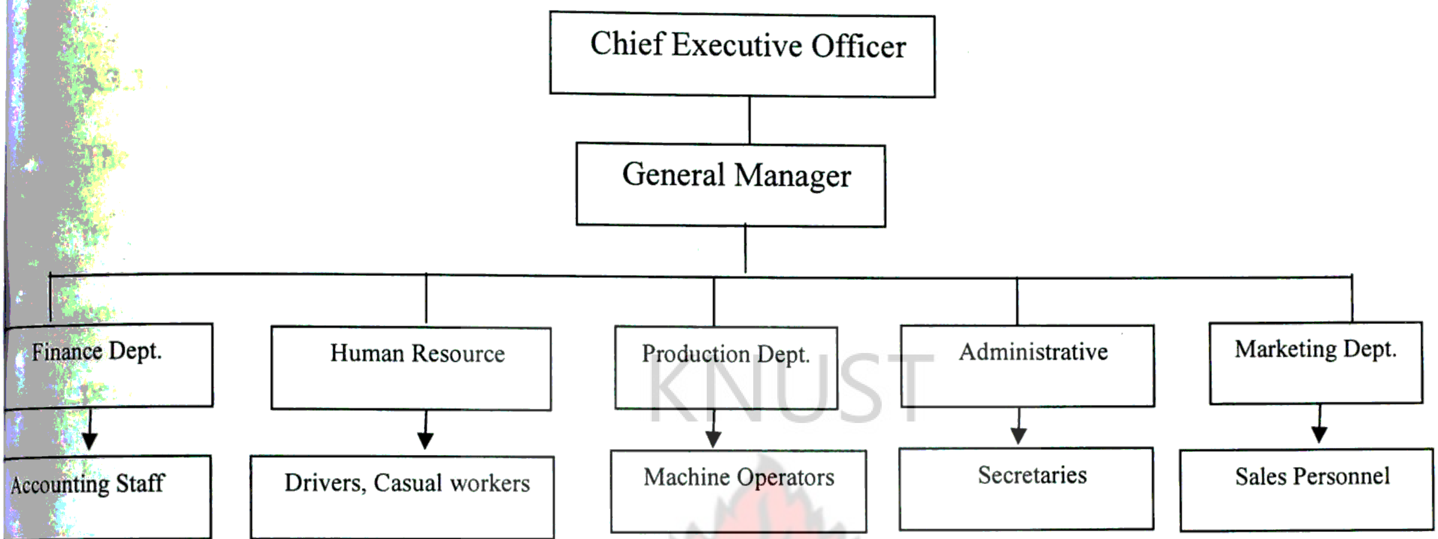

Fig. 1 Organizational Structure

The organizational structure of A.H.P.I Ltd. is provided in the diagram above. As indicated, the highest decision body is the Chief Executive Officer. Beneath the CEO is the General Manager who sees to the general administration of the entire set-up. The company is organized into five departments namely the finance department, the human resource department, the production department, the administrative department and marketing department.

3.3.3.1 THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer has oversight responsibilities over the management of the company. He controls and directs affairs of the company according to the laid down principles. The CEO is responsible for the formulation of new policies that have the potentials of increasing the company's productivity, efficiency and profitability, and to have a competitive edge and growth of the company. The CEO ensures prudent administration of the company in terms of finance and other material resources. The CEO is always conscious of the implementation of the company's policies for the achievement of the vision and mission of the company. He has the prerogative to hire and fire, and he can sue and the company be sued in any court of competent jurisdiction.

3.3.3.2 THE GENERAL MANAGER

The General Manager plays an administrative role by ensuring that each department performs its role to the required set standards. The General Manager sets the standards for strict compliance by all the functional departments. He occasionally rotates the positions of personnel at the various departments when the need arises. He is considered to be knowledgeable to have the crystal lenses to check all the departments against fraud and acts that may be detrimental to the corporate image. He accounts to the CEO, and acts as the link between the CEO and the other functional departments.

3.3.3.3 THE FINANCE DEPARTMENT

The finance department is responsible for raising and soliciting funds from wide variety of areas with each source having different features as regards cost, availability, maturity and risk implications. The department prepares financial projections, and advises management on sound and prudent investment decisions that are realistic and relevant.

3.3.3.4 THE HUMAN RESOURCE DEPARTMENT

This department is responsible for selection, recruitment and employment of prospective and qualified employees. The human resource manager ensures that competence and credibility soar above all other considerations in the employment process since he will be held vicariously liable for the tort of any employee. He therefore exhibits a considerable level of transparency and professionalism in the employment process.

3.3.3.5 THE PRODUCTION DEPARTMENT

The Production Department is the pivot around which the production of all the herbal products revolves. The efficiency, maintenance and replacements of all the equipment meant for the production fall under the production department. This department sometimes collaborates with the Administrative Department for the training and development of production personnel. This are requirements to inject new ideas into the production process in order to make production more vibrant, innovative and bountiful.

3.3.3.6. THE ADMINISTRATIVE DEPARTMENT

The Administrative Department provides the necessary personnel and administrative services to the company. It offers performance appraisal of staff, training and developmental needs of the company. It is responsible for all correspondence and secretarial services of the company. Public relation issues and general administrative matters of A.H.P.I. Ltd fall under the strict purview of the administrative department.

3.3.3.7 THE MARKETING DEPARTMENT

The Marketing Department is the Commercial and Advertising wing of A.H.P.I.Ltd. It is responsible for the marketing activities of the company. It undertakes a market survey, branding and rebranding of products, out-reach programmes, and appraisal of the market system in place and make recommendations to the management. The marketing department facilitates the ordering of raw materials and other relevant materials to ensure the availability and efficient distribution of products. The department ensures that there are viable and potential commercial outlets at vantage points all over the country in cities, towns, villages and hamlets for sales activities. It also sees to it that the products get to the doorsteps of the needy public. The department collates all the feedbacks in the market regarding pricing, potency of the products and other information relating to market changes and report to the appropriate units for action.

3.4 LIMITATION OF THE STUDY

The study is meant to cover a five-year period in the operating life of A.H.P.I.Ltd., and to undertake a comparative analysis of the products and the audited financial statements of the company for that period. There are other similar companies competing with A.H.P.I Ltd in the market. To know how it performs in the market, the performance of similar products and the financial statements of competing companies became relevant. Access to the performance of these products and the financial statements was impossible. It therefore made it difficult to benchmark the company's performance to that of its competitors. Notwithstanding, the study was based on analysis of the figures relating to production and sales of the products and financial statements of the company for the five-year period spanning 2004 to 2008.

3.5 THE FUTURE OF ANGEL HERBAL PRODUCTS INDUSTRY LIMITED

A.H.P.I. Ltd. has good prospects and a bright future as it has taken a bold step to expand its production base by the construction of its ultra-modern state-of-the art factory at Kronum Abuohia in Kumasi. After the construction, the company expects to brave the odds, and go into further research to double its production capacity, and to introduce new products into the market in the near future.

CHAPTER FOUR

4.0 ANALYSIS OF DATA AND INTERPRETATIONS

This chapter introduces the data extracted from the production, sales and the financial statements of the company. They are analyzed by using models described in the previous chapter. The quantitative data and the key financial ratios are calculated and assessed using the trend analysis. The results are therefore tabulated and graphed for interpretations.

4.1 COMPARATIVE ANALYSIS OF ANGEL HERBAL PRODUCTS

Figures from the volumes of production and sales of the various Angel Herbal Products would be analyzed and the results ranked over the period under review. Trend analysis would be used to assess how each product had performed from year to year.

Table 1: Volume of Production of Angel Herbal Products in Percentages

Angel Herbal Products	**Year**				
	2004 %	**2005 %**	**2006 %**	**2007 %**	**2008 %**
Herbal Mixture	**9.64**	**12.86**	**13.03**	**9.73**	**9.73**
Natural Capsules	**0.03**	**0.06**	**0.06**	**0.04**	**0.04**
Cream	**66.25**	**66.98**	**70.59**	**78.04**	**78.03**
Soap	**24.09**	**20.10**	**16.29**	**12.16**	**12.16**
***Fatwikeke* Ointment**	**0.00**	**0.00**	**0.02**	**0.02**	**0.04**

Table 2: Volume of Sales of Angel Herbal Products in Percentages

Angel Herbal Products	Year				
	2004 %	2005 %	2006 %	2007 %	2008 %
Herbal Mixture	16.46	19.75	18.84	11.60	8.78
Natural Capsule	0.03	0.04	0.04	0.03	0.02
Cream	56.77	50.13	53.67	71.46	78.28
Soap	26.74	26.74	27.43	16.90	12.90
Fatwikeke Ointments	0.00	0.00	0.02	0.01	0.01

It is the production decision of management to maintain in storage samples and a certain percentage of each product after production as a means of good manufacturing practices to track down incidents of intellectual property like imitation, adulteration and unauthorized sales. Also when there is formulation and granulation, samples are kept in storage and tested when defects are detected for possible retrieval of the products from the market.

For that matter volume of production of each product differs from volume of sales over the years. Volume of production is higher than volume of sales as indicated in Tables 1 and 2 above

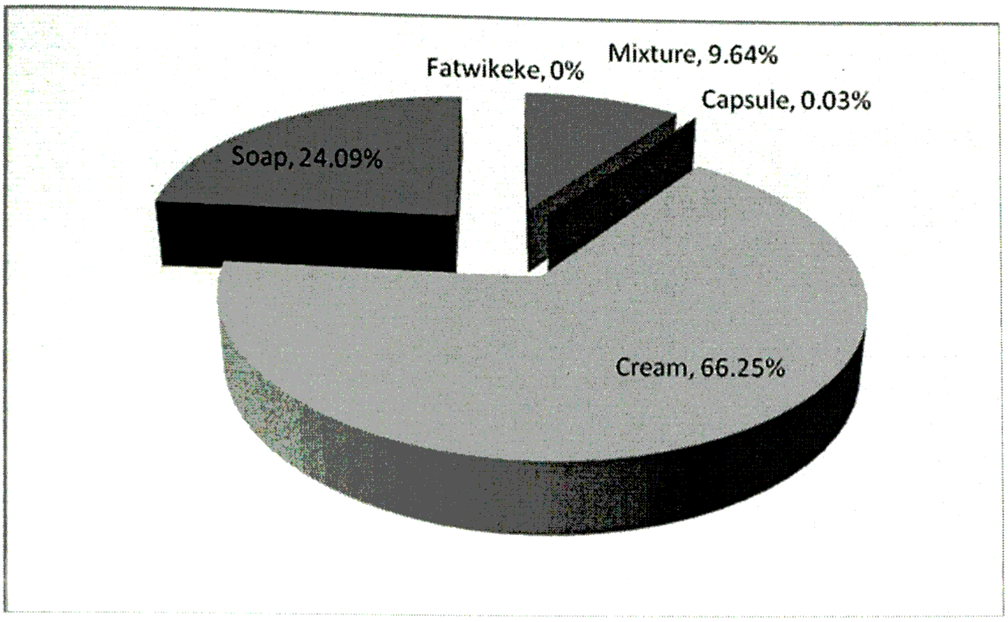

Fig. 2. A Pie Chart showing Volume of Production in 2004

4.1.1 Volume of Production in 2004

Production in commercial quantity of Angel Herbal Products started in 2004 after the efficacy of the products has been tested when used by people of different localities who needed the products in healing various diseases ranging from skin through abdominal to general health relief and smooth body satisfaction. The first brand of products manufactured includes Angel Cream, Angel Herbal Mixture, Angel Soap and Angel Natural Capsules. The *Fatwikeke* ointment did not feature in the first brand of products. 66.25% of the total volume of production in 2004 was the Cream, the first of the chain of products to be out-doored into the Ghanaian market, followed by the Soap 24.09%, the Mixture 9.64% and the Capsule 0.03%.

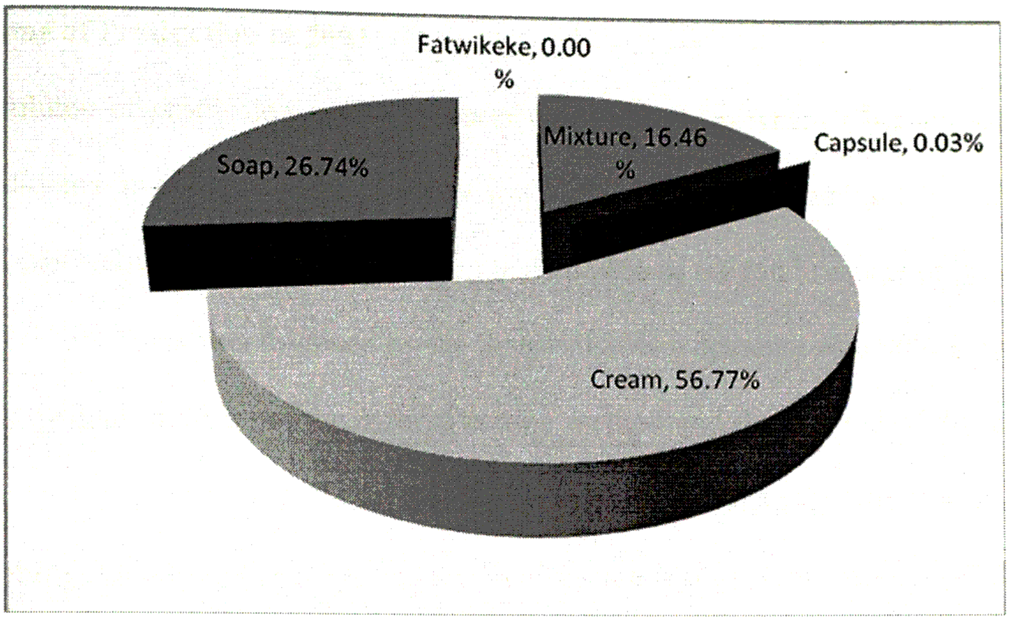

Fig. 3. A Pie Chart showing Volume of Sales in 2004

4.1.2 Volume of Sales in 2004

Commercial sales began in earnest in 2004 with the Cream having 56.77% of the total volume of sales made. This was followed by the Soap 26.74%, the Mixture 16.46% and the Capsules 0.03%. As indicated earlier the *Fatwikeke* was not produced and sold hence the recording of 0%.

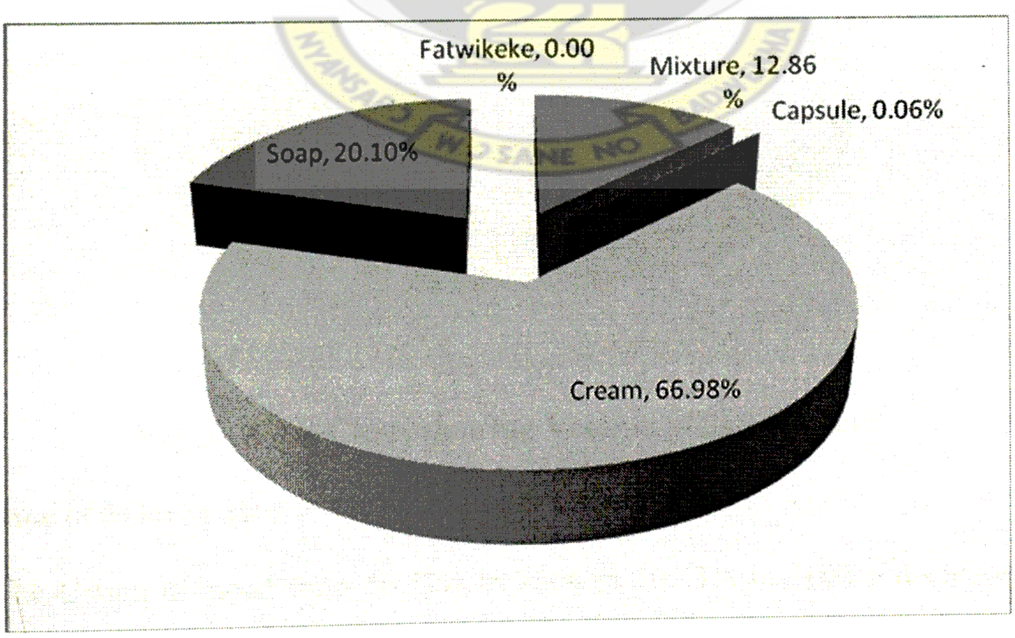

Fig. 4. A Pie Chart showing Volume of Production in 2005

4.1.3 Volume of Production in 2005

In 2005, volume of production of the products was stepped up when it became evident that public confidence in the use of the products was rising. The Cream which is widely used by both sexes especially females for skin tonning had 66.98% of the total volume of production an increase of 0.73%. This was followed by the Soap, 20.10% a decrease of 3.99%.Preparation of the Soap is difficult because of the manual cutting method and the method of drying process. There is no special technology used for the drying process other than the usual natural sunlight. This is problematic during the rainy season. The Mixture recorded an increase of 3.22% from 9.64% in 2004 to 12.86% in 2005.The Capsules also recorded an increase of 0.03% from 0.03% in 2004 to 0.06% in 2005. There was no production of *Fatwikeke* hence the recording of 0%.

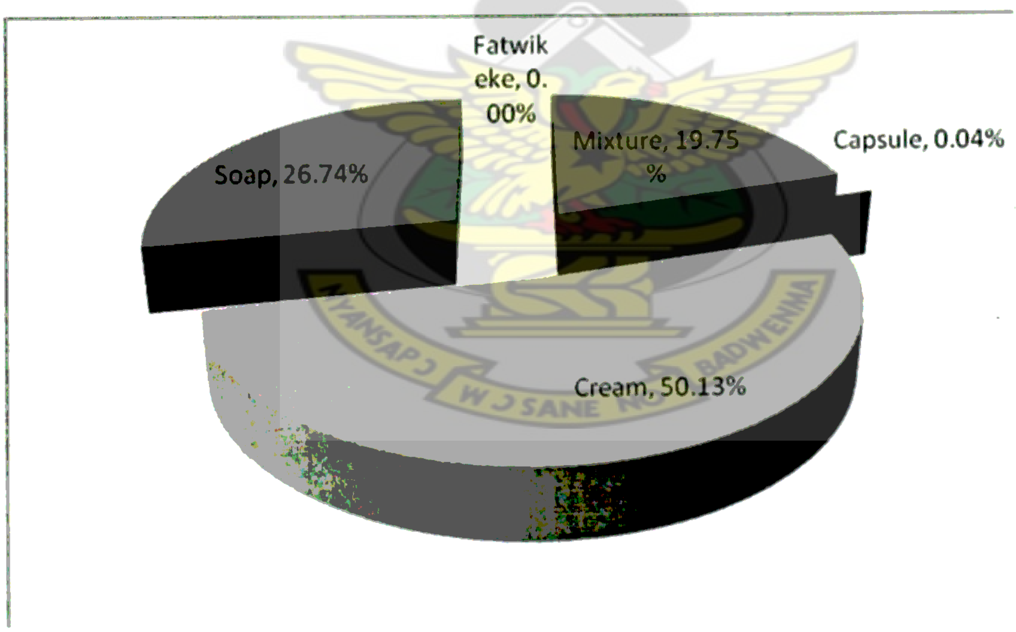

Fig. 5. A Pie Chart showing Volume of Sales in 2005

4.1.4 Volume of Sales in 2005

Sales of The Cream dropped from 56.77% in 2004 to 50.13% in 2005 a decrease of 6.64% after production of the same product went up by 0.73% in the same period recording a net decrease in sales of 5.91%. Sales in the Soap on the other hand increased from 26.74% in 2004 to 30.08% in2005 an increase of 3.34% as against a decrease of 3.99% in production during the same period recording a net decrease in sales of 0.65%.The Mixture recorded 3.29% increase in sales from 16.46% in 2004 to 19.755% in 2005 as against 3.22% increase in production the same year a net increase in sales of 0.07%. Sales in the Capsules increased from 0.03% in 2004 to 0.04% in 2005 an increase of 0.01% as against an increase of 0.03% in production recording a net loss in sales of 0.02%. The *Fatwikeke* did not record any sales as it was not produced.

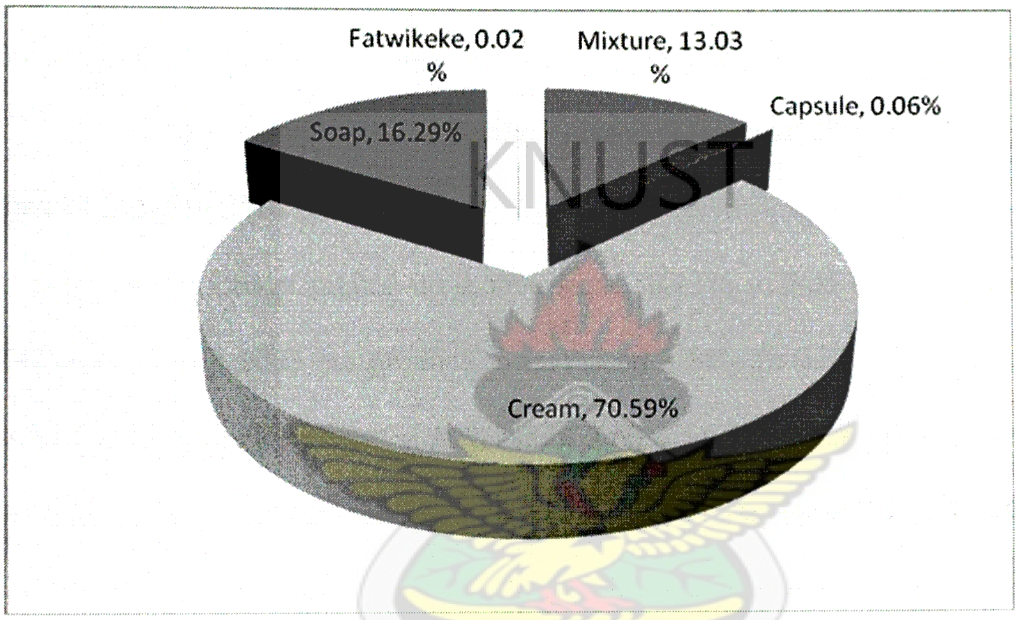

Fig. 6. A Pie Chart showing Volume of Production in 2006

4.1.5 Volume of Production in 2006

Volume of production of the Cream rose from 66.98% in 2005 to 70.59% in 2006 an increase of 3.61%, and 2.88% better than the previous increase. The Soap again decreased by 3.81% from 20.10% in 2005 to 16.29% in 2006 but 0.18% better than the decrease in 2005. The Mixture recorded an increase of 0.17% from 12.86% in 2005 to 13.03% in 2006 3.05% worse than the previous increase. The Capsule recorded the same percentage of 0.06% as of the previous year. There was no recorded increase in production indicating a better performance in 2005 than 2006. 2006 saw the introduction of a new product, the *Fatwikeke* ointment into the Ghanaian market. It just had only 0.02% of the total volume of production for that year.

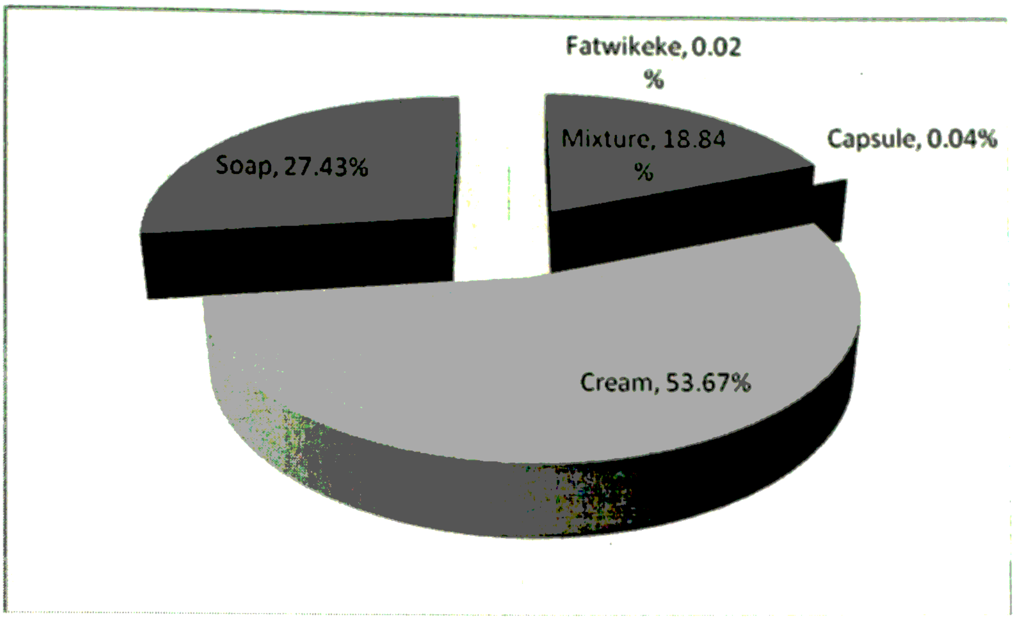

Fig.7. A Pie Chart showing Volume of Sales in 2006

4.1.6 Volume of Sales in 2006

Volume of Sales of the Cream picked up 3.54% from 50.13% in2005 to 53.67% in 2006 as against 6.64% decrease in 2005 but production increased 3.61% in the same year indicating a net drop of 0.07% in sales. There was a decrease of 2.65% of the volume of sales of the Soap from 30.08% in 2005 to 27.43% in 2006 as against 3.34% increase in 2005. Volume of production of the Soap decreased 3.81% recording 1.16% net increase in volume of sales. The Mixture dropped from 19.75% in 2005 to 18.84% in 2006 a decrease of 0.91% as against 3.29% increase in 2005.The volume of production increased 0.17% showing a 0.74% net decrease in volume of sales. There was no change in volume of sales in the Capsules as the same 0.04% was recorded as the previous year but poorly performed against the 0.01% increase in last year. Production did not record any increase either keeping the net volume of sales at 0%. The *Fatwikeke* did not record any change as 2006 was the year of its introduction into the market.

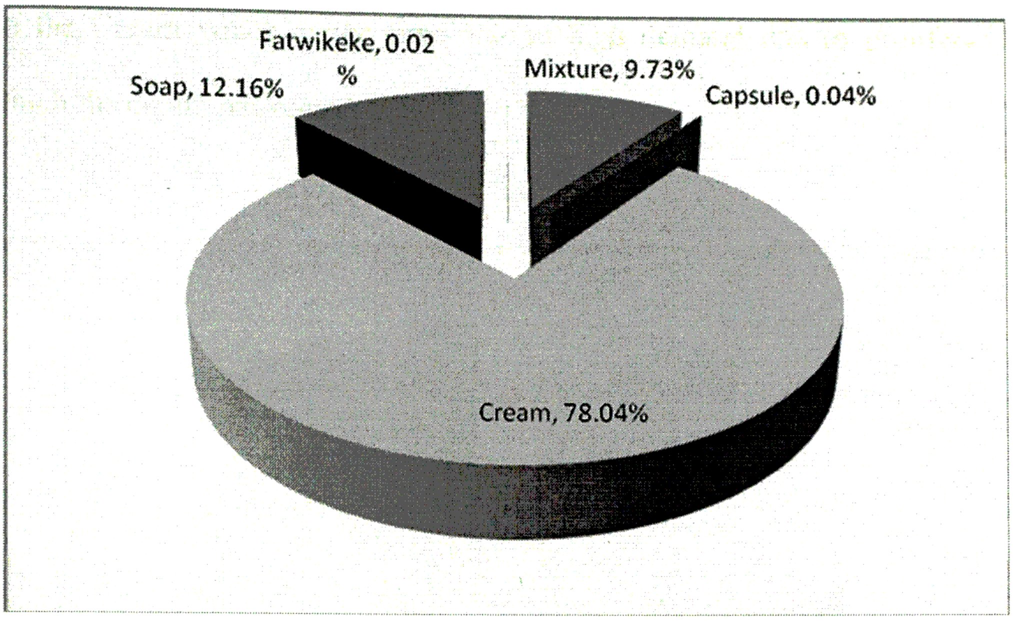

Fig. 8. A Pie Chart showing Volume of Production in 2007

4.1.7 Volume of Production in 2007

There was significant increase in the volume of production of the Cream rising from 70.59% in 2006 to 78.04% an increase of 7.49%. This stemmed from the fact that during the period of 2007 there was an adverse weather condition all over the globe as reported by the World Health Organization which resulted into several skin diseases. This called for curative measures hence the high demand for dermatological ointments like Angel Cream. This surpassed, and more than doubles the 2006 increase of 3.61%. The Soap with its peculiar difficulty in cutting, drying and packaging dropped by 4.13% from 16.29% in 2006 to 12.16% in 2007 as against 3.81% decrease in 2006 recording a 0.32% net drop in sales. The Mixture is no difference from the Soap. From 13.06% in 2006 it went down to 9.73% in 2007recording a 3.30% significant drop. This is worse than 0.17% increase in 2006. The volume of production of the Capsules also decreased by 0.02% from 0.06% in 2006 to 0.04% in 2007 after maintaining the level of production at 0.06% in 2006. The Fatwikeke did not record any increase in the volume of production. It maintained its 0.02% level of production in 2007 as it was in 2006. The low level of volume of production of the Soap, the Mixture, the Capsules and the Fatwikeke was as a result of massive shortage of raw materials, and the attention was focused on the Cream which at the time was in high demand due to proliferation of skin diseases which the cream has remedies for.

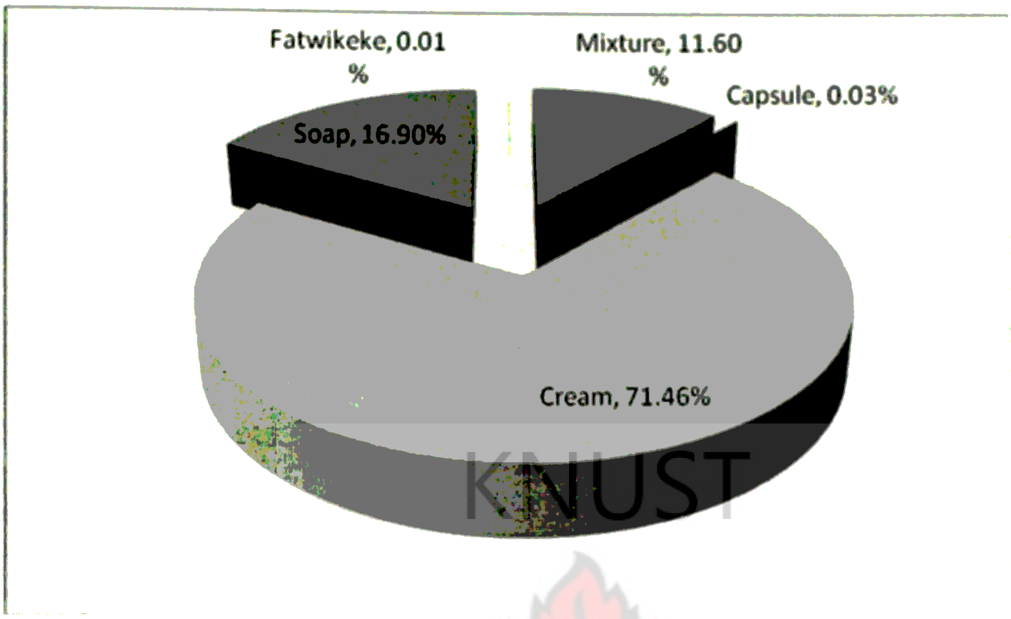

Fig. 9. A Pie Chart showing Volume of Sales in 2007

4.1.8 Volume of Sales in 2007

Volume of Sales in the Cream boomed significantly from a low 53.67% in 2006 to 71.46% in 2007 an increase of 17.79% as against 3.54% in 2006. This is benchmarked against the 7.49% increase in volume of production recording a whooping 10.3% net increase in volume of sales. The volume of sales of the Soap further declined by 10.53% from 27.43% in2006 to 16.90% in 2007 as against 4.13% volume of production indicating a 6.40% net decrease in volume of sales. The Mixture also recorded a decrease of 7.24% from18.84% in 2006 to 11.60% in 2007 as against 3.30% decrease in volume of production indicating a 3.39% net drop in volume of sales. The Capsules dropped from 0.04% in 2006 to 0.03% in 2007 a decrease of 0.01% as against 0.02% decrease in volume of production indicating a 0.01 net gain in volume of sales for the period. The *Fatwikeke* dropped 0.01% from 0.02% in 2006 to 0.02% in 2007 making it a net drop of 0.01% in the volume of sales as the volume of production is stable at 0.02% in 2006 and 2007.

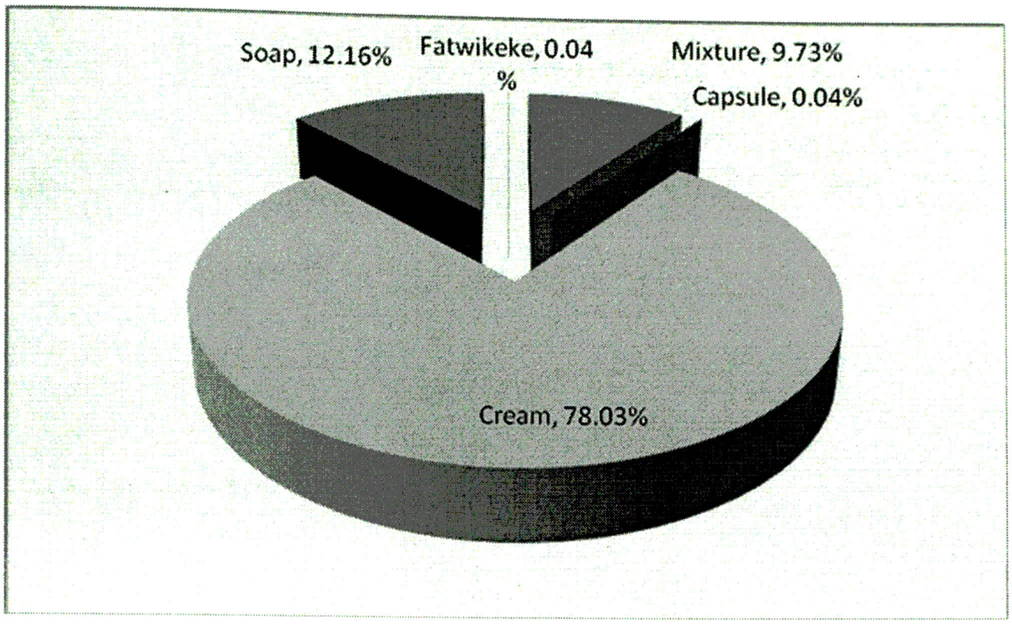

Fig. 10. A Pie Chart showing Volume of Production in 2008

4.1.9 Volume of Production in 2008

Management took a decision to maintain the volume of production of all products at the same level as the previous year. This was as a result of exorbitant prices of raw materials such as petroleum products, gelatin shell from India and tiger nuts from Nigeria This saw just a marginal decrease of 0.01% in the volume of production of the Cream which dropped from78.04% in 2007 to 78.03% in 2008. There was no drop in the volume of production of the Soap as the same volume of 12.16% in 2007 was maintained in2008. Similarly the Mixture recorded the same 9.73% volume of production in 2007 as in 2008 recording no change in the volume of production. The Capsule also maintained its level of production of 0.04% in 2007 as in 2008 indicating a null change in the volume of production. However, management took a different look at the *Fatwikeke* to double its volume of production from 0.02% in 2007 to 0.04% in 2008 a 0.02% increase over the previous 0% increase in 2007. This decision to double the volume of production of the *Fatwikeke* was taken to enable the product to catch up with the others as it was introduced lately into the market.

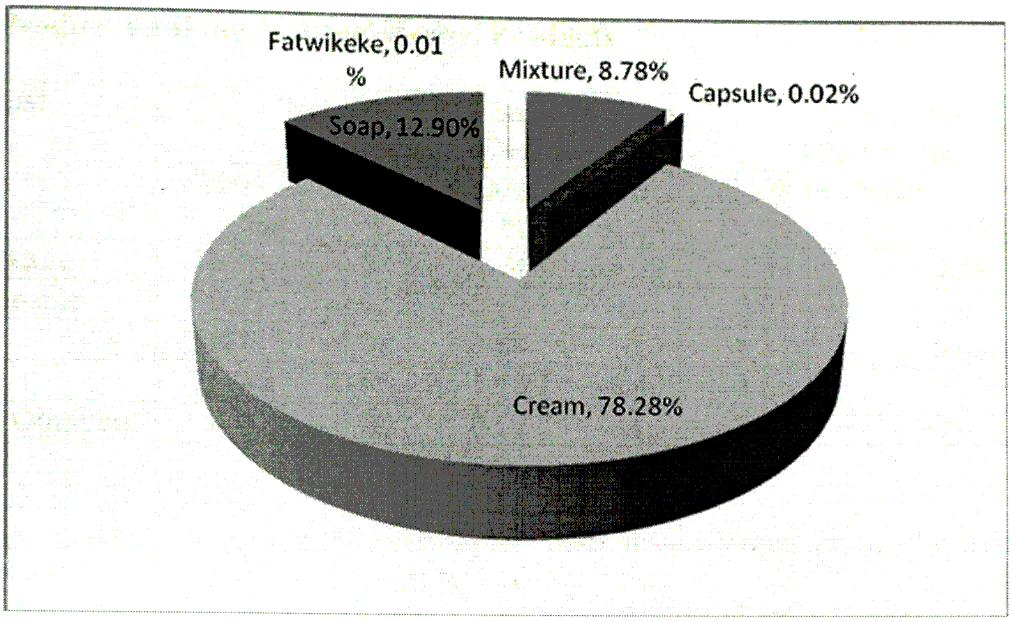

Fig. 11. A Pie Chart showing Volume of Sales in 2008

4.1.10 Volume of Sales in 2008

The volume of sales of the Cream shot from71.46% in 2007 to 78.28% in 2008 an increase of 6.82% as against 0.01% decrease in production recording a 6.81% net increase in volume of sales. Volume of sales of the Soap dropped from 16.90% in 2007 to 12.90% recording a decrease of 4.00% as against no increase in volume of production indicating a 4.00% net decrease in volume of sales. The Mixture recorded a 2.82% decrease in volume of sale from 11.60% in 2007 to 8.78% in 2008 as against no change in the volume of production showing a 2.82% net decrease in volume of sales. The Capsule also shows a marginal drop of 0.01% from 0.03% in 2007 to 0.02% in 2008 recording a 0.01% net drop in volume of sales as there was no change in the volume of production. The late entrant the *Fatwikeke* did not show any change in the volume of sales though production was doubled in the same year. This shows a 0.02% net decrease in volume of sales.

Table 3. Product Ranking of Angel Herbal Products

Angel Herbal Products	Net Volume of Sales in Years (Increase/Decrease)					Cumulative Net Volume of Sales	Product Ranking
	2004 %	2005 %	2006 %	2007 %	2008 %	%	
Herbal Mixture	16.46	0.07	-0.74	-3.39	-2.82	9.58	3rd
Natural Capsule	0.03	-0.02	0.00	0.01	-0.01	0.01	4th
Cream	56.77	-5.91	-0.07	10.3	6.81	67.9	1st
Soap	26.74	-0.65	1.16	-6.40	-4.00	16.85	2nd
Fatwikeke Ointment	0.00	0.00	0.02	-0.01	-0.02	-0.01	5th

The Capsule indisputably ranked the most widely patronized product among the five products. It was the first product to be manufactured, and it cures a lot of skin diseases as certified by Food and Drug Board and Faculty of Pharmacy-Traditional Herbal Medicine Department, KNUST, Kumasi. Some men use the product as an after-shave ointment to prevent pimples. Some women also use the product as cervical lubricant that prevents bad odour and White. The preparation of the product is not as laborious as the preparation of other products. The trend of the graphs over the years under review reveals that the product is the single largest source of income for the company because of its efficacy and wide patronage The Soap performs similar functions as the Cream. Additionally, it can be used to prevent gum bleeding, and some people use the product to whiten their teeth. The major setback in the production of the product is its slow drying process, softness and difficulty in cutting. The Herbal Mixture is basically manufactured to cure malaria which is a wide- spread health problem. The product competes keenly with the Orthodox medicines such as Paracetamol and Atesinuate Amodiquine which in some localities are preferable to the Traditional Herbal Medicine. It is against this backdrop that the product over the years performs relatively poorly against the two major products. The Capsules target just a section of the populace, the male youth who narrowly believe that the product is meant for only sexual weakness which is not the case. The product also cures body and waist pains. Its patronage is not widespread as the target group is narrow and limited. It is not surprise the *Fatwikeke* trails behind the rest of the products in both volume of production and volume of sales. It is the "baby" product which is mainly used for Rheumatism and Muscular pains. Its preparation requires exceptional sophisticated technology to prevent burning sensation of the eye and skin irritation. Patronage is not as effective as the other products. The aged is the target group who are in the low income level. Admittedly, volume of sales in this product category is the lowest as compared to the rest of the products.

4.2 FACTORS THAT INFLUENCE THE VOLUME OF PRODUCTION AND SALES

4.2.1 Availability of Raw Material

Availability of raw materials plays a significant role in the production and sales of the products. Management of the company does not practice vertical integration in its operations. Raw materials are basically outsourced from clients from time to time. There are incidents of delays in the supply, and sometimes sub- standard materials are rejected to avoid poor quality products. These create shortages, and production and sales are affected. Adverse weather conditions where there is a continuous torrential rain also affect the drying process of some of the raw matereials.For instance, the herbs used for the production of the Capsules have to dry naturally which is slow when there is an intermittent sunshine during the rainy season. This, most of the time affects the volume of production, and subsequent volume of sales. The gelatin shell needed for the production of the Capsules sometimes delays in transit from India. These are some of the production bottlenecks that hinder the required volume of production.

4.2.2 Advertisement and Promotion Sales

Advertisement is one of the strongest tools in marketing and awareness creation of a product. During the year 2004, intensive and vigorous media advertisement was not undertaken resulting in relatively poor sales in that year. Patronage by users was abysmally low. Records from the Sales Department revealed that only 40% of the total volume of production was sold in year 2004 when advertisement was not intensive. In the year 2006 management embarked on all-round intensive advertisement in both the print and the electronic media. This saw a tremendous rise in the volume of sales in the following year especially in the Cream which was needed for the treatment of various skin diseases. Figures available from the sales department showed that more than 70% of the total volume of production was sold to the public. In the same year of 2006, the company made rebranding of the products, and embarked on promotion sales to reward its customers and to retrieve used containers from the market to check imitation, and for possible recycling which is one of the cardinal environmental policies of the company. Consequently, the subsequent years saw a significant increase in volume of sales.

4.2.3 Method of Preparation of the Products, Finishing and Packaging

Each product has its unique and distinct formula used in its preparation. The menthol, which is one of the chemical components in the production of the *Fatwikeke,* exudes a burning sensation which affects the eyes and the hands of the workers during the preparation of the product. With this inhibition, the man-hour spent in the preparation of the product is drastically curtailed which consequently reduces the required volume of production that is supposed to meet public demand. Although the product was properly launched in 2006, and patronage was encouraging, its performance relative to the other products over the period under study is weak. The technology used in drying the Soap is primitive and obsolete. Because of the over-dependence on the sunlight as the only means of getting the product dried up for packaging, sometimes delays occur in supply. Besides, the required industrial temperature needed to harden and cake the soap is not available. This creates problem most of the time during the manual cutting and shaping of the finished product for packaging.

4.3 RATIO ANALYSIS

The financial ratios of the company would be analyzed over the period under review. Trend analysis would be used to assess how the company had performed from year to year. The four (4) major ratios used for the study were Gearing or Leverage Ratios, Profitability Ratios, Liquidity Ratios and Efficiency Ratios.

4.3.1 GEARING OR LEVERAGE RATIOS

Gearing ratios or Leverage ratios relate to how a company is financed with respect to debt and equity, and can be used to assess the financial risk that arises with increasing debt. The Gearing or Leverage ratios used in this study are Debt to Asset (D/A) ratio, Debt to Equity (D/E) ratio and Equity Multiplier.

Table 4: **Gearing or Leverage Ratios**

Leverage	Year				
	2004	2005	2006	2007	2008
Debt/Asset	160.2%	66.4%	618.9%	37.1%	41.4%
Debt/Equity	144.9%	79.5%	99.4%	65.0%	53.3%
Equity Multiplier	0.9times	1.2times	0.2times	1.8times	1.3times

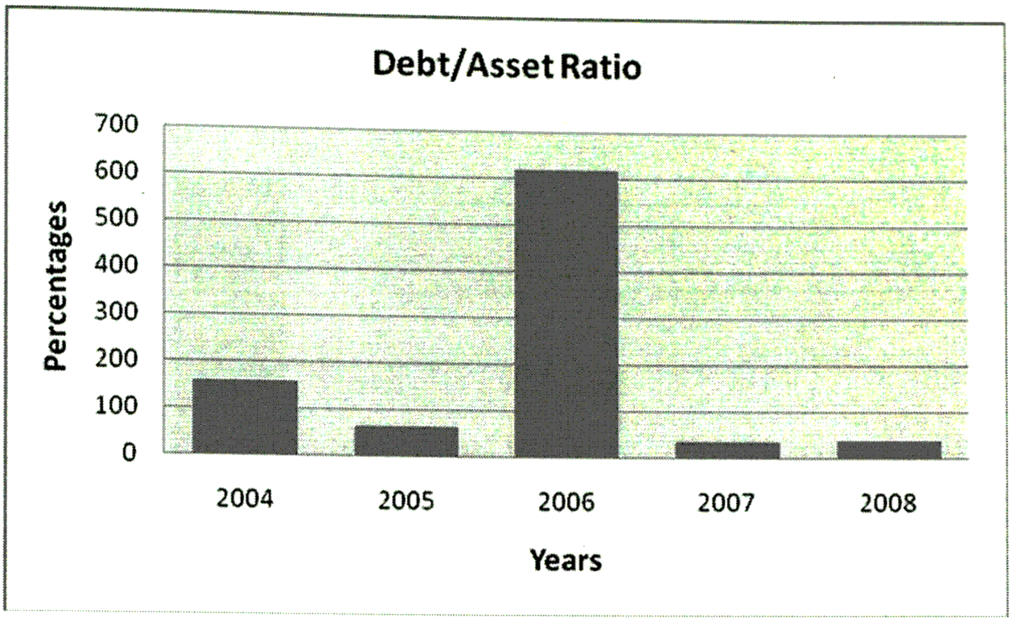

Fig. 12 Debt/Asset Ratio

4.3.1.1 Debt/Asset Ratio $= \dfrac{\text{Long Term Debt}}{\text{Asset}} \times 100$

The Debt/Asset ratio moved from 160.2% in 2004 to 66.4% in 2005 a decrease of 93.8%. This rose tremendously to 618.9% in 2006, a phenomenal increase of 552.5%. This dramatically dropped to 37.1% in 2007 a decrease of 581.8%. It then rose again to 41.4% in 2008 a rise of 4.3%. The trend of the Debt/Asset ratio indicates that the company relies heavily on debt to finance its operations. Though borrowing decreased significantly from 160.2% in 2004 to 66.4% in 2005, it highly increased to 618.9% in 2006, went down sharply to 37.1% in 2007 before rising again to 41.4% in 2008.

The increasing trend of credits from the company's bankers resulted in the high ratios recorded. This implies that if at any point in time the company is refused any credit facility from its bankers then it will not be able to support its assets and will not be able to live up to expectation.

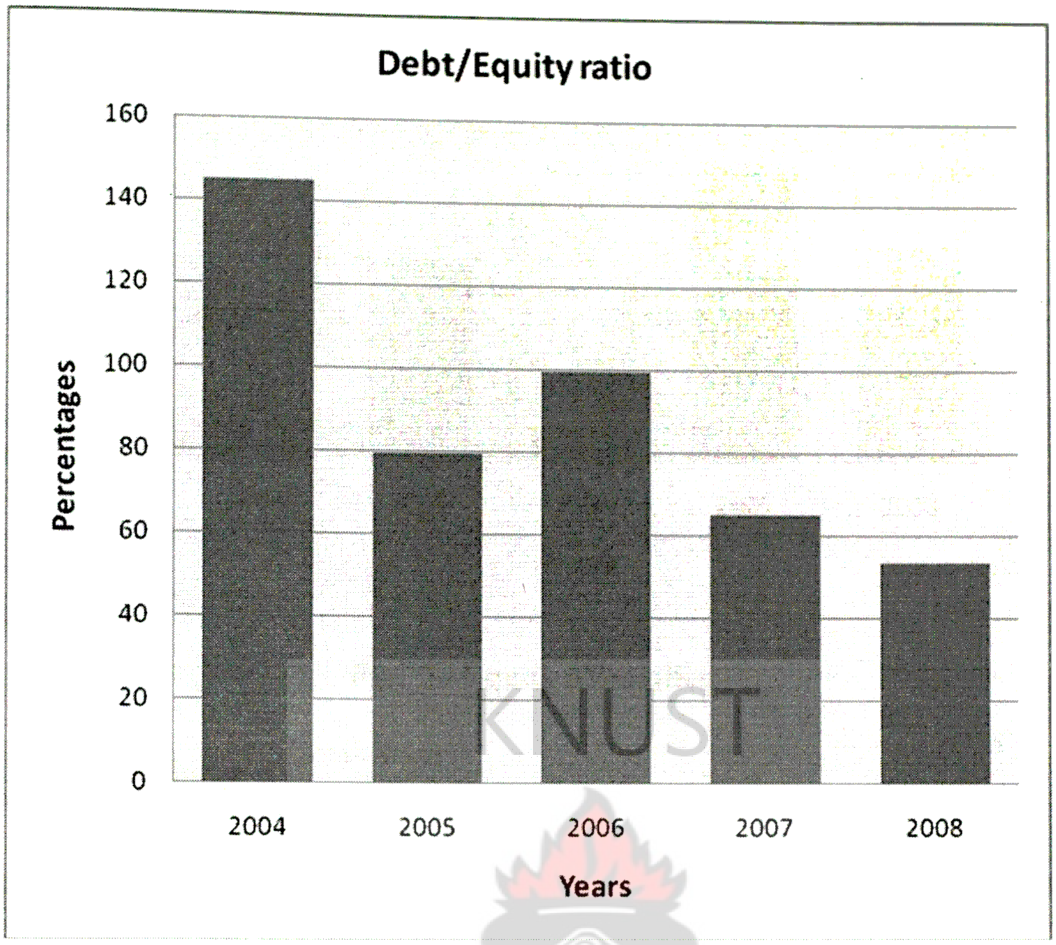

Fig. 13 Debt/Equity Ratio

4.3.1.2 Debt/Equity Ratio $= \dfrac{\text{Long - Term Debt}}{\text{Share Capital and Reserves}} \times 100$

The Debt/Equity ratio serves a similar purpose to capital gearing ratio. A company could be said to be highly geared if its debt/equity ratios were greater than 100 percent. The debt/equity ratio for the periods showed an undulating trend. It recorded 144.9% in 2004, went down to 79.5% in 2005, a decrease of 65.4%, then moved up to 99.4% in 2006, an increase of 19.9%, dropped to 65.0% in 2007, a decrease of 34.4% and further dropped and settled at 53.3% in 2008, a decrease of 11.7%. The company was highly geared in 2006 as its borrowing moved from 79.5% in 2005 to 99.4% in 2006. It however, reduced its line of borrowing and retained parts of its profit thereby reducing its debt/equity from 99.4% in 2006 to 65.0% in 2007, and further down to 53.3% in 2008.

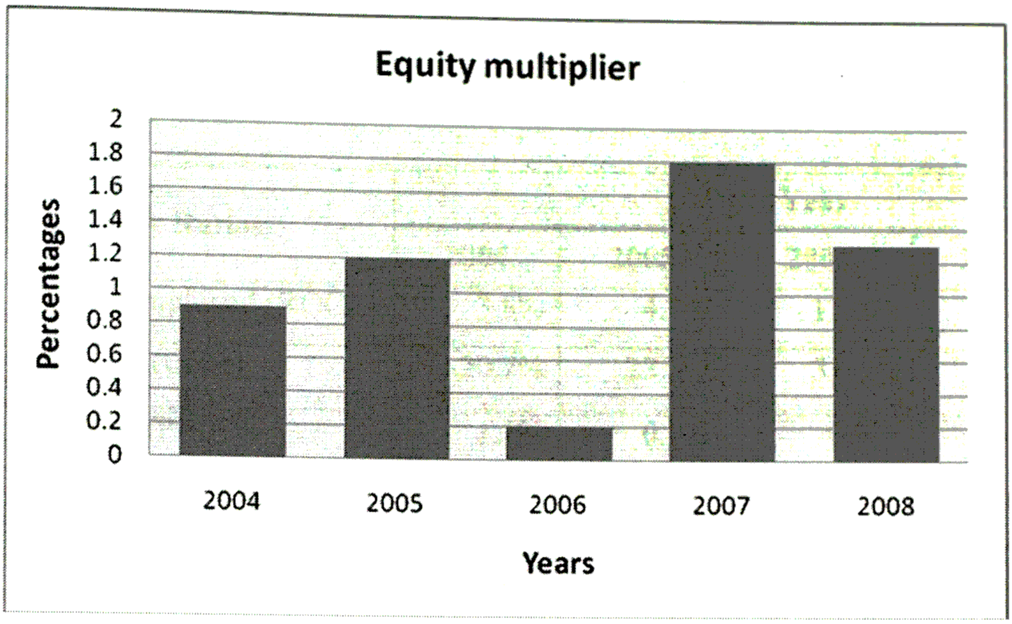

Fig. 14 Equity Multiplier

4.3.1.3 Equity Multiplier = $\dfrac{\text{Total Asset}}{\text{Equity}}$

Equity Multiplier was 0.9 in 2004, rose to 1.2 in 2005, a rise of 0.3. This dropped to 0.2 in 2006, a decrease of 1.0. It went up again to 1.8 in 2007, an increase of 1.6 and finally reduced to 1.3 in 2008, a decrease of 0.5. The revaluation of the asset-base of the company in 2008, helped reduce the equity multiplier despite the sudden increase in 2007.

4.3.2 PROFITABILITY RATIOS

Profitability ratios indicate how successful the managers of a company have been in generating profit. Six ratios were used to assess the profitability of the company. These were Return on Capital Employed (ROCE), Gross Profit Margin (GPM), Net Profit Margin (NPM), Net Asset Turnover (NATO), Return on Asset (ROA) and Return on Equity (ROE).

Table 5: Profitability Ratios

Profitability Ratios	Year				
	2004	2005	2006	2007	2008
Return on Capital Employed (ROCE)	3.8%	4.7%	17.6%	17.2%	26.7%
Gross Profit Margin (GPM)	20.7%	23.3%	31.5%	29.6%	35.2%
Net Profit Margin (NPM)	1.1%	0.9%	0.9%	4.6%	5.5%
Net Asset Turnover (NATO)	3.5 times	5.1 times	18.7 times	3.7 times	4.9 times
Return on Asset (ROA)	3.8%	4.7%	17.6%	17.2%	26.7%
Return on Equity (ROE)	2.6%	4.6%	2.3%	25.6%	29.0%

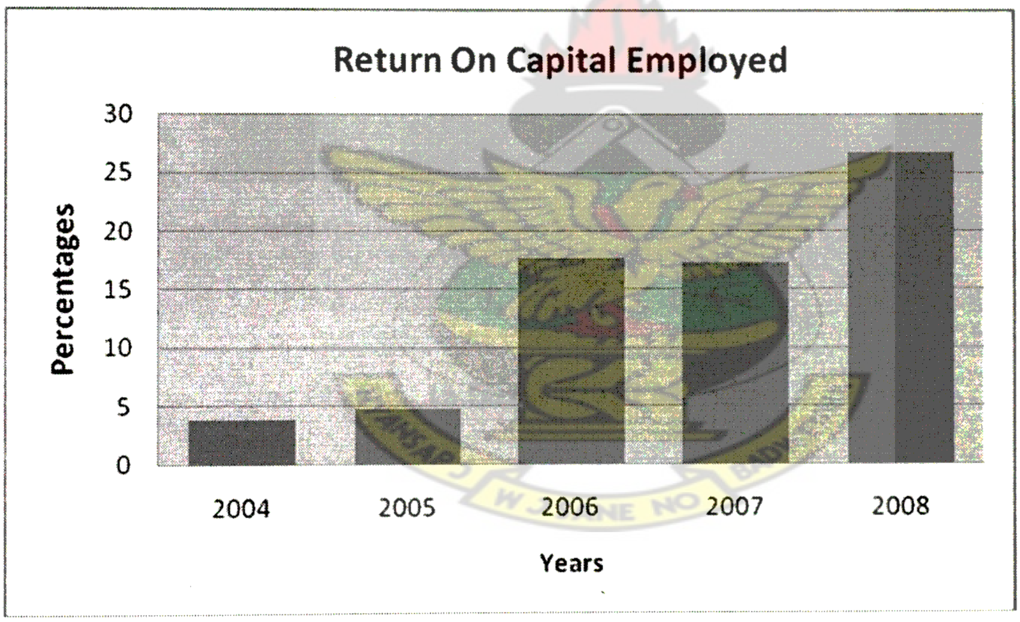

Fig. 15 Return on Capital Employed

4.3.2.1 Return on Capital Employed (ROCE) $= \dfrac{\text{Profit before interest and tax}}{\text{Capital Employed}} \times 100$

Return on Capital Employed (ROCE) relates the overall profitability of a company to the finance used to generate it. It is also the profit of the net profit margin and asset turnover. This ratio is clearly sensitive to investment in fixed assets to the age of fixed assets (since older assets will have depreciated more than young ones) and to when assets were last revalued. The trend of ROCE of the company moved from 3.8% in 2004 to 4.7% in 2005 an increase of 0.9%. It further rose to 17.6% in 2006, a further increase of 12.6%. It then dropped to 17.2% in 2007 registering a slight decrease of 0.4%. It finally shot up to 26.7% in 2008 recording 9.5% increase. The fall in ROCE in 2007 was as a result of a decrease in asset turnover, and the rise recorded was as a result of an increase in asset turnover. ROCE is usually affected adversely, if the cost of borrowing is high.

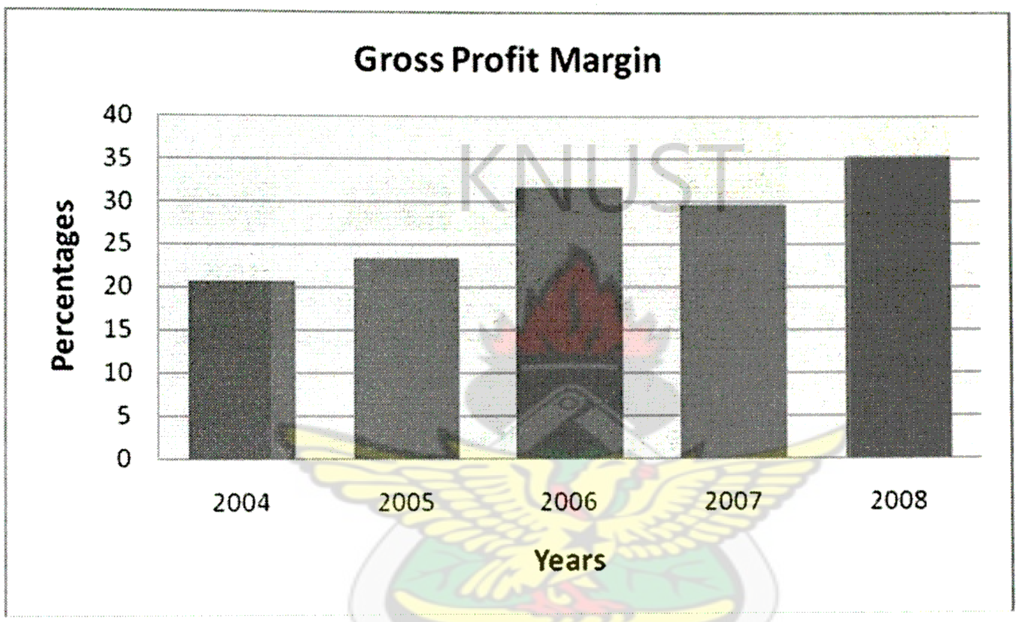

Fig. 16 Gross Profit Margin

4.3.2.2 Gross Profit Margin (GPM) = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$

The performance of A.H.P.I. in generating gross profit margin has been encouraging over the period under review. The Gross Profit Margin in 2004 was 20.7% and this went up to 23.3% in 2005 indicating 2.6% increase. This further went up significantly to 31.5% in 2006 recording 8.2% increase. This later dropped to 29.6% in 2007, a decrease of 1.9%. It rose again and settled at 35.2% in 2008 registering a 5.6% rise. Thus the period's all time highest gross profit margin was recorded in the year 2008 at a peak of 35.2%. The high GPM recorded in 2008 was attributed to fewer expenses made as compared to the pervious years. This proves the efficiency with which management delivered its services. This is a confirmation of Hillbers et al (2000) assertion that gross profit shows the efficiency with which the management produces each unit of product. However, the decline of 29.6% gross profit margin in 2007 was attributed to relatively high cost of sales.

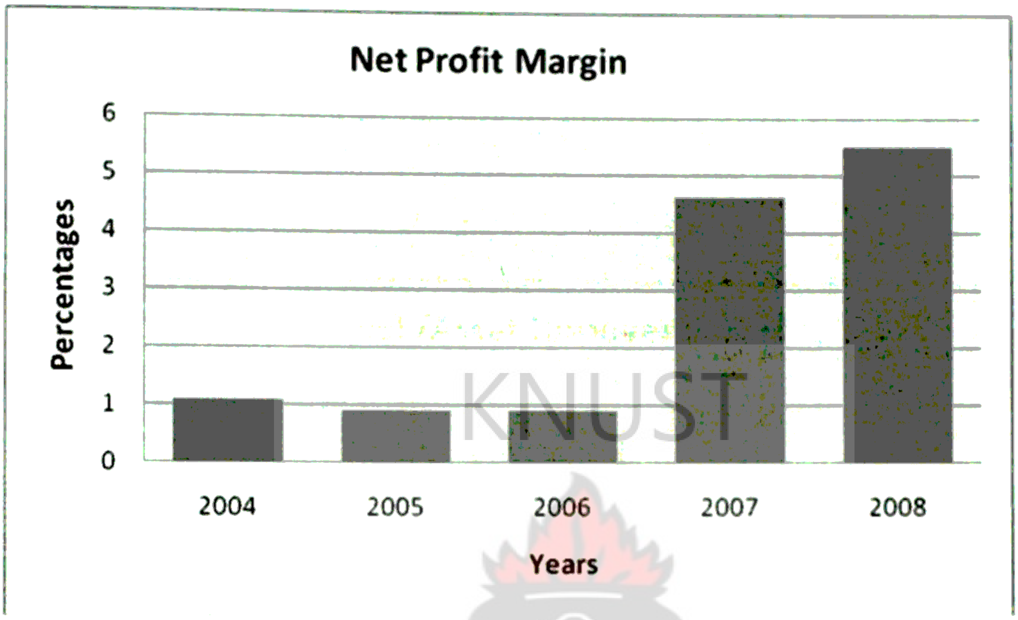

Fig. 17 Net Profit Margin

4.3.2.3 Net Profit Margin (NPM) = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$

Net Profit Margin as analyzed in this study shows how income generated from sales in excess of expense has been handled to contribute to the net profit of the company. It should be noted that this ratio has not taken into account any other income apart from sales income. This gives a fair view of how sales alone have yielded into net profit.

The net profit margin of A.H.P.I. decreased from a low level of 1.1% in 2004 to 0.9% in 2005 recording 0.2% drop, and stabilized at the same 0.9% in 2006 recording no change in percentage. It then rose to 4.6% in 2007 indicating a significant leap of 3.7%. This further rose again to 5.5% in 2008 registering a 0.9% gain. The highest ratios have been 4.6% in 2007 and 5.5% in 2008.

The increased NPM to 4.6% in 2007 and 5.5% in 2008 could be attributed to the efficiency with which costs had been controlled in generating profit from sales as well as a result of efficient management. However a fall in NPM rate to 0.9% in 2005 stabilizing at the same 0.9% in 2006 was due to low sales generated as well as high operating expenses in those years. The years 2005 and 2006 also saw a major infrastructural work as well as acquisition of assets by the company hence the high expenditure incurred.

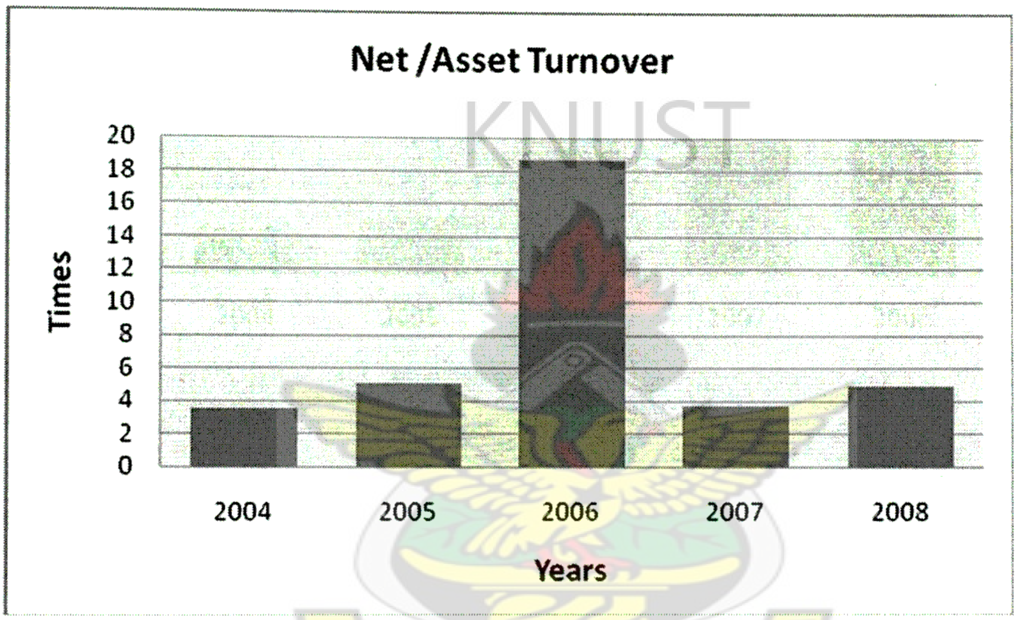

Fig. 18 Net/Asset Turnover

4.3.2.4 Net Asset Turnover (NATO) $= \dfrac{\text{Sales}}{\text{Total Asset/Capital Employed}}$

The Net Asset Turnover increased from 3.5 times in 2004 to 5.1 times in 2005 registering a 1.6 times increase. This further increased significantly to 18.7 times in 2006 recording 13.6 times increase. This dropped as low as 3.7 times in 2007 showing a significant 15 times drop. However, it rose to 4.9 times in 2008 indicating a 1.2 times increase.

The results revealed that in the years 2005, 2006 and 2008 the assets of the company were efficiently used in generating sales especially in the year 2006 which recorded an appreciable increase of 13.6 times from 5.1 times in 2005 to 18.7 times in 2006. Even though there was a further decline in the result of the year 2007 to 3.7 times, there were significant productive efficiencies. However, relatively low sales generated, might have led to the drop. Prudent management saw a rise again in 2008.

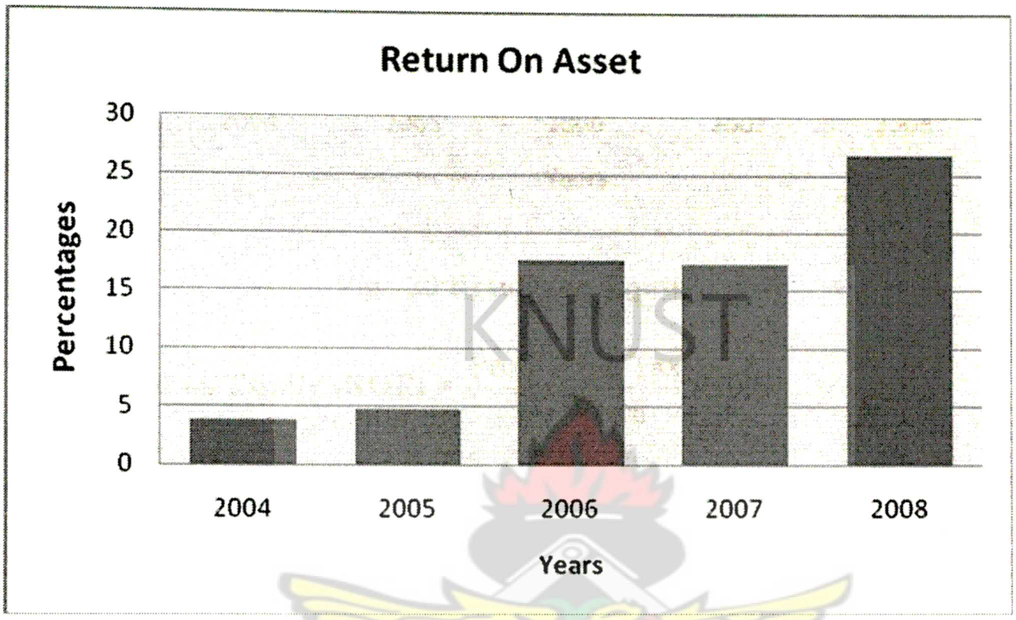

Fig. 19 Return on Asset

4.3.2.5 Return on Asset (ROA) = $\frac{\text{Net Profit}}{\text{Total Sales}} \times 100$

Return on Assets explains how the assets of the company have been used to generate net profit. From a ratio of 3.8% in 2004 it grew to 4.7% in 2005 recording a 0.9% increase. It further rose to 17.6% in 2006, an increase of 12.9%. This dropped slightly to 17.2% in 2007, a decrease of 0.4%. It however shot up to 26.7% in 2008 indicating a 9.5% significant rise. The ratio of 17.6% recorded in 2006 represents the highest within the five year period under review. This demonstrated how the assets of the company had been efficiently utilized to generate net profit. The worst performance in ROA in the initial stage of 2004 could be attributed to payments of debt incurred.

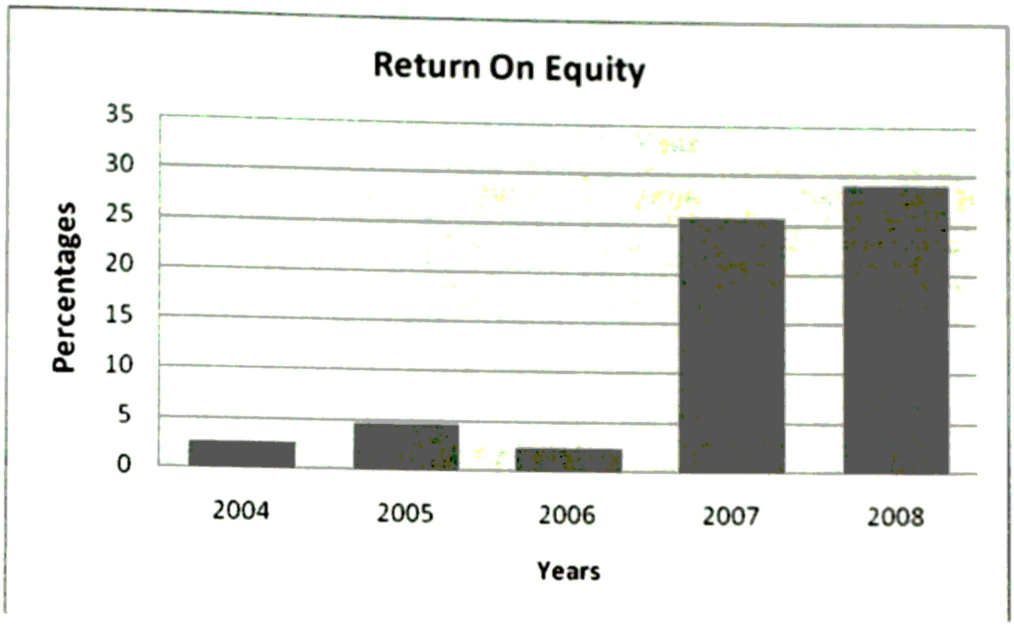

Fig. 20 Return on Equity

4.3.2.6 Return on Equity (ROE) $= \dfrac{\text{Profit After Tax}}{\text{Net Worth}} \times 100$

The ratios of Return on Equity were generally low with an early increase of 2.6% in 2004 to 4.6% in 2005 indicating a 2.0% rise. It however, decreased to 2.3% in 2006 recording a 2.3% drop. The ROE then shot up to 25.6% in 2007 showing a significant 23.3% rise. This further rose to 29.0% in 2008 registering a 3.4% increase. The highest ratio of 29.0% recorded in 2008 was as a result of the effective and prudent utilization of the resources of the company. However, the lowest recorded ROE of 2.3% in 2006 was as a result of heavy investment in stock and fixed assets.

4.3.3 LIQUIDITY RATIOS

The Liquidity Ratios describe the resources of the company in terms of their convertibility to cash in a reasonable short period. It measures the short-run ability of a company to pay its maturity obligations. Two ratios were used to asses the liquidity of the company. These are current ratio and quick ratio.

Table 6: Liquidity Ratios

Liquidity	Year				
	2004	2005	2006	2007	2008
Current Ratio	1.1	1.4	0.4	1.4	1.4
Quick Ratio	0.1	0.2	0.1	0.1	0.2

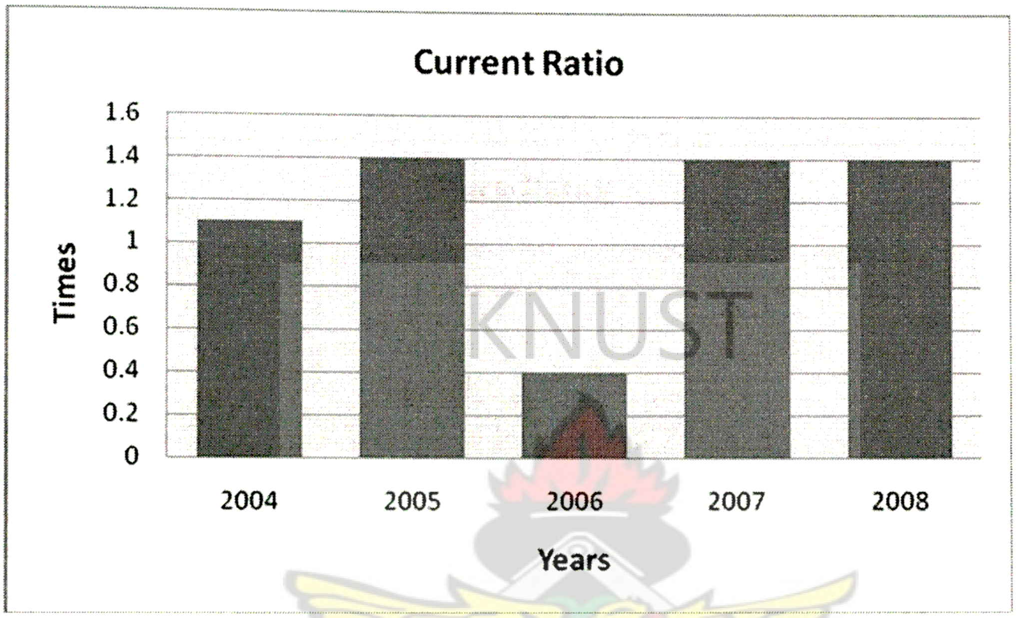

Fig. 21 Current Ratio

4.3.3.1 Current Ratio (CR) = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

In the case of A.H.P.I, the five years examination of current ratio indicated that none of the years was able to meet the convention 2:1. The highest was 1.4:1 recorded in 2005, 2007 and 2008 registering 0.6 times decrease and the lowest was 0.4 in 2006 also recording a 1.6 times decline as compared to the convention.

It is a convention that a ratio of less than one (1) signals financial distress and 2.0 implies a safe and healthy firm. However, the use of the standard 2:1 may be misleading. Companies with less than 2:1 current ratio may be doing well whiles others with high current ratio may be struggling to meet their financial obligations. The reason is that current ratio measures only the total amount worth of current assets and total amount worth of current liabilities. It does not take into account quality of assets. Liabilities do not fall in value they have to be paid. In any case, the company's 0.4 current ratio in 2006 indicates that the financial performance was not sound in that year.

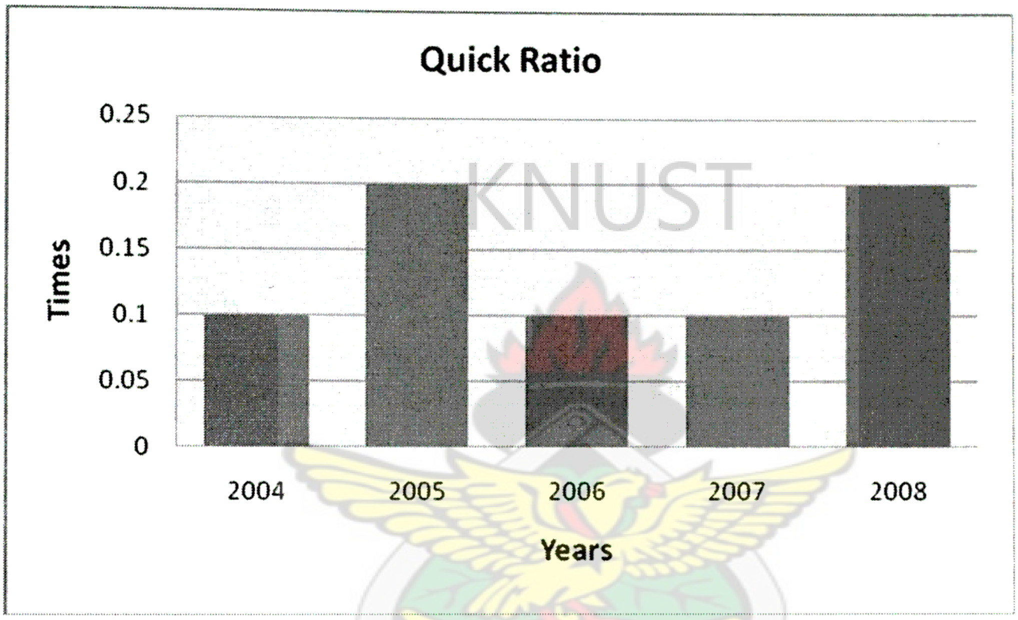

Fig. 22 Quick Ratio

4.3.3.2 Quick Ratio (QR) = $\frac{\text{Current Assets Less Stock}}{\text{Current Liabilities}}$

A Quick Ratio or an Acid Test of 1.0 indicates a sound financial performance. From the analysis given, the company's finances were not close to soundness in the years of operation. Relatively, it rose from 0.1 times in 2004 to 0.2 times in 2005 with 0.1 times increase and lowering from 0.2 times in 2005 to 0.1 in 2006 a decrease of 0.1 times. This is maintained for the following year of 2007 before it rose again to 0.2 times an increase of 0.1 times. This indicates that there were no significant changes in 2006 and 2007 until 2008 where 0.1 times rise was recorded. The low quick ratio of the company came as a result of huge credit sales, a characteristic of medicinal and herbal industries. Stock levels too were significantly high thereby causing the quick ratio to be phenomenally low.

4.3.4 EFFICIENCY RATIOS

The efficiency ratios are used to evaluate the company's overhead structure in order to give a measure of how effective a company is operating. The efficiency ratios considered in this study are Debtor Days or Debtors' Ratios, Creditor Days or Creditors' Ratios, Stock Days or Stock Turnover and Fixed Asset Turnover.

Table 7: Efficiency Ratios

Efficiency Ratios	Year				
	2004	2005	2006	2007	2008
Debtor Days/ Debtors' ratios	7days	4days	5days	4days	4days
Creditor Days/Creditors' ratios	9days	5days	6days	7days	7days
Stock Days/stock Turnover	207days	71days	65days	66days	58days
Fixed Asset Turnover	4.2times	6.6times	4.1times	4.4times	5.7times

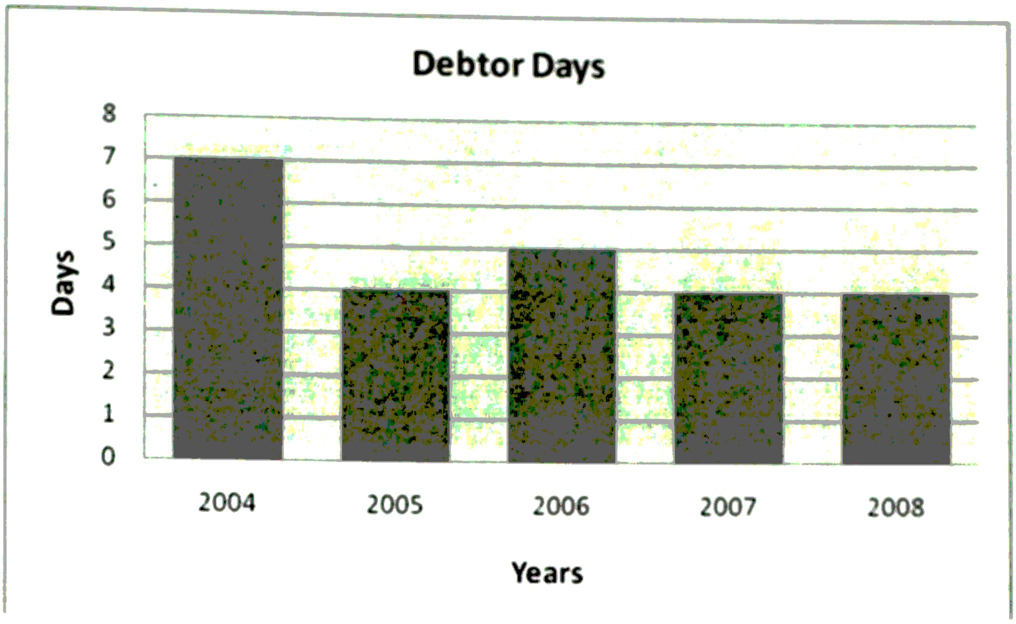

Fig. 23 Debtor Days

4.3.4.1 Debtor Days or Debtors' Ratios = $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365\,\text{days}$

The Debtor Days or Debtors' Ratios give the average period of credit being taken by customers. If compared with a company's allowed credit period it gives an indication of the efficiency of the debtor administration. The trend of debtors' ratios dropped from 7 days in 2004 to 4 days in 2005. It soared to 5 days in 2006 and again declined to 4 days in 2007 remaining stable in 2008.

The shorter the collection period as compared to the repayment period, the better. This implies that the days for collection should always be shorter than the repayment period. From the analysis, the collection periods in 2005, 2007 and 2008 were better than the collection periods in 2004 and 2006 which recorded 7 days and 5 days respectively.

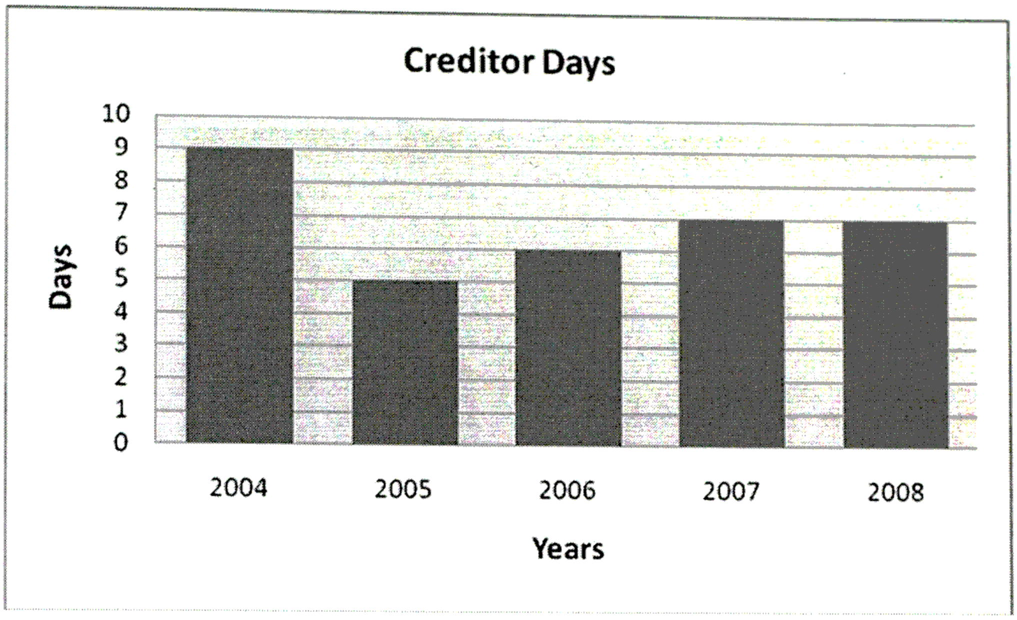

Fig. 24 Creditor Days

4.3.4.2 Creditor Days or Creditors' Ratios = $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365 \text{ days}$

The Creditor Days or Creditors' Ratios give the average time taken for suppliers of goods and services to receive payment. The trend displayed in the creditors' payment period differs from that of the collection period. Here, the longer the payment period the better. The analysis revealed that, from the year 2004 the creditors of the company granted them 9 days repayment period. This dropped to 5 days in 2005 and shot up slightly to 6 days in 2006. It further went up slightly to 7 days in 2007 and remaining unchanged in the subsequent year.

From the analysis the terms and negotiations of the management of the company with their suppliers were not good enough. As the figures indicated the days of credit were not extended enough for the management to have an ample time for their debt collection and repayment periods.

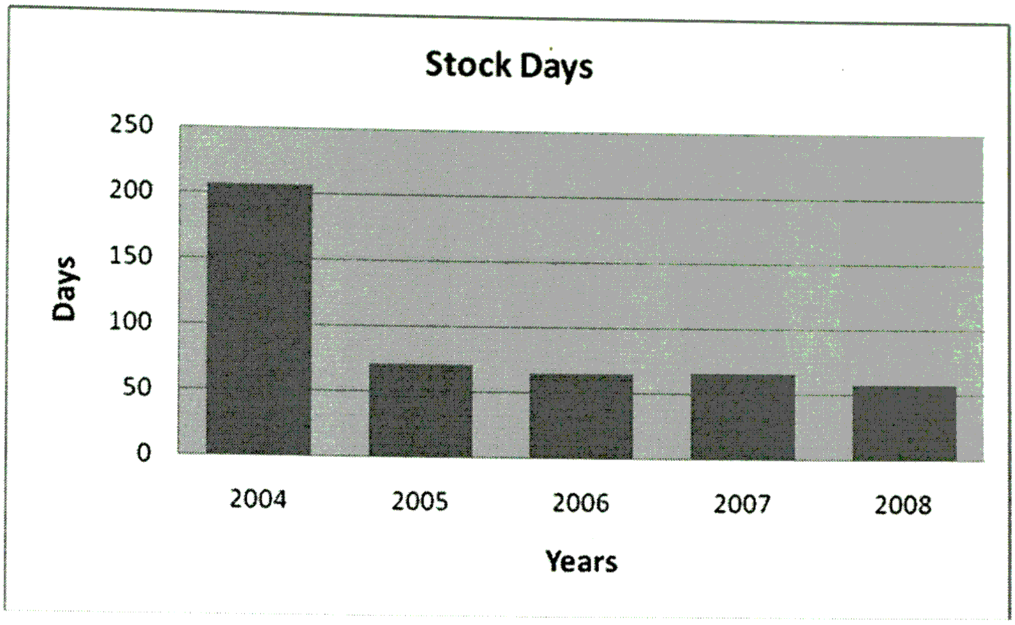

Fig. 25 Stock Days

4.3.4.3 Stock Days or Stock Turnover = $\dfrac{\text{Stock or Inventory}}{\text{Cost of Sales}} \times 365 \text{ days}$

Stock days or Stock turnover shows how long it takes for a company to turn its stock into sales. The shorter the stock days, the lower the cost to the company of holding stock. The value of this ratio is very dependent on the need for stock and so will vary significantly depending on he nature of the company's business.

During the first year of 2004, the company was able to turn its stock in 207 days. This dropped hugely to71 days in 2005. It further showed a downward turn of 65 days in 2006 and picking up again slightly just by a day to 66days in 2007. This slowed down again to 58 days in2008. The trend reveals that as the years go by from 2005, the company took shorter days to turn its stock into sales. This shows that the demand for the company's products increased from the year 2005 to 2008, a record of 58 days. This is as a result of efficient management techniques and vigorous marketing strategies put in place by management.

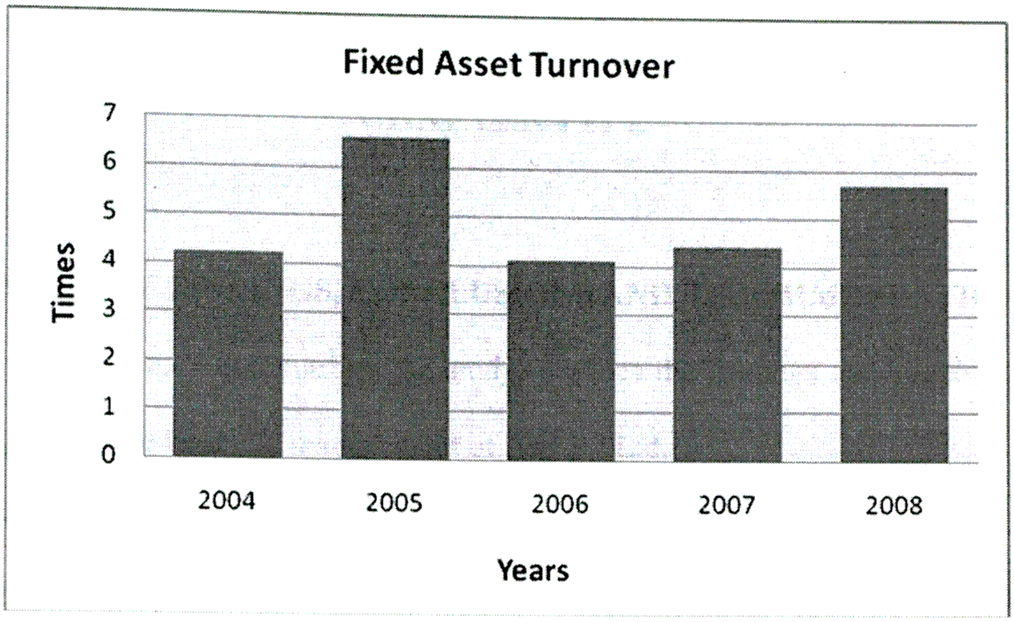

Fig. 26 Fixed Asset Turnover

4.3.4.4 **Fixed Asset Turnover** = $\frac{\text{Sales or Turnover}}{\text{Fixed Assets}}$

Fixed Asset Turnover indicates the sales being generated by the fixed asset base of a company. It is sensitive to the acquisition, age and valuation of fixed assets. From the analysis, the fixed asset turnover experienced a rise of 4.2 times in 2004 to 6.6 times in 2005, a decrease of 2.4 times. It further went down to 4.1 times in 2006, a decrease of 2.5 times before picking up again by 4.4 times in 2007 an increase of 0.3 times. It went up 5.7 times again in 2008 registering an increase of 1.3 times.

The increasing trend from 2006 to 2008 is an indication that sales generated by the fixed assets in these years were considerably good. This was in agreement with the increasing fixed asset base of the company which was evident in the increase number of sales vans acquired by the company.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This concluding chapter summarizes the study, outlines the findings and suggests measures that will improve the financial management of A.H.P.I Ltd.

The chapter also takes into consideration the best corporate practices A.H.P.I. Ltd can adopt to efficiently and professionally manage the operations of the company.

5.1 SUMMARY OF FINDINGS

Based on the comparative analysis of the various products and the analysis of the ratios for the period under review, the financial performance of A.H.P.I. Ltd was both impressive and unimpressive. The results showed that the company was solvent, and was successful to create wealth in its operations. The company has a high stockpile and fixed asset turnover was considerably high. The financial standing of the company was moderately sound in the years 2005, 2006, and 2008. However, the same cannot be said about the years 2004 and 2007. This was as a result of major investments into asset acquisition advertisement and promotion sales.

The performance of the products over the years under review showed a consistent trend where management focused mainly on the more sustainable products such as the Cream which in the view of management would generate the required revenue for the company. However, management renege in its efforts to address the production bottlenecks in the other products that they consider as less income- generating products. The financial ratios showed a fluctuating trend throughout the period under review which indicated the company's reliance on its bankers for credit facilities to support its capital base. Internally generated profit and debt finance were the main sources of the company's finances.

5.1.1 THE HERBAL PRODUCTS

Throughout the period there was no incidence of any reported cases of adverse effect of the use of any of the products from patrons that would halt or affect the volume of production and sales. However, findings have revealed the following which affected income and profitability of the company during the period under review: An average of 2% of the total production every year can be attributed to damage in transit - slipping and falling down during loading and off-loading, and severe temperature affects the products when transporting them to far away places such as the Northern parts of Ghana. An average of 1% of the total production is attributed to breakages during capping, corking and labeling. There were reported cases of theft when on one occasion in 2006, sales personnel could not account for three thousand seven hundred Ghana cedis worth of goods sold. Security measures are adequately in place to prevent fraudulent deals of factory workers and top management personnel. In spite of that, an average of 0.1% of the total volume of production can be attributed to theft on the part of workers each year. In 2007, eight thousand five hundred Ghana cedis worth of goods were retrieved and destroyed due to expiry and withdrawal of old products and replacement of newly branded ones. About 1% of the total volume of production was donated each year as charity. The products are manufactured under good hygienic conditions, and safety rules are complied with and adhered to. Waste disposal bins are at vantage points to collect waste materials. Morale at work place is high, and management is always on top of their job to ensure best corporate practices.

5.1.2 LEVERAGE OR GEARING

A.H.P.I. Ltd seems to depend heavily on outsiders' fund to finance its activities. In spite of the fact that the company at a point retained its profit to improve its equity base, the stake of the owners is quite low in the total capital employed by the company. However, the company can be said to perform impressively as it has significantly managed its debt and reduced it in 2005 and 2007.

5.1.3 PROFITABILITY

The company's profitability was assessed by looking at the trends of the ratios used for the period under review. The trend displayed by the ratios indicated that the company performed creditably well. However, the high cost of sales and high operating expenses have taken a toll on the general performance of the company. The ratios were relatively low and this translated into a low net profit margins being a key indicator of profitability. In spite of that, the company's profitability does not pose any immediate danger of making losses. The company could improve its profitability level considerably if the factors militating against its profit making are identified and addressed.

5.1.4 EFFICIENCY

The study under efficiency ratios revealed that average stock days was 93 days indicating stock was turned over quickly. Average period of credit taken by customers was 7 days which compare with the company's allowed credit period of 15 days. This shows an efficient debtor administration. Creditor days declined from the initial stage and rose slightly in the subsequent year which shows the company is not over reliance on its trade creditors as a source of short-term finance.

5.1.5 LIQUIDITY

The liquidity ratios revealed that the company was not highly liquid as compared to book values with current ratio registering average value of 1.1 times while quick ratio registered an average of 0.2 times. However, these values have no risk attached to its financial structure since the company's resources were heavily invested in stock and fixed assets.

5.2 CONCLUSION

In any business operation, profit making and wealth creation are key. The company's profitability has been impacted negatively due to high cost of capital. From the analysis, the performance of the products was critically looked at and there is enough evidence to suggest that Angel Herbal Products have a high efficacy rate and good patronage but this has not translated enough into the profitability of the company after a critical look at the ratios to understand the financial standing of the company. They are not strong enough but the trend displayed does not indicate an immediate danger to the company. High cost of capital, high administrative cost and other expenses have accounted for the low level of profitability of the company.

5.3 RECOMMENDATIONS

Following the comparative analysis of the performance of Angel Herbal Products vis-à-vis a critical look at the various ratios over the five-year period under review, certain weaknesses have been identified and some recommendations are made for consideration of management for implementation. They would be in line with product differentiation, capital, expenditure, credit policy, business focus and labor.

In the first place, the availability of raw materials is crucial, and it is one of the major critical issues that confronts the company. It will therefore be prudent for the company to adopt vertical integration approach in its overall operations as the benefits are enormous and outweigh the drawbacks. Some of which are: Reduction in transportation costs if common ownership results in closer geographic proximity, improve supply chain coordination, provide more opportunities to differentiate by means of increased control over inputs, capture upstream or downstream profit margins, increase entry barriers to potential competitors, for example, if the firm can gain sole access to a scarce resource, gain access to downstream distribution channels that otherwise would be inaccessible, facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest, lead to expansion of core competencies. Alternatively, the company can adopt long-term explicit contracts, franchise agreements or co-location of facilities.

Since all the products generate some significant revenue for the company according to the analysis, strenuous efforts should be made to improve upon the methods of their production. The Cream stood tall as the most patronized product and an indication as the single largest source of income for the company. Further research can be conducted into this product and its close related one, the Soap to make them more refined in terms of efficacy, branding and packaging to meet the international finishing standards. Ghana is surrounded by French speaking countries whose policies on the use of herbal medicine differ from those of Ghana but efforts should be made to penetrate these markets and beyond with these highly competitive products for a wider and more commanding market share. Better industrial protective and safety measures should be adopted especially in the production of the *Fatwikeke* ointment to make it more productive-friendly to control the excessive burning sensation of the eye and the skin. This would help boost the volume of production of the product.

Furthermore, as the company is embarking on expansion, efforts should be made to acquire modern sophisticated varieties of equipment that can be used in the drying process of the raw materials that are used for the production the Capsules and the Mixture.

The capital base of the company is a major concern to be looked at to enhance profitability of the company. Management should explore other available options in raising capital other than capital solely from outsiders especially the banks. The cost associated with capital raised from the banks affects profitability of the company. The options available for management with respect to raising capital are public floatation, internal generation and private placement. Public floatation is the best option to be the ideal way of raising capital. For this reason, the company should consider enlisting on the stock exchange as a long term measure as the means of providing liquidity since between equity financing and debt financing the latter is more risky. As a short term measure, the company should cut down on expenditure considerably, and embark on vigorous internal capital generation, a panacea for effective business in the short run.

Management must ensure that their operations are carried out efficiently in order to cut down cost. In this regard, management must do comparative cost analysis internally and externally with the focus on reducing operating expenses. Prudent measures are also required to be put in place to achieve sound and effective expenditure control.

Management should be guided by the lessons of the current credit crunch in the global economy, and put in place an effective credit policy that would not be too short or too long for their debt collection. The debtor administration should be efficient enough such that a reasonable amount of time should be given to debtors vis-à-vis the reasonable prolongment of creditor days to allow room for the collection period.

It is further recommended that management should focus on its core business to improve the profitability and the general performance of the company. A.H.P.I. Ltd should focus on its core business by investing in more research activities that will add value and quality to its already known efficacious herbal products. Vigorous efforts should be made to embark on a research into plant medicine to unravel more herbal products for the company to have a comparative advantage, and be the market leader.

The efficiency of the company can be improved by empowering its labor force in the form of training and development, motivation and delegation to enhance productivity. Employees must be rewarded for achieving excellence. This can be done through an effective and sound performance appraisal system which should be held periodically.

Additionally, it is strongly recommended that A.H.P.I. Ltd should invest in Information Technology. By this, the company can embark on e-commerce where its products could be marketed and purchased on-line, an innovation that would help the company to widen its area of operations thereby increasing its market share. All its nation-wide branches should be net-worked to improve upon the operations as well as enhance easier access to information about the company. A recipe for corporate attractiveness

Finally, with the long term investment in Information Technology, the GPRS system can be adopted to track down movements of company's commercial vehicles to check diversions of the vans for illegal and unauthorized operations, fuel siphoning and other nefarious activities that bring losses to the company.

Through the information technology, the company can improve upon its marketing strategies namely advertisement, branding and rebranding and promotion sales. In this sense, the company will have both strategic and competitive edge in this era of aggressive competition where comparative advantage and competitive advantage are gradually giving way to strategic advantage. Strategic planning is the ultimate key.

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Appendix 1:

TRADING, PROFIT AND LOSS ACCOUNTS

	2004	2005	2006	2007	2008
	GH¢	GH¢	GH¢	GH¢	GH¢
Sales	1,079,645.40	2,001,332.00	2,241,540.00	3,069,551.33	4,121,600.22
Cost of Sales	856,228.30	1,534,600.23	1,534,660.41	2,161,300.42	2,672,350.00
Gross Profit	223,417.12	466,731.77	706,879.59	908,250.91	1,449,250.22
Less Expenses	211,697.12	448,289.66	685,759.59	766,900.21	1,223,009.44
Net Profit before Interest and Tax	11,720.00	18,442.11	21,120.00	141,350.70	226,240.78
Taxation	2,947.50	3,100.00	3,250.00	21,751.41	34,814.51
Net Profit after Tax	8,772.50	15,342.11	17,870.00	119,599.29	1 91 426. 27
Balance b/f	6,072.49	14,844.99	30,187.10	480,577.10	167,656.39
Net Profit for the year	8,772.50	15,342.11	17,870.00	119,599.29	191,426.27
Income Surplus	14,844.99	30,187.10	48,057.10	167,656.39	359,082.66

Appendix 2:

BALANCE SHEET

	2004	2005	2006	2007	2008
	GH¢	GH¢	GH¢	GH¢	GH¢
Fixed Asset	259,184.56	304,322.16	550,234.55	692,342.00	720,245.82
Current Asset					
Stock	484,543.37	300,252.42	274,615.50	389,310.29	426,331.81
Trade Debtors	19,700.00	22,342.95	29,672.50	30,550.16	42,661.28
Cash and Bank	35,000.00	30,667.00	9,240.00	11,660.21	10,400.60
Total Current Asset	539,243.37	353,262.37	313,528.00	431,520.66	479,393.69
Current Liabilities					
Loan	471,342.54	240,000.00	720,000.00	260,620.98	300,000.00
Trade Creditors	20,000.00	22,000.00	23,000.00	42,330.17	50,167.90
Accruals	257.95	425.66	610.00	890.16	1,320.00
Total Current Liabilities	491,600.49	262,425.66	743,610.00	303,841.31	351,487.90
Net Current Asset	47,642.88	90,836.71	(430,082.00)	127,679.35	127,905.79
Net Asset	306,827.44	395,158.87	120,152.55	820,021.35	848,151.61
Represented by:					
Stated Capital	324,407.44	300,000.00	700,000.00	300,000.00	300,000.00
Income Surplus	14,844.99	30,187.10	48,057.10	167,656.39	359,082.66
	339252.43	330187.10	748057.10	467656.39	659082.66