

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY



SCHOOL OF BUSINESS

**ASSESSMENT OF THE IMPACT OF RISK FACTORS ON THE FINANCIAL
PERFORMANCE OF LICENSED BUYING COMPANIES IN THE INTERNAL
MARKETING OF COCOA IN GHANA: A CASE STUDY OF FORTUNE TREE
COMPANY LTD.**

BY

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**A Thesis submitted to the School of Business, Kwame Nkrumah University of
Science and Technology in partial fulfilment of the requirements for the award of
Master of Business Administration Degree in Accounting**

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DECLARATION

I hereby declare that this submission is my own work except for references which I have duly acknowledged towards the MBA degree and that to the best of my knowledge it contains neither materials previously published by another person nor materials which has been accepted for the award of any other degree.

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DEDICATION

I dedicate this work to The Lord Jesus Christ, for His abundant grace towards me;
my dear wife and my lovely kids, for their unflinching love and support.

ACKNOWLEDGEMENT

This study owes its success to several people who contributed in various ways. Time and space may not permit me to mention all names. However, some key personalities and institutions require special mention. My sincere appreciation goes to Mr. Richard Owusu Afriyie, my thesis supervisor, for his useful advice, guidance and constructive criticisms, which empowered me to finish this report. I also thank Mr. Dzanie James, Managing Director and all the staff, especially Purchasing Clerks, of Fortune Tree Company Limited, who offered me the opportunity and the support to carry out this work. I am very grateful to Rev. Nyantakyi Bonsra, Minister in Charge, and the entire membership of the Church of Pentecost, Sefwi Bekwai District, for their prayers and support.

ABSTRACT

Risk may be defined as the likelihood of a negative outcome of an institution and this may inhibit the success of Licensed Buying Companies. This study aimed at assessing the impact of risk factors on the financial performance of Fortune Tree Company Limited as a Licensed Buying Company in Ghana. Through an explorative qualitative research approach, thirty five (35) experienced employees were interviewed out of the fifty three (53) to ascertain the issues on the ground regarding the various risks factors associated with the financial performance of Fortune Tree Company Limited. The findings of the study showed that, certain activities of purchasing clerks which include improper drying of cocoa beans before taking them to takeover points and also defaulting in the payments to farmers when cocoa beans are purchased were threats to the overall financial performance of Fortune Tree Company Limited. Moreover, production risks that were identified to be associated with the operations of Fortune Tree Company Limited included disease and pest attacks, bushfires, drought, soil infertility and excessive rainfall. Environmental risks that were discovered to be associated with the operations of Fortune Tree Company Limited included smuggling of cocoa by some farmers and purchasing clerks to nearby countries and also breakdown in some of the tools of trade such as tarpaulin and cocoa scales. However, market risks associated with the operations of Fortune Tree Company Limited consisted of delays at the takeover points (ports) as well as higher interest rates accrued on monies borrowed from banks for the purchasing of cocoa. Another risk that was identified as market risk was farmers who were pre-financed but could not pay back the money. These kinds of risks identified in the study had contributed to financial loss to the company especially in the year 2013. In conclusion, the study revealed that the various kinds of risk factors identified, have serious impact on the financial performance of Fortune Tree Ghana Limited. The study therefore recommended the need for management of Fortune Tree Company Limited to train its purchasing clerks on risk management and also set up an inspection team that will ensure that all cocoa beans taken to the takeover points by purchasing clerks are well dried and also in the best condition for export. Additionally, the study recommended that policy on pre-financing farmers before bringing their produce be strengthened so as to reduce losses.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Until recently, agriculture used to be the backbone of the Ghanaian economy. Even with dwindling performance, agriculture continues to play an incredible role in driving the economy of Ghana, as it is the third biggest donor of GDP after the service and mining industries occupying the first and second places respectively (PwC, 2014).

The World Bank policy on Ghana in 1992, made the Government of Ghana liberalize cocoa marketing. The aim was to enhance the operational and money related execution of Ghana's showcasing framework, to empower higher and aggressive producer prices. So far, there is liberalization in the internal marketing, privatization of inputs such as chemical and reform of cocoa extension services (partial liberalization)

Ghana Cocoa Board (COCOBOD), a state-owned institution, continues to control the external marketing of cocoa. The Quality Control Company (QCC), also a subsidiary of COCOBOD, is responsible for the final quality checks. The quality of Ghana's cocoa is the best on the world market and earns the country a premium. A system of forward sales is practiced by COCOBOD and this enables government to pre-finance cocoa production and price stabilization. The marketing system is such that private LBC's rely on government licensing to operate. Currently, there are about twenty five (25) active private LBC's which have registered with the Ghana Cocoa Board to buy cocoa from farmers at the society levels and hand them over to the Ghana Cocoa Board at the ports of shipments at Takoradi and Tema after the quality is checked by the QCC. This is to open the market up to competition. Some of these companies are Kuapakooko, Armajaro, Produce Buying Company (which has government share),

Olam (Ghana) limited, Akuafo Adamfo Ghana Limited , Transroyal Ghana limited and Fortune Tree Company Ltd.

COCOBOD gets outside loan facility from universal banks by utilizing contracts from the forward deals as insurance. An advances' piece is utilized to set up a trust called the Seed Fund, to back the operations of the LBCs. (Rundstedt & Pärssinen, 2009). According to (Laven and Baud, 2007; Rundstedt and Pärssinen, 2009), the LBC's recruit buying clerks to do the buying at society level for a commission.

1.2 Problem Statement

Over the years, licensed buying companies have been facing so many risks factors which appear to be threatening their survival. It is also to be noted that the performance/profitability, or otherwise, of Licensed Buying Companies is dependent more on volume than on price. The overriding objective of these companies, being shareholders' wealth maximization and important supporting objectives such as profit maximization and survival appear threatened by these risk factors.

The study therefore seeks to identify these risk factors and assess their impact on the financial performance of one of the recent Licenced Buying Companies in the country- Fortune Tree Company Limited.

1.3 Objectives of the Study

The general purpose of the study is to survey the impact of risks factors on the financial performance of Fortune Tree Company Ltd in the internal marketing of cocoa in Ghana.

The specific objectives of the study are:

1. To identify all the risks in the internal marketing of cocoa in Ghana that negatively affect the operations of Fortune Tree Company Limited

2. To examine and evaluate the income statements of Fortune Tree Company for the past three years of operations and the impacts of these dangers on the financial performance of the company.
3. To identify any other challenges that may impact on the operational performance of Fortune Tree Company Limited.

1.4 Research Questions

1. What risks affect the internal marketing of cocoa in Ghana that negatively affect the operations of Fortune Tree Company Limited?
2. How do these risks impact on the financial performance of the company?
3. What strategies could help reduce these risks?
4. What other challenges impact on the operational performance of Fortune Tree Company Limited?

1.5 Significance of the Study

The study's essentialness can be inspected from three unique ranges in particular research, practice and arrangement.

With regards to research, in recognition of the importance of the role played by cocoa in the economy of Ghana, this study is an unassuming endeavour to give knowledge into one of the issues confronted by inward market in Ghana. The result of the study is expected to contribute and augment the existing literature on risks in the internal marketing of cocoa in Ghana. This in a way mixes up enthusiasm on the topic for further research to be directed sooner rather than later.

The findings of the study will also enable management of Licensed Buying Companies, Policy makers and Regulators, Farmers and Purchasing Clerks, to take note of the

determinants risks factors in the internal marketing of cocoa, and also help in the right's plan arrangements and measures to offer assistance to reduce its occurrence and its impact on the financial performance.

The findings of the study with respect to practice, seeks to give evidence of how the mentioned factors can be managed to minimize risks of LBCs. This appraisal gives much space to investigating further to devise mechanisms to arrest the situation of risks experienced by the company. Other related industries can also tap from the success story having taken advantage of the research findings.

1.6 The scope of the study

The study shall concentrate on Fortune Tree Company as one of internal markets in the cocoa industry in Ghana. The study shall involve employees from all the operational departments of the company- administration staff, port staff as well as field/ purchasing staff.

1.7 Limitations of the Study

This study was coupled with a number of challenges that served as impediments to its findings.

The researcher had it very tough before reaching respondents to answer questions. There were financial challenges with respect to data gathering and this affected the entire completion time. Again, because of the busy schedules of management, information gathering contributed to the delays in completing the work. Additionally, time constraint made it difficult to extend the scope of the study to other Licensed Buying Companies within the Western North Cocoa Region of Ghana.

1.8 Organization of the Study

The study was dealt with under five parts. Part one concentrated on the foundation to the study, issue articulation, points and goals of the study, examination questions, noteworthiness of the study and in addition degree and confinement of the study.

Chapter two constituted the literature review by providing relevant information about the subject matter under study.

Part three concentrated on the strategy by making accessible the examination plan, populace, test size, inspecting method, materials for information accumulations, technique included in information gathering and also moral contemplations controlling the study.

Part four of the study caught the investigation and understanding of information assembled for the study. The investigation and elucidation of the information was guided by the points and goals of the study.

Section five treated the discoveries' synopsis, decision and proposals for the study and suggestions for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section reviews some recent literature on studies carried out on the concept of risk, risk management and default risk. It ends by looking at the liberalization process, the impact of such risks on the financial statement of the company under study, and the internal marketing of cocoa in Ghana.

2.1 The Concept of Risk

The idea's inception of danger was utilized essentially to mean misfortune or peril to a man or self. In 1719, the idea tackled an extended definition to incorporate the business loss of safeguarded property or merchandise. In 1798, the idea was utilized as a part of the law writing to portray the risk of a misfortune or harm. Later, in 1964, the consolidated term 'risk examination' was utilized to clarify the deliberate examination and anticipating of danger in business and trade. In today's writing, danger is liable to different definitions, and as clarified by Meyfredi (2004), the response to the significance of danger is a long way from the straightforward desire of risk. However the definition relies on upon the connection and is exceedingly relative. Durodié (2006) considered danger as a reflection that speaks to the probability of particular results. Accordingly, dangers show up to a great extent to be outside to us. Various authors have propounded numerous definitions of risk. Faisal et al. (2006) characterize hazard as buyer's view of the shakiness and undesirable results for purchasing items or administrations. Zsidsin (2003) recommends that hazard or risk contains three measurements which are: "result vulnerability, result desires, and result potential". Ritchie and Brindley (2007) likewise

demonstrate that there are three measurements of danger: (1) Likelihood of a few results happening; (2) outcomes of some specific occasions being happening; (3) causal pathways prompting the occasions. Ritchie and Brindley (2007) and PMBOK (2009) additionally consider danger as the duplication of probability of a danger occasion, the seriousness of a danger occasion, and the capacity to identify the danger. It is defined in the documentation as $\text{Risk} = \text{Likelihood} \times \text{seriousness} \times \text{Detection}$. Hazard administration dependably identifies with those three measurements of danger (Ritchie and Brindley, 2007).

Risk is vulnerability's result of future occasions and is a piece of all exercises (Meyfredi, 2004), along these lines as utilized as a part of day by day exercises, danger and instability may be utilized reciprocally.

2.2 Risk Management

Risk administration is an autonomous capacity that has to do with arranging, guiding and sorting out measures to lessen and control the effect of danger on an organization. More specifically, risk management was defined by (ADB, 2002) as the deliberate utilization of administration strategies, systems and practices to the errand of recognizing, examining, evaluating, treating and checking danger. Budgetary danger administration has been characterized by the Basel Committee (2001) as a grouping of four procedures: the ID of occasions into one or more general classes of business sector, credit, operational, and "other" dangers and into particular subcategories; the appraisal of dangers utilizing information and a danger model; the observing and reporting of the danger evaluations on an opportune premise; and the control of these dangers by administration.

The part of risk administration in budgetary firms has advanced a long ways past the basic protection of distinguished dangers, to a train that focuses on complex econometric and monetary models of instability (Alexander, 2005). In this manner danger administration is the aggregate procedure of recognizing, measuring, and minimizing dubious occasions influencing assets, in this way serving to control a foundation's utilization of capital while restricting default hazard, and serving to moderate organization issues (Pedersen and Garleanu, 2007). Be that as it may, even with cautious arranging and readiness, dangers can't be totally killed in light of the fact that they can't all be recognized already. Different ideal models are utilized by diverse associations to sort out their danger administration exercises. Whilst contrasts exist for distinctive ideal models, certain components are all around needed for the system to be fruitful. These incorporate the arranging and organizing of the danger administration process; coordination of the danger and obtaining procedures, and the cooperating of engineers, clients, acquirers, and every single other partner in its usage. Risk administration is a constant procedure, with consistence checking and revaluation. An arrangement of achievement criteria is characterized for all expense, timetable, and execution components of the task. Estimations are described and used to screen practicality of risk organization procedures. An effective test and evaluation framework is organized and took after. All parts of the danger administration project are formally recorded. As per (GSAM, 2003), Communication and input shape an essential piece of all risk administration exercises.

Drzik and Wyman (2005) emphasised that Risk management has been undergoing rapid change over the last decade in both business and academia. According to (Benson and Oliver, 2004), Positive theories to explain financial risk management require a considerable number of assumptions concerning the objectives of management .

2.3 The Cocoa Industry in Ghana

The starting point of cocoa is the waterway valleys of the Amazon and the Orinoco in South America where the beans were utilized by the locals to plan chocolate beverage or chocolate. According to (Norde and van Duursen, 2003; Cappelle, 2009), Cocoa was used as cash for exchanging purposes and instalment of tribute to the ruler. Its pioneers, the Maya individuals, gave it the name "cocoa" or 'God's sustenance'

Cocoa was acquainted with Europe through Spain in the fifteenth century after the conquest of Central America., it led to the expansion of cocoa production became the order of the day, when the demand for cocoa as a drink and chocolate bar increased thereby, leading to the introduction of the crop in Africa (Gibson, 2007; Cappelle, 2009). The first plantation in Africa was established in Fernando Po (now part of Equatorial Guinea) in 1840 after which it moved to the western parts of Africa (COCOBOD, 2011). On account of Ghana, accessible records demonstrate that the Dutch preachers planted cocoa in the waterfront regions of the then Gold Coast as ahead of schedule as 1815, whilst in 1857; Basel ministers additionally planted cocoa at Aburi. Until 1878, when Tetteh Quarshie, took some seeds with him on his return from Fernando Po to Akwapim Mampong in the Eastern Region, cocoa was not well established Ghana (Norde and van Duursen, 2003; COCOBOD, 2011). According to (Asuming-Brempong et al., 2007), in spite of the fact that the first fare of cocoa from the Gold Coast was said to have been made in 1885, the initially archived shipment of two sacks, which was sent to Hamburg, was in January 1893.

According to Asuming-Brempong and others, production grew quickly to achieve 20,000 metric tons by 1908. At an ascent in the creation level of cocoa to 41,000 metric tons in 1911, Ghana was appraised the world's driving maker. In the early years of 1920's,

Ghana was contributing around 40 percent of the aggregate worldwide cocoa supply with creation of 165,000 metric tons to 213,000 metric tons. The volume of fares became quickly to 218,000 metric tons in 1925. This be that as it may, came to a level of 311,000 metric tons in 1936 after which it went down to a scope of 200,000 metric tons and 300,000 metric tons in the 1940s because of serious dry season and maladies and irritations episode. (Norde and van Duursen, 2003; Asuming-Brempong et al., 2007). Currently, West Africa is the largest supplier of cocoa, with about 70 percent of global cultivation. As per (Ul Haque, 2005; Laven and Baud, 2007; Ton et al., 2008; Cappelle, 2009), Ghana is the second biggest worldwide maker of cocoa with almost a world's fifth supply.

The Global yearly collect has been multiplied as of late, coming to 3.6 million tons in 2009-10 and progressively packed in a modest bunch of nations. From the (ICCO, 2010), Africa has immovably settled itself as the main cocoa supplier for as long as 10 years. Since 2000/2001, Africa's creation has extended at a normal yearly rate of 2.7%, as indicated by the International Cocoa Organization). A lot of this development has originate from Ghana, which accomplished the biggest increment in yield (up by 269,000 tons).

The importance of cocoa to Ghana's economy can't be exaggerated. As per Bank of Ghana, this segment represents more than 9% of rural Gross Domestic Product (GDP). Cocoa creation bolsters the employments of more than 800,000 smallholder family units (Anim-Kwapong & Frimpong, 2004) and numerous other people who rely on upon it for a huge offer of their wage.

As indicated by (CRIG), Cocoa creation in Ghana is engaged about only in the woodland agro-environmental zones of the nation, some of which are; Ashanti Region, Brong-Ahafo Region, Central Region, Eastern Region, Western Region, and Volta Region where climatic conditions are perfect for cocoa generation. (Hainmueller, Hiscox, Tampe, 2011) demonstrated that the Cocoa Research Institute of Ghana in association with Wienceo Ghana Ltd. have advanced rancher selection of the 'Abrabopa' package, a mix of agro-inputs and homestead administration rehearses, that has been indicated viable in multiplying and notwithstanding tripling yields subsequent to 1999. Low livelihoods, thusly, hinder development and debilitate the part's long haul manageability as agriculturists are demoralized from making efficiency upgrading ventures, including the utilization of composts and pesticides.

Past poor yields, low earnings, and area weights, there are various different imperatives to segment development. These incorporate restricted access to credit for the agriculturists, poor accessibility of moderate and auspicious inputs, powerless authoritative limit of ranchers (connected to low proficiency rates), and an absence of specialized augmentation support. While such constraining components are not elite to the cocoa division, they do serve to debilitate agriculturists' and other partners' capacity to deal with their introduction to hazard and fuel the effect of danger occasions when they happen.

Disregarding these and different difficulties, the division has bounced back as of late. Financial changes following 1983 have assumed a noteworthy part in making the right conditions for rural speculations. Cocoa, specifically, has encountered striking development, particularly since the year 2000.

Production now surpasses targets not seen in over 40 years. Higher maker costs, fractional liberalization of inner promoting, the foundation of a cost adjustment framework and expanded open spending on base and profitability upgrading advancements (e.g., mass splashing activity, free manure for ranchers, privatization of info circulation) have all assumed a part in the area's recuperation. In 2005, a report by (EGEVAL) demonstrates that there speak the truth four million cocoa cultivators in Ghana out of an aggregate populace of around 20 million. As indicated by one source, the cocoa segment represented around 60 percent of Ghana's aggregate occupation in 2006 (Commodities Now, 2006). Cocoa additionally has an one of a kind significance in Ghana, when contrasted with other West African cocoa makers. While Nigeria has oil and Cote d'Ivoire has a more expanded farming base, Ghana has since autonomy depended on gold and cocoa. Of those two, cocoa is the one and only that is absolutely under the state control. Ghanaian policymakers and researchers trust that cocoa will remain a key division in Ghana's economy for a long time to come (ISSER 2005: 105; Baah-Wiredu 2006).

Ghana's cocoa industry is overseen by the Cocobod, a state-run showcasing board. The Chief Executive is the leader of the Cocobod and the position is simply by political meeting with a four-year renewable term. Cocobod is under the Ministry's ward of Finance. The cocoa promoting procedure starts with the agriculturists and closures with government trade, with Ghana Cocobod directing every progression along the way. As per (de Jong and Harts-Broekhuis 1999:102), when the harvest is finished, agriculturists offer their cocoa to Licensed Buying Companies (LBCs) like Fortune Tree Company Ltd, exclusive and worked organizations directed by the Cocobod and in charge of obtaining the cocoa at an ensured across the country value floor (the 'maker cost') and for transporting it to one of three takeover focuses to offer at a settled cost to the Cocobod

for fare. Since LBC's face a value floor for agriculturists and an altered deal cost from Cocobod, they don't work under a conventional elements of a self-ruling business, where they viably get a set measure of income per amount of cocoa conveyed.

Sources demonstrate that LBCs augment their incomes under this framework by turning over cocoa amounts as fast as would be prudent and boosting their cocoa volumes in any event cost. LBCs by and large go after access to a rancher's cocoa by offering administrations and inputs instead of higher costs (Laven 2005; LMC 1996: 79; Ghana Ministry of Finance 1999: 44). Some rate of the cocoa is sold for local utilization. Quality control is the sole obligation of the Cocobod's Quality Control Company (QCC), earlier called Quality Control Division (QCD). This is done at both the warehouse/area level and at the port/takeover focuses. Fares are taken care of by the Cocoa Marketing Company (CMC), an entirely possessed auxiliary of the Cocobod. The CMC offers the cocoa on universal markets, regularly through forward gets that may be fixed even before the cocoa harvest happens.

The accomplishment of Ghana's cocoa industry can be seen along six measurements: (1) large amounts of cocoa creation, (2) liberal income imparting to ranchers, (3) reliably high cocoa quality, (4) expert and proficient administration of cocoa fares, (5) absence of debasement, and (6) an in number credit record.

2.4 The Liberalization Process

In the late 1930s, neighbourhood vendors were responsible for the cocoa exchange Ghana. Cadbury and Fry purchased cocoa to nourish their own manufacturing plants abroad and being extremely specific about quality, paid premium cost for good quality cocoa, while supporting development of development from the Eastern Region to

different parts of the nation. This gave the organization a more prominent offer of the business sector. Alternate organizations which purchased and sold their cocoa to representatives later met up to frame the Association of West African Merchants keeping in mind the end goal to break the virtual syndication of Cadbury and Fry by ceasing the instalment of premium cost. Amid the period, individual firms and organizations did cocoa acquiring from agriculturists all alone record. There were no settled costs all through the nation in any specific season. According to (Asuming-Brempong et al., 2007), the producer price was decided aggressively by business sector strengths, which made the promoting course of action at the time, a free market circumstance. Cocoa creation in West Africa amid those days step by step got to be confined by strict state regulations in light of maker value control as a critical piece of adjustment targets. The administrative frameworks contrasted between the British and French provincial governments (Marketing board for British as in the case of Ghana and Nigeria, Caisses de stabilisation for the French, as in the case Cameroon and Cote d'Ivoire) (Fold, 2001; ul Haque, 2005). After the world war, in 1947, the Cocoa Marketing Board (CMB) was established. Its mandate was to encourage and advance the development and sustenance of the cocoa business of the Cocoa Marketing Board prompted it changing its name to Ghana Cocoa Board (COCOBOD) (Lundstedt and Pärssinen, 2009. However the administration settled on a steady presentation of changes and resisted successfully, the pressure to abolish COCOBOD, defending COCOBOD for ensuring the quality of Ghana cocoa, which enjoys a premium in the world market). (Laven and Baud, 2007) emphasized that a number of other policy measures were taken in the early 1990s. This denoted the second period of the cocoa division freedom process which was actualized in 1993, and comprised of a re-presentation of the different purchasing framework and inferred that private Licensed Buying Companies were by and by permitted to work on

the local market together with the Produce Buying Company, a subsidiary of Ghana Cocoa Board (COCOBOD). In 2001, Ghana started to allow private companies to export directly 30 percent of their domestic purchases (Varangis and Schreiber, 2001).

Price was fixed and remained constant under the board within a stated period, which brought relief and help to the farmers (Norde and van Duursen, 2003). Primarily, the systems secured pan-seasonal and pan-territorial producer prices and restricted domestic trade and exports to licensed companies or, in the case of the British marketing boards system, to a state controlled monopsony in the domestic trade and monopoly in export trade (Fold, 2001; ul Haque, 2005). After independence, the systems were preserved more or less intact by the new nationalist governments (Fold, 2001; Lundstedt and Pärssinen, 2009). As was the case of other public bodies in developing countries, the performance of the Cocoa Marketing Board after independence deteriorated over time. It became a large bureaucracy, was influenced by politics, and increasingly became inefficient in the designated functions. All this was reflected in the high cost of its operations, which, given the way the system worked, was borne largely by cocoa farmers (ul Haque, 2005; Gibson, 2007; Lundstedt and Pärssinen, 2009). The goals of the marketing board crushed and Ghana's cocoa production languished under stable, but extremely low, producer prices through the 1970s (Gibson, 2007).

These problems and pressure from donor partners, notably, the World Bank, made the Ghanaian cocoa sector reform, through the structural adjustment program SAP). The first phase of the reform was initiated in 1984/85 and focused on restructuring the Cocoa Marketing Board. The Cocoa Marketing Board was made more streamlined by a reduction of the number of staff from around 100,000 employees to 6,000 and by a cut-down on overlaps in the organisation. Changes in many of the operations and institutions of the Cocoa Marketing Board led to it changing its name to Ghana Cocoa Board

(COCOBOD) (Lundstedt and Pärssinen, 2009). However the government opted for a gradual introduction of reforms and resisted successfully, the pressure to abolish COCOBOD, defending COCOBOD for ensuring the quality of Ghana cocoa, which enjoys a premium in the world market (Laven and Baud, 2007). A number of other policy measures were taken in the early 1990s. This marked the second phase of the cocoa sector liberation process which was implemented in 1993, and consisted of a re-introduction of the multiple buying systems and implied that private Licensed Buying Companies were once again allowed to operate on the domestic market together with the Produce Buying Company, a subsidiary of Ghana Cocoa Board (COCOBOD). More recent changes, aimed at further increasing the efficiency of the cocoa sector, were implemented in 1999 in the government's Cocoa Strategy. In addition, the Produce Buying Company was partly privatised in the year 2000 and introduced on the Ghanaian stock exchange. In spite of this partial liberalisation, the Cocoa Board (called COCOBOD) continues to define a floor price that is, effectively, the price paid to all farmers everywhere in the cocoa belt, and its former purchasing subsidiary (the Produce Buying Company) remains the predominant company to which farmers sell their cocoa (Vigneri and Santos, 2008). In 2001, Ghana started to allow private companies to export directly 30 percent of their domestic purchases (Varangis and Schreiber, 2001). However the government opted for a gradual introduction of reforms and resisted successfully, the pressure to abolish COCOBOD, defending COCOBOD for ensuring the quality of Ghana cocoa, which enjoys a premium in the world market (Laven and Baud, 2007). A number of other policy measures were taken in the early 1990s. This marked the second phase of the cocoa sector liberation process which was implemented in 1993, and consisted of a re-introduction of the multiple buying systems and implied that private Licensed Buying Companies were once again allowed to operate on the domestic market

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2.5 Internal Marketing of Cocoa in Ghana

The chain of interior promoting of cocoa in cocoa-creating nations includes: neighbourhood acquiring of cocoa beans from makers' homestead doors, evaluating, fixing, and clearing to the terminals in the nation or to distribution centres at the ports anticipating deals to abroad purchasers, or to satisfy forward submitted deals or the prerequisite of a nearby preparing plant (Amoah, 1995 cited in Adu-Appiah et al 2013). The inner advertising strategy of a creating nation relies on upon elements, for example, the way of development, governments' state of mind to free venture, the relative offer of cocoa income in the economy, and the frontier business rehearses before autonomy.

The instance of Ghana's interior promoting of cocoa is the totality of every one of those exercises including authorized purchasers, that guarantees that cocoa beans from the homestead entryway achieves the state monopsony and the sole exporter of cocoa

(COCOBOD). This procedure includes different performing artists including obtaining representatives, operators, and brokers who manage the Licensed Buying Companies (LBCs) (Anthonio and Darkoa, 2009). The present arrangement of promoting cocoa in Ghana has presented wild rivalry among the 26 Licensed Buying Companies at the homestead door level (LBCs) (COCOBOD, 2010; Vigneri, 2009).

The present game plan of advancing cocoa inside in Ghana has displayed wild contention among the 26 Licensed Buying Companies at the estate entryway level (LBCs) Licensed Buying Companies (LBCs). Hence the purpose of the study is to assess the risks faced by Fortune Tree Company Ltd. The purchased cocoa is checked, graded, and uniquely sealed by the state-owned Quality Control Company (QCC).

COCOBOD still handles overseas shipment and export of most of Ghana's cocoa to ensure quality control, though Licensed Buying Companies can export directly 30% of the domestic cocoa purchased (Varangis and Schreiber, 2001; Norde and van Duursen, 2003; Vigneri and Santos, 2008; Cappelle, 2009). There are three fundamental players included in the residential inventory network of cocoa in Ghana: the agriculturists; the License Buying Companies; and the Ghana Cocoa Board which administers all generation and promoting exercises of the yield (Vigneri and Santos, 2008). For this reason, there is the need to assess the risks faced by licensed Buying companies which serves as a middle man between production and exportation.

CHAPTER THREE

METHODOLOGY AND PROFILE OF FORTUNE TREE COMPANY LIMITED

3.0 Introduction

This section of the study is concerned with the methodology that was used in the study. According to Sarandakos (1998), research methodology entails the theoretical principles as well as frameworks that provide guidelines about how research is conducted in a particular way. This chapter therefore has to do with the examination plan, populace, test and inspecting methods, and information sources, instruments for information gathering, moral contemplations and information investigation.

3.1 Research Design

Saunders, Lewis and Thornhill (2009) define research design as the general plan which guides a researcher in answering research questions. For this study, the exploratory research design is deemed most appropriate. Exploratory study is defined as a preliminary study of an unfamiliar research phenomenon which the researcher has little or no knowledge (Krishna swami & Ranganatham, 2007).

Myers (2009) defines exploratory research as an approach to qualitative research where the primary motivation is to discover and explore new phenomenon. Risk related issues among Licensed Cocoa Buying Companies is an under-explored phenomenon in a cocoa producing country like Ghana.

Descriptive study is a measurable study to recognize pattern in a circumstance, however not the easy going linkages among its distinctive component. Case study analysis is an archived investigation of a particular genuine circumstance or envisioned situation, utilized as a preparation apparatus as a part of business colleges and firms. Understudies

or students are obliged to dissect the endorsed cases and present their understandings or arrangements, bolstered by the line of thinking utilized and suppositions made. The researcher therefore sought to adapt this approach since it fits into the research objectives.

Longitudinal study is a factual study went for recognizing a pattern over a span of time.

Cross-sectional study is likewise an enlightening investigation of a circumstance at one specific time.it gives a present's depiction conditions however does not clarify the circumstances and end results (easy going) linkages among their parts or constituents.

Time arrangement are qualities taken by a variable over time(such as day by day deals income, week by week orders, month to month overheads, yearly wage) and classified or plotted as sequentially requested numbers or information focuses. To yield substantial factual surmising, these qualities must be more than once measured, regularly over a four to five year period. Time arrangement comprise of four segments;

- ✓ Seasonal variations that repeat over a specific period such as a day, week, month, season, etc.
- ✓ Trend variations that move up and down in a reasonably predictable pattern
- ✓ Cyclical variations that correspond with business or economic boom-bust cycles or follow their own peculiar cycles
- ✓ Random variations that do not fall under any of the above three classifications.

Considering the nature of research being conducted, times series wouldn't be the best approach to use.

Cohort study is an investigative study in which a gathering having one or more comparable attributes, (for example, propensity for smoking or a specific illness) is firmly checked after some time all the while with another gathering (whose part don't

smoke or are free from the malady). Albeit more repetitive, this system is utilized where contextual analysis methodology is not plausible. The research objectives do not suggest that this type of method be used.

Experiment is an examination system for testing diverse suppositions (speculation) by experimentation under conditions developed and controlled by the analyst. Amid the procedure one or more conditions (called free variables) are permitted to change in a sorted out way and the impacts of these progressions on related conditions (called ward variables) is measured, recorded , approved, and examined for touching base at a conclusion. Taking into account, the research objectives, experimental approach wouldn't be the right one to use.

In this regard, the use of an exploratory design provides the right mechanism to uncover how risks occur and do affect LBC's in Ghana.

3.2 Population

The entire group of people from which one can source data and investigate into and from which the researcher can make inferences is known as population (Saunders et al., 2007). For the purpose of this study, the population comprised of all employees on the field of operation of Fortune Tree Company Limited (i.e. 53 employees).

3.3 Sample and Sampling Techniques

The statistical process of selecting a subset of a population of interest for the purposes of making observations and inferences about that population is called sampling (Bhattacharjee, 2012). This study therefore employs the non-probability sampling techniques in the selection of a sample for the study. Specifically, the purposive sampling technique was the most appropriate form of sampling technique that suited the

objectives of the study. The researcher needed in-depth information on the various types of risks that affect the operations of Fortune Tree Company Limited. In this regard, there was the need for purchasing clerks, administrative staff, and port representatives who had in-depth knowledge on the issues concerning risks associated with the operations of the company under study. Upon thorough consultations, the researcher was introduced to twenty two (22) out of a total of thirty two (32) purchasing clerks, five (5) out of a total of ten (10) District Managers, five (5) out of a total of eight (8) administrative staff, and all the three (3) port representatives of Fortune Tree Company Limited who provided all the required information needed by the researcher through an interview. In all, 35 employees of Fortune Tree Company Limited were interviewed out of a total of fifty (53).

3.4 Sources of Data

In this study, primary and secondary sources of data were used. The primary sources of data comprised of responses gathered from interviews that were conducted. The secondary sources of data on the other hand comprised of information that were sourced from journals, text books, articles etc. The financial reports of the company from the periods of 2012 to 2014 also served a good source of secondary data to the researcher.

3.5 Instruments for Data Collection

Structured interview guides served as the instrument for the study. The choice of the structured interview guide was based on the premise that, it gave the researcher the opportunity to come up with pre-determined questions which specifically sought to examine the various kinds of risks as indicated earlier in the research objectives. The structured interview guide was sub-divided into four different sections. Section A

comprised of questions related to activities of purchasing clerks which contributes to risks at Fortune Tree Company Limited. Section B of the interview guide assessed the kinds of production risks that affect the operations of Fortune Tree Company Limited. Section C of the interview guide was also concerned with issues related to environmental risks associated with the operations of Fortune Tree Company Limited while Section D tackled issues concerned with marketing risks associated with the operations of Fortune Tree Company Limited.

3.6 Ethical Considerations

Creswell (2012) emphasised that data collection should be ethical and it should respect individuals and the setting within which the study is conducted. In this regard, obtaining permission before collection of data is not only a part of the informed consent process but is also an ethical practice. For this study, the researcher obtained permission from the company (Fortune Tree Company Limited) before the data collection process became a reality.

The right to privacy was respected by ensuring that acceptance and participation was based on the respondents' sole willingness. The data collected was treated with confidence and for academic purposes as promised in the introductory letter.

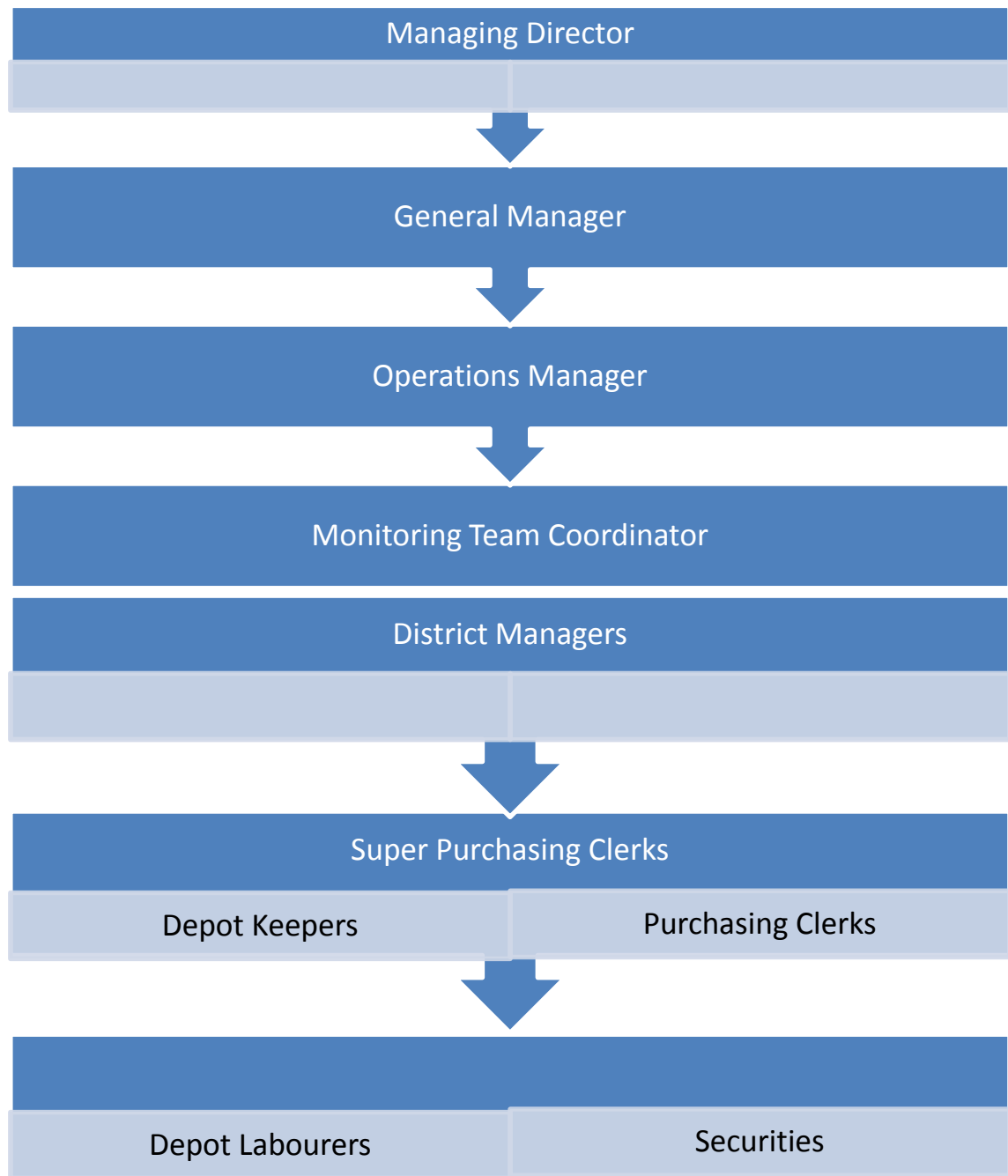
Anonymity was equally adhered to by ensuring that the name of the interviewee who participated in this study was not mentioned in the data analysis.

3.7 Data Analysis

Data gathered from the study was subjected to data transcription and thematic analysis. The thematic analysis was done through the identification of themes from the data gathered.

3.8 Profile of Fortune Tree Company

Fortune Tree Company was incorporated mainly to purchase cocoa from farmers in the year 2011/12 crop season with Mr. Albert Bukroh (MD) and Mr. James Djanie (General manager) being the main drivers of the company. The company has been under the supervision of these two gentlemen until 2014 when the managing director, Mr. Albert Bukroh resigned for Mr. Djanie James to take over as managing director. It has its head office located at Abrepo, a suburb of Kumasi in the Ashanti Region of Ghana. As has been said already, the main service rendered is to buy cocoa from farmers. These purchased cocoa, upon meeting the required standards of the quality control company, is sold to the international market through the cocoa marketing company (CMC). The structure of the company is shown in the chart below:



The vision of the company is to be the leader in the internal marketing of cocoa in Ghana within 15 years after commencement of business.

The mission statement of Fortune Tree Company is to empower the customers (Farmers) to achieve financial soundness by providing them with farm inputs like fertilizers, spraying machines and agro chemicals so as to maximize output. Our customers are so

cherished that their satisfaction is always placed ahead of any other issues, hence, prompt payment of their produce is always assured.

The main objective of Fortune Tree Company is to buy as many cocoa as possible with the least cost.

CHAPTER FOUR

PRESENTATION OF RESULTS

4.0 Introduction

The preceding chapter dealt with the methodological concerns that were associated with the study. However this section of the study presents the results derived from the study. Specifically, the study sought to ascertain the risk related issues confronted by Fortune Tree Company Limited and its impact on the financial performance of the company. In this regard, a comprehensive interview was conducted by the researcher using thirty five (35) experienced operational employees of the organization as the respondents. The sub-sections that follow consist of the various themes identified by the researcher during the transcription of data and their relevance to achieving the research objectives of the study.

SECTION A.

ANALYSIS OF DEMOGRAPHICAL DATA

Table 4.1The Table Below Shows The Analysis Of The Demographical Data:

CATEGORY	NO. OF RESPONDENTS	PERCENTAGE (%)
<u>GENDER</u>		
Male	26	74.29
Female	9	25.71
<u>AGE</u>		
25-34 Years	29	82.86
35-44 Years	4	11.43
Above 45 Years	2	5.71
<u>MARITAL STATUS</u>		
Single	10	28.57
Married	25	71.43
Divorced	0	0
Widowed	0	0
<u>EDUCATION LEVEL</u>		
Senior High School	15	42.86
Diploma	12	34.29
1 st Degree	5	14.29
Master's Degree	3	8.57
<u>GENERAL WORK EXPERIENCE</u>		
Less than 5 Years	14	40.00
5-9 Years	16	45.71
10-14 Years	4	11.43
15-19 Years	1	2.86
<u>WORK EXPERIENCE WITH THE COMPANY UNDER STUDY</u>		
3 Years	21	60
2 Years	7	20
1 Year	5	14.29
Less than 1 Year	2	5.71
<u>CURRENT POSITION</u>		
Senior Staff	8	22.86
Junior Staff	27	77.14

SECTION B

4.2 Activities of Purchasing Clerks Identified as Risks to Fortune Tree Company Limited.

Table 4.2

(Interview Guide)

		NUMBER OF RESPONSES				
	QUESTION	No. of Responses	Yes	No	Total	% of Yes
1	Do the purchasing clerks play the role of intermediary in the cocoa supply chain of Fortune Tree Company Limited?	35	32	3	35	91.43
2	Can bulking of cocoa be described as one of the key activities of purchasing clerks in the cocoa supply chain at Fortune Tree Company Limited?	35	35	0	35	100
3	The activities of purchasing clerks can sometimes pose a threat/risk to the profitability of the organization?	35	20	15	35	57.14
4	Do you think the risk-related activities of purchasing clerks can be controlled?	35	30	5	35	85.71

In order to understand the nature of risks posed by purchasing clerks in the internal marketing of cocoa at Fortune Tree Company Limited, the interviewees were asked about the specific role played by purchasing clerks in the entire supply chain at Fortune

Tree Company Limited. All the thirty five respondents answered that, the purchasing clerks act as the middlemen or intermediary between the cocoa farmers and the District Manager (D/M). However, specific activities performed by purchasing clerks that were mentioned by the interviewees include the direct purchase of cocoa beans from cocoa farmers, the bulking and drying of the cocoa beans and also making payment of purchased cocoa through the use of cheque or by cash. All the 35 interviewees emphasized that, the activities of purchasing clerks with respect to do impact the profitability of Fortune Tree Company Limited in the sense that, they ensure that the cocoa beans are properly dried to avoid shrinkage thereby minimizing losses to the company at the take-over centres or ports. The interviewees further mentioned that, the buying of more cocoa from farmers enables Fortune Company Limited to increase its profit margin because it's able to meet higher targets set by the Ghana Cocobod. That is after the quantity needed to purchase in order to cover their fixed cost is obtained, any extra quantity that is purchased is an additional contribution that will increase profit.

When the interviewees were asked as to whether the activities of purchasing clerks pose some sort of threat or risk to the profitability of the company (Fortune Tree Limited), thirty (30) out of the thirty five (35), representing 85.71% responded in the affirmative. According to the interviewees, one of the prominent activities of purchasing clerks which results in the loss in profits of the company (Fortune Tree Limited) is when the cocoa beans are poorly dried before being sent to the take-over centres. This is because, when the cocoa beans are not properly dried they become mould or adulterated and become very bad for export. If it so happens, the beans would have to be reconditioned at a very huge cost or can be confiscated by CMC, in which case, the company loses all.

Additionally, when purchasing clerks default in the payment of cocoa beans bought from farmers, it affects the profitability of the company (Fortune Tree Limited) in that there

will be loss of customer goodwill which in turn, will affect the volume, thereby affecting the profit since volume and profits are found to be positively correlated. However, thirty (30), representing 85.71% of the respondents emphasized that the risk related activities of purchasing clerks can be controlled when the right measures are put in place by the management of Fortune Tree Company Limited.

According to the interviewees, there is the need for management of Fortune Tree Company to ensure that all cocoa beans that are patronized from purchasing clerks are properly dried and the extent of quality is met for the international market. Further, the interviewees emphasized that, there is the need for management to ensure that, they always deal with purchasing clerks who have a good business record of always making payments frequently to farmers that they purchase the cocoa beans from.

SECTION C

4.2 Assessment of Production Risks Encountered by Fortune Tree Company

Limited

(Interview Guide)

Table 4.3

		NUMBER OF RESPONSES				
	QUESTION	No. of Response	Yes	No	Total	% of Yes
1	Can diseases and pests that attack cocoa serve as a form of risk to Fortune Tree Company Ltd?	35	31	4	35	88.57
2	In your opinion, would you say that diseases and pests of cocoa have Impact on the profitability of Fortune Tree Company Ltd?	35	28	7	35	80.00
3	Do you think bushfires can pose threat to the profitability of Fortune Tree Company Limited?	35	34	1	35	97.14
4	Would you say mass education on how to control fire can serve as one of the measures to control bushfire?	35	35	0	35	100
5	In your opinion, would you say that excessive rainfall form part of production risk that negatively affects the performance of the company financially?	35	30	5	35	85.71

This section of the interview analysis was concerned with the assessment of production risks that affect the profitability of Fortune Tree Limited.

According to the response from the interviewees, diseases and pests that attack cocoa have very negative consequences on the production level of the cocoa beans. This is because, the disease and pest attack on the cocoa beans reduces the quantity of quality cocoa beans that can be produced within a particular cocoa season. In fact, 88.57% of respondents answered in the affirmative when asked whether or not diseases and pests can serve as threats to the company.

The respondents further asserted, when the quantity of cocoa beans reduces, purchasing clerks are not able to purchase higher quantities of cocoa beans from the farmers and therefore the profitability of the company is badly affected because of the correlation that exists between purchases and profits.

Another production risk that the interviewees mentioned was the frequency of bushfires in a particular cocoa season. 97.14% of the respondents answered that, when there are frequent bushfires, most cocoa farms are entirely destroyed and hence the supply of cocoa beans to Fortune Tree Limited decreases greatly.

From the interviewees, other indicators of production risks that normally affect the supply rate of cocoa to Fortune Tree Company Limited are soil infertility, drought and excessive rainfall. Absence of rainfall they said will prevent the smaller cocoa pods from becoming matured whilst excessive rainfall will cause the pods to rot.

SECTION D

4.4 Assessment of Environmental Risks

Table 4.4

(Interview Guide)

	QUESTION	NUMBER OF RESPONSES				
		No. of Response	Yes	No	Total	% of Yes
1	In your opinion, do you think cocoa smuggled from Ghana to nearby countries have any effect on the financial performance of the company?	35	35	0	35	100
2	Can inadequate scales and or tarpaulin have any impact on the profitability of the company?	35	34	1	35	97.14
3	In your opinion, does child labour in the cocoa supply chain have any effect on the performance of the company financially?	35	10	25	35	28.57
4	Can the absence of national land use plan have any effect on the company's financial performance?	35	34	1	35	97.14
5	Can these risks be controlled?	35	35	0	35	100
6	Do you think strengthening the security at the cross border lines can serve as one of the measures to control smuggling?	35	35	0	35	100
7	In your opinion, would you say inadequate motivation on the part of Cocobod with respect to price is a reason for cocoa smuggling?	35	35	0	35	100

This section of the analysis of responses gathered from the interviewees is concerned with the assessment of environmental risks associated with Fortune Tree Company Limited.

According to the interviewees, the most prominent environmental risk that affects the profitability of Fortune Tree Company Limited is the smuggling of cocoa to nearby countries by some farmers and purchasing clerks. All the 35 respondents representing 100% answered in the affirmative when asked whether cocoa smuggling has any effect on the financial performance of the company under study.

The interviewees further asserted that, the profitability of the company (Fortune Tree Company Limited) is greatly affected because when purchasing clerks and farmers engage in smuggling activities, the company's total purchases of cocoa drops drastically which brings about great loss in terms of financial profitability.

100% of interviewees admitted that, measures can be put in place to reduce the level of smuggling of cocoa beans to neighbouring countries by farmers and purchasing clerks. From the perspective of the interviewees, security at the various borders should be well strengthened in order to arrest individuals who engage themselves in the smuggling of cocoa to nearby countries. Moreover, the interviewees also suggested that, the smuggling activities of some farmers and purchasing clerks will be reduced drastically if measures are put in place by all stakeholders involved in the cocoa supply chain to ensure that the country prices of cocoa in the country are a bit higher than that of the neighbouring countries.

Another environmental risk associated with a decrease in the profitability of the company is the breakdown of tools of trade and machinery such as tarpaulin and cocoa scales.

Rising yield as of late has progressively strained existing stockpiling limit and prompted impressive blockage at the Kaase inland warehouse and Tema and Takoradi port offices individually. As per narrative proof, times held up to offload cocoa at specific periods can be up to 5 days or more. For LBCs, this can essentially lessen their "turnaround" rate, or the time it takes to total, prepare, and convey a dispatch of cocoa. For example, the seed advance made by COCOBOD was accessible at an annualized interest rate of 12% in 2010/11(According to the interviewees). Furthermore, logistical postponements raise the possibility—and the danger borne only by LBCs—that the cocoa may be harmed while in travel through introduction to dampness or different components.

COCOBOD has stepped as of late to build existing stockpiling limit and enhance general logistics. For example, it executed a portion and planning framework for LBCs to assist better with organizing conveyances and lessen blockage, however with apparently blended results. Interests in port overhauls at Tema and Takoradi inside of the most recent 10 years have definitely enhanced taking care of and stacking times. New activities have likewise incorporated the outsourcing of distribution centres administration and the development of new storerooms (counting a 100,000-ton office at Takoradi) that will without a doubt facilitate a bottlenecks' portion once author

SECTION E

4.5 Assessment of Market Risks Encountered by Fortune Tree Company Limited

Table 4.5

(Interview Guide)

	QUESTION	NUMBER OF RESPONSES				
		No Response	Yes	No	Total	% of Yes
1	Do these marketing risks occur regularly?	35	29	6	35	82.86
2	Do the delays at take over centres have any impact on the profitability of Fortune Tree Company Limited?	35	34	1	35	97.14
3	Can regular servicing of secondary evacuation trucks be part of the measures taken by the organization to reduce the intensity of marketing risks that are encountered in its operations?	35	30	5	35	85.71
4	In your opinion, do you think measures like reduction in delay times can reduce the cost of debts of the company?	35	25	10	35	71.43
5	In your opinion, do you think some of the purchasing clerks intentionally embezzle funds?	35	35	0	35	100

This section of the analysis dealt with the examination of market risks encountered by Fortune Tree Company Limited as a Licensed Buying Company.

The interviewees when asked about the kind of market risks encountered by Fortune Tree Company Limited, 34 representing 97.14% emphasized that delays at take over

centres is a major marketing risk because it negatively affects the profitability of the company to a greater extent. The respondents further emphasized that, the delays at the take-over points affect the time frame within which the company receives its income from the cocoa sold and therefore interest rates on monies borrowed increase greatly at the time of repayment and hence affects the profitability of the company.

Moreover, when such delays at the take-over centres occur, Fortune Tree Company Limited normally leads to the exhaustion of the Cocobod seed fund which has a lower interest rate. When this happens, the company has no other option than to go for a bank overdraft as a source of fund which are always at higher interest rates. Therefore the cost of borrowing increases thereby reducing the net profit of the company as a result of increased financial cost.

According to eight (8) of the respondents, the only way to reduce market related risks is to improve the turnaround time by reducing or avoiding delays at the take-over centres. One plausible strategy suggested by the interviewees as a mechanism for reducing delays at the takeover centres is to organize more effective educational training seminars for purchasing clerks solely on how they can turn around quickly to the take-over centres in order to avoid loss in the profitability of Fortune Tree Company Limited.

When asked whether some of the purchasing clerks intentionally embezzle funds, all the 35 respondents answered in the affirmative.

4.6 The Impact of the Various Types of Risks Assessed on the Financial Performance of Fortune Tree Company Limited

Table 4.6: Summary of Gross Profit and Net Operating Profit/Loss in a Form of Horizontal Analysis of Fortune Tree Company Limited from 2012 To 2014

Horizontal Analysis of Statement of Comprehensive Income for the Year to December 31st (2012 - 2014)								
(All amounts are expressed in Ghana cedis)	2013	2012	INCREASE (DECREASE)		2014	2013	INCREASE (DECREASE)	
	GHSC	GHC	AMT	% CHANGE	GHC	GHC	AMT	% CHANGE
Revenue	6,009,258	2,625,228	3,384,030	128.9%	7,343,924	6,009,258	1,334,666	22.2%
Cost of Sales	<u>5,350,386</u>	<u>2,391,244</u>	2,959,142	123.7%	<u>6,687,230</u>	<u>5,350,386</u>	1,336,844	25.0%
Gross Profit	658,872	233,984	424,888	181.6%	656,694	658,872	(2,178)	-0.3%
General and Admin. Cost	401,263	126,928	274,335	216.1%	<u>274,875</u>	401,263	(126,388)	-31.5%
Financial Charges	<u>749,632</u>	192,047	557,585	290.3%	358,973	<u>749,632</u>	(390,659)	-52.1%
Operating Profit/(Loss)	(492,023)	(84,991)	(407,032)	478.9%	22,846	(492,023)	514,869	-104.6%
Income Tax Expense	-	-	-	0.0%	<u>5,712</u>	-	5,712	#DIV/0!
Profit/Loss for the year	(492,023)	(84,991)	(407,032)	478.9%	17,134	(492,023)	509,157	-103.5%

In order for the researcher to assess the impact of the various forms of risk (risks from purchasing clerks, production risks, environmental risks and marketing risk) on the financial performance of Fortune Tree Company Limited, the researcher specifically compared the gross profit/Loss to the net operating profit/loss of the company from the periods of 2012 to 2014.

It could be deduced from the table that, generally the various forms of risks associated with the operational activities of Fortune Tree Company Limited have greatly affected its financial performance over the years. In the year **2012**, the company made a gross profit of **GHC233,984** and an operating loss of **GHC84,991**. This may be due to high finance costs as a result of delays at takeover points and other related costs. In the year **2013**, despite the increase in profit margin from **GHC233,984** to **GHC658,872**, the company also accrued a net operating loss as high as **GHC492,032** representing **478.9%** over the year **2012**. However, during the year **2014**, it is plausible to notice that, the company might have put in place better measures to reduce loss and enhance its profit margin considerably. This is because, per the financial statement of the company, a gross profit of **GHC656,694** was realized with a net operating profit of **GHC22,846** representing an increase of **104.6%** over the previous year.

RATIO ANALYSIS OF THE COMPANY OVER THE THREE PERIODS

Per the objectives of the study, profitability ratios will be the most important ratios to be considered and discussed since they are used in assessing the financial performance of a company OR measures the entity's potential to earn income in excess of its operating costs. Among the ratios are:

1. Return on Capital Employed

The outright figure of benefit earned is not in itself, noteworthy since the business' measure gaining that benefit may change extraordinarily. It is in this way critical to consider the benefit's extent figure with respect to the organization's measure; size being communicated as far as the amount of capital utilized. The arrival on capital utilized is the proportion which measures this relationship. It is the key proportion in surveying monetary accomplishment. It mirrors the winning force of the organization operations. ROCE is otherwise called the essential proportion on the grounds that it is frequently the most vital measure of productivity.

The ratio in simple form is:
$$\frac{\text{Net Profit}}{\text{Capital Employed}} * 100$$

Depending on how capital employed is defined, the ratio can be calculated in various ways. For this study, capital employed is defined as: TOTAL ASSETS- CUURRENT LIABILITY.

Table 4.7

YEARS	NET PROFIT GH¢	CAPITAL EMPLOYED GH¢	ROCE %
2012	(84,991)	(24,990)	340.10
2013	(492,023)	(517014)	95.17
2014	17,134	430,015	3.98

As was said earlier on, the raw profit figures didn't show positive results over the years. However, the returns made out from the capital employed showed positive results, that is to say that raw profit figures may at times be misleading therefore, one needs to go extra mile in analysing financial data for decision making.

2. Gross Profit Margin

This is the margin that the company on its sales. Normally, this ratio is expected to remain reasonably constant. A change in this ratio over various accounting periods may be traced to a change in;

- A. Revenue
- B. Purchasing costs including carriage costs
- C. Inventory shortages

It is computed as:

$$\frac{\text{Gross Profit} * 100}{\text{Sales Revenue}}$$

Table 4.8

YEARS	GROSS PROFIT	REVENUE	GROSS PROFIT MARGIN
	GHC	GHC	%
2012	233,984	2,625,228	8.91
2013	658,872	6,009,258	10.96
2014	656,694	7,343,924	8.94

The positive change in the gross profit (**GHC424,888**) and for that matter, the gross profit margin (**2.05%**) between the years **2012** and **2013** may be due to increase in the volume of purchases of cocoa leading to increase in revenue.

It could be deduced from the table that there was a drop in the gross profits of **2013** (**GHC658,872**) and that of **2014** (**GHC656,694**) though there was a significant increase in revenue over those two periods of **GHC1,334,666**. This may be due to any of the factors enumerated earlier.

3. NET OPERATING PROFIT MARGIN

This is computed as:

$$\frac{\text{Operating profit(before interest and tax)}*100}{\text{Sales Revenue}}$$

Sales Revenue

Table 4.9

YEARS	NET PROFIT	REVENUE	NET PROFIT MARGIN
	GH¢	GH¢	%
2012	107,056	2,625,228	4.08
2013	257,609	6,009,258	4.29
2014	381,819	7,343,924	5.20

From the table, it could be said that an increase in revenue, all things being equal, resulted in an increase in net profit and the net profit margin. However, because of high finance cost to the company, the performance of the company after the finance cost alone resulted in a huge loss.

This finding gives a clear indication that, when Licensed Buying Companies put in good measures to control the various risk factors associated with the cocoa business operations, their level of financial performance shall be enhanced considerably. The horizontal analysis is graphically presented in the appendix as (APPENDIX 2).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION & RECOMMENDATIONS

5.0 Introduction

The previous chapter dealt with the presentation of results derived from the study. This chapter however is concerned with the summary of findings, conclusion and recommendations for the study.

5.1 Summary of Findings

This study assessed how risks associated with the operations of Fortune Tree Company Limited has affected its financial performance over a period of three years. Per the findings of the study, it was discovered that, the various types of risks associated with the operations of Fortune Tree Company Limited include activities of purchasing clerks, production risks, environmental risks and marketing risks.

According to the findings derived from the study, it was deduced that, when purchasing clerks do not dry cocoa beans properly before taking them to the take-over points, it results in moulding or adulteration of the cocoa beans which inevitably brings about huge losses to the company (Treated as administrative cost) . Further, when purchasing clerks do not pay cocoa farmers promptly, it poses a lot of financial threats to Fortune Tree Company Limited due to loss of customer goodwill (reducing the quantity of purchases budgeted for the ensuing crop season thereby, affecting the sales revenue).

With regards to production risks, it was found that, the various diseases and pest that attack the cocoa pods and the tree itself pose a lot of risk to Fortune Tree Company Limited. This is because, when such diseases and pests are not properly controlled, they destroy most of the cocoa beans which brings about reduced quantity yield and hence farmers cannot feed the company with the quantity of cocoa that it requires. Bushfire was

also identified as a very detrimental risk in the sense that during severe bushfires, most cocoa farms get burned up entirely which brings about very lower quantity of cocoa supplied to Fortune Tree Company Limited eventually. Other forms of production risks identified included drought, soil infertility and excessive rainfall.

In terms of environmental risks, the study found out that, the smuggling activities of some farmers and purchasing clerks was a key risk to the financial performance of Fortune Tree Company Limited. This is because, when a chunk of cocoa beans are smuggled to nearby countries, it affects the overall net profit of Fortune Tree Company Limited because the organization is unable to meet a certain quantity that will help cover its fixed costs not to talk of profit. Also, the breakdown in some of the cocoa tools of trade such as tarpaulins and cocoa scales were also identified as some of the environmental risks associated with the operations of Fortune Tree Company Limited since the absence of tarpaulin will bring about moulding and adulteration of cocoa that can lead to great losses. .

Market risks that were identified within the findings of the study comprised of delays at the takeover points and also the high cost of interest rates. The delays at the takeover points brings about financial loss to the company because, it reduces the turnaround time tying up capital, thereby increasing the cost of debts.

5.2 Conclusion

In conclusion, the researcher argues that, the different forms of risks that were identified: activities of purchasing clerks, production risks, environmental risks and marketing risk do have serious implications on the financial performance of Fortune Tree Company Limited. Over the past three years (from 2012-2014) these kinds of risk have brought about huge financial losses to Fortune Tree Company Limited. Notably among such huge

margins of financial loss was the net operating loss in the year 2013 which was as high as GH¢492,032. However, it is possible that, as the company realized such huge financial loss, the right measures were put in place to significantly reduce the various indicators of risks associated with its operations. Therefore in the year 2014, the company made a gross profit of GH¢ 656,694 with a net operating profit of GH¢22,846.

5.3 Recommendations

Based on the findings derived from the study, the following recommendations are made by the researcher:

Firstly, there is the need for Fortune Tree Company Limited to train its employees/purchasing clerks on risk management. This is because, when purchasing clerks of the company are well imbibed with strategies of reducing and controlling risks associated with their various operations, it will help the company to make much more profits, thereby enhancing their financial strength to a greater extent.

Secondly, Fortune Tree Company Limited must include in their policy a strategy of ensuring that farmers who provide them with cocoa are well motivated to stay committed. In this regard, the researcher suggests that, the company should allot some amount of money in its budget to provide incentives in the form of insecticides, pesticides and spraying machines to farmers in order to reduce the level of production risk associated with the overall operations of the company.

Lastly, Fortune Tree Company Limited should put in place an inspection team that ensures that, all cocoa beans that are sent to the takeover points are well dried and meet the quality requirements set up by the quality control company (QCC). When this is done shrinkage, moulding, and adulteration of cocoa will also be reduced and the company can supply quality cocoa to the Ghana Cocobod for greater financial returns. Coupled

with this, the turnaround time shall also be enhanced thereby, increasing the financial status of the company.

5.4 Directions for Future Studies

The study assessed the impact of risks on the financial performance of Fortune Tree Company Limited as a Licensed Buying Company. However, this research could not specifically pinpoint the degree at which each of the risks assessed affects the financial performance of Fortune Tree Company Limited. Future researcher can therefore conduct this study by adopting a quantitative approach where through the use of standard multiple regressions, the individual contributions of the various types of risks on the financial performance of Fortune Tree Company Limited can be determined.

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APPENDIX A

INTERVIEW GUIDE FOR DATA COLLECTION

THIS RESEARCH SEEKS TO FIND OUT THE RISK RELATED ISSUES IN THE INTERNAL MARKETING OF COCOA IN GHANA AND THEIR IMPACT ON THE FINANCIAL PERFORMANCE - FORTUNE TREE COMPANY.

RESPONDENTS TO THIS QUESTIONNAIRE ARE ASSURED OF CONFIDENTIALITY OF INFORMATION PROVIDED SINCE THE EXERCISE IS PURELY ACADEMIC. Please, kindly respond as honestly and carefully as you can by ticking {✓} and filling in the options provided.

SECTION A: Personal Data of Respondents

1. Sex: Male { } Female { }
2. Age groups: Below 25years { } 25-34years { } 35-44years { } 45 years and above { }
3. Marital status: Single { } Married { } Divorced { } Widowed { }
4. Educational level: SHS/WASSCE { } Diploma { } 1st Degree { } Masters' degree { } others (Please specify).....
5. How long have you worked in this field of business? Less than 5 years { } 5-9 Years { } 10-14years { } 15-19years { } 20 years and above { }
6. What is your current position? Please specify
7. How long have you worked with Fortune Tree Company? 3 years { } 2 years { } 1 year { } Less than 1 year { }

SECTION B: Activities of Purchasing Clerks

1. Do the purchasing clerks play a role of intermediary in the cocoa supply chain of Fortune Tree Company Limited? Yes { } No { }
2. Can bulking of cocoa be described as one of the key activities of purchasing clerks in the cocoa supply chain at Fortune Tree Company Limited? Yes { } No { }
3. In your opinion, how do the activities of purchasing clerks enhance profits for Fortune Tree Company Limited?
4. The activities of purchasing clerks can sometimes pose a threat/risk to the profitability of the organization? Yes { } No { }
5. Which activities of purchasing clerks will you describe as threat/risk to the profitability of Fortune Tree Company Limited?
6. Do you think the risk-related activities of purchasing clerks can be controlled? Yes { } No { }
7. In your opinion, what are some of the measures that can be taken to reduce the risk-related activities of purchasing clerks at Fortune Tree Company Ltd?

SECTION C: Production Risks

1. Can diseases and pests that attack cocoa serve as a form of risk to Fortune Tree Company Ltd? Yes { } No { }
2. In your opinion, would you say that diseases and pests of cocoa have Impact on the profitability of Fortune Tree Company Ltd? Yes { } No { }
3. Does Fortune Tree Company Limited regard bushfires as a form of risk in its operations as an LBC? Yes { } No { }
4. Do bushfires pose threat to the profitability of Fortune Tree Company Limited? Yes { } No { }
5. Apart from bushfires, pests and diseases, what are some of the production risks encountered by Fortune Tree Company Limited in its operations as an LBC?

SECTION D: Environmental Risks

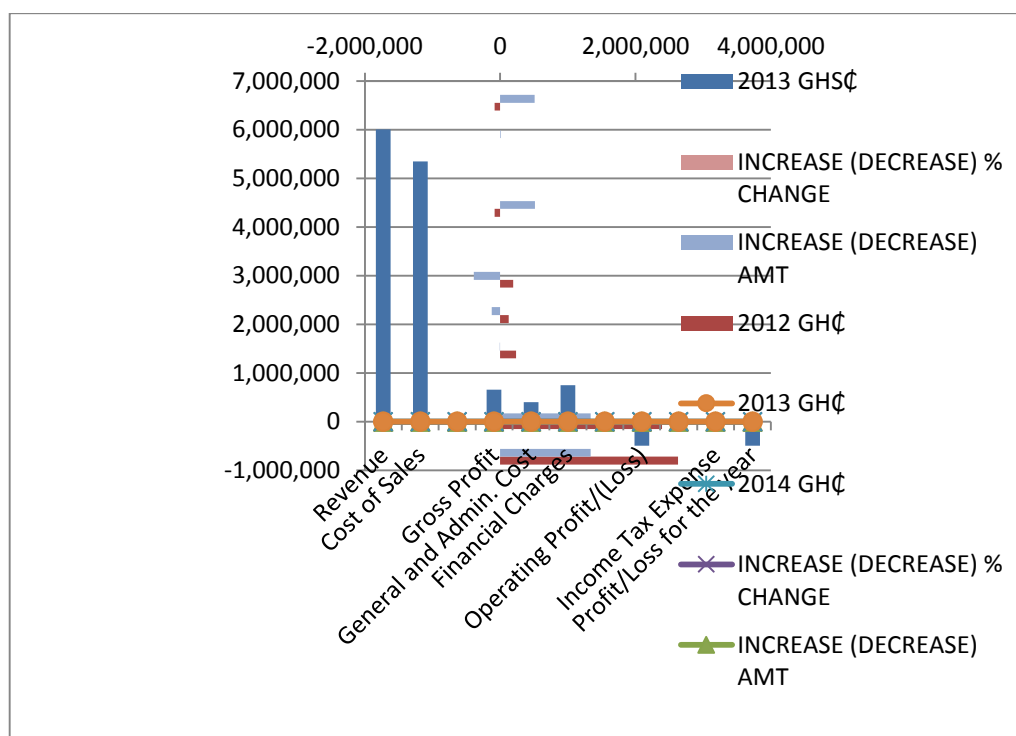
1 In your opinion, do you think cocoa smuggled from Ghana to nearby countries have any effect on the financial performance of the company? Yes { } No { }
2 Can inadequate scales and or tarpaulin have any impact on the profitability of the company? Yes { } No { }
3 In your opinion, does child labour in the cocoa supply chain have any effect on the performance of the company financially? Yes { } No { }
4 Can the absence of national land use plan have any effect on the company's financial performance? Yes { } No { }
5 Can these risks be controlled? Yes { } No { }
6 Do you think strengthening the security at the cross border lines can serve as one of the measures to control smuggling? Yes { } No { }
7 In your opinion, would you say inadequate motivation on the part of Cocobod with respect to price is a reason for cocoa smuggling? Yes { } No { }

SECTION E: Marketing Risks

<p>1. In your view, what are some of the marketing risks encountered by Fortune Tree Company Limited as an LBC?</p> <p>.....</p>
<p>2. Do these marketing risks identified occur regularly?</p> <p>Yes { } No { }</p>
<p>3. Do the delays at take over centers have any impact on the profitability of Fortune Tree Company Limited?</p> <p>Yes { } No { }</p>
<p>4. Can regular servicing of secondary evacuation trucks be part of the measures taken by the organization to reduce the intensity of marketing risks that are encountered in its operations?</p> <p>Yes { } No { }</p>
<p>5. In your opinion, do you think measures like reduction in delay times can reduce the cost of debts of the company?</p> <p>Yes { } No { }</p>
<p>6. From your point of view, what recommendations will you give to management of Fortune Tree Company Limited to help reduce the impact of marketing risks?</p> <p>.....</p>

APPENDIX B

GRAPHICAL PRESENTATION OF HORIZONTAL ANALYSIS OF STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR TO DECEMBER 31ST (2012 - 2014)



TURNITIN REPORT Originality Report

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