THE EFFECTS OF OPERATIONAL RESTRUCTURING ON PERFORMANCE OF THE PRODUCE BUYINYG COMPANY LIMITED (PBC)

By

STEPHEN YEBOAH ANTWI, (B SC. ADMIN.)

The Thesis Submitted to the Department of Finance, Kwame Nkrumah University of Science and Technology, in Partial Fulfillment of the Requirements for the Degree

Of

MASTER OF BUSINESS ADMINISTRATION (FINANCE)

School of Business

College of Arts and Social Science

AUGUST 2009

2009

DECLARATION

I hereby declare that I have personally, under the supervision of Mr. Kwasi Poku of the KNUST, Business School, undertaken the study therein. And that to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text."

Stephen Yeboah Antwi (PG 1646007)	....	16/10/09 ....
	Signature	Date

Certified by:

Mr. Kwasi Poku	....	16/10/09 ....
Supervisor	Signature	Date

Certified by:

JOSEPH M. FRIMPONG	....	19-10-09 ....
Head of Department	Signature	Date

DEDICATION

I dedicate this write up to my late parents Mr. Peter Antwi Boasiako and Mrs. Mary Antwi Boasiako. Thank you for your marvelous irreplaceable parenting.

ACKNOWLEDGEMENT

My deepest appreciations and thanks go to Almighty God who gives me strength and supervisor, Mr. kwasi Poku, whose encouragement, dedication and care, in spite of his tight schedules, served a good purpose. His style and guidance all helped to structure this work.

Worthy of mention is my family – my wife, daughter, parents, in-laws, brothers and sisters, whose understanding, support and co-operation, made it possible for me to pursue this programme.

I cannot conclude without expressing my deep appreciation to Mrs. Doris Yeboah Antwi for her patience and time in typing out the manuscript, the institution whose officials granted me audience, explanations and supplied figures to assist me to come out with this work. Worthy of mentioning for appreciation are Professor J. B. K. Aheto, my former lecturer at the University of Ghana, School of Administration, Legon and Messrs Kwame Sarfo Nkrumah, Joseph Evans Opoku, and Emmanuel King Obeng under whose guidance my study at KNUST became successful.

ABSTRACT

The study sets out to assess, the performance of post Operational Restructuring of Produce Buying Company Limited in terms of liquidity, profitability, efficiency and market share returns and to finally make appropriate recommendations aimed at enhancing the performance of Produce Buying Company Ltd.

The study found among other things that Operational Restructuring, if well carried out seeks to turnaround distressed companies into robust and vibrant ones which would benefit shareholders, government and all other stakeholders such as potential investors.

The study covered the historical background of PBC Limited, the shareholding and operational structure of the company, its organizational strengths and weaknesses, and a further analysis of its audited financial statements from 2002 – 2008 for comparison of pre and post operational restructuring performances in terms of income, expenditure and profits.

The study revealed that the post-operational restructuring performance of PBC was better in terms of profitability, turnover and cash flow. The study therefore recommended for PBC to build upon its market leadership in the internal marketing of cocoa in Ghana given the opportunities available in the macroeconomic environment to sustain growth and profitability.

TABLE OF CONTENTS

TABLE OF CONTENTS

CHAPTER TWO

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background

In times of underperformance businesses adopt operational and financial restructuring to rehabilitate and protect value, and hence reverse underperformance. Cost-cutting measures such as closing down unprofitable facilities, identifying the key drivers, which can restore value in the short term, may be used.

In 1997, Holland-based Philips NV restructured its business portfolios and processes worldwide. This had wide-ranging consequences for Philips India Ltd (PIL)'s operations. The company examined the long-term viability and profitability of electronic weighing, plastic and metal ware businesses and critically reviewed manufacturing processes of the consumer electronics business, specifically the TV business, to cut costs and improve flexibility. With revenues of Rs 16.65 billion for 2001-02, Philips India Ltd (PIL) had established itself as a leading manufacturer of consumer electronics and electrical goods in India. (Center for Management Research – ICMR)

The performance of the Produce Buying Company Ltd today has mostly been as a result of operational restructuring which has yielded a level of cost-cutting dividends and has increased profitability in areas where profit making was not possible.

It is possible to gain a better understanding of how an organisation has performed by examining the numbers contained in its accounts using ratios analysis to:

(a). Compare the organization's current performance with that of previous year's performance.

(b) Compare the organization's performance with that of other organisations in the industry.

On their own, however, a company's accounts do not provide a user with very much information about how that organisation has performed. For instance, a net profit of twenty thousand Ghana cedis might at first sight appear to be adequate, but what does it represent as a percentage of turnovers? How much capital was required to generate such a profit and what percentage return on capital does that profit represent to an investor or potential investor?

Financial Analysts, stakeholders and regulatory authorities the world over use ratios analysis to appraise the performance of organizations. Profit and Loss account, balance sheet and cash flow statements indicate the profit (or loss) made by an organization during an accounting period and provide a summary of its assets and liabilities as well as cash available at a given date (ACCA, June 2003)

Trends may be analyzed using liquidity, profitability, efficiency, leverage and investment ratios to determine whether there is a significant differences that would call for investigation to enable the users of the accounts namely –shareholders, employees, trade creditors, government agencies, public, community, potential investors and financial analysts to obtain much clear picture of how an organization has actually performed.

The study seeks to use the accounting analytical tools to critically examine the financial performance of Produce Buying Company Limited (PBC) within the period of its operational restructuring to determine its profitability; attractiveness, reliability and efficiency, to enable its stakeholders take informed decisions.

1.2 Problem Statement

There is perceived injustice and misleading accounting irregularities and financial disclosure problems characterizing the corporate world recently both home and abroad leading to significant loss of investment and jobs. (Colley, Jr. et al 2003)

It has also become obvious that operational restructuring in most corporate organizations do not work to bring the intended results, and thereby worsening the plight of organizations.

At times, management of corporate organizations fail to recognize the actual problem(s) that need(s) to be attended to in order to lift the company out of its financial difficulties or underperformance.

Even if the actual problem(s) which results in underperformance of an organization is identified, the strategies adopted to solve such problem(s) might fail due to management's conflict of interest and favoritism towards for example, a department or business which should be closed down.

In most cases, arrogance of management allows it to believe it has been through such a situation before and would be blinded by an "everything would be fine" attitude. And hence fail to fix corporate problems.

Most of all, management might not have the interest and sometimes the will power to bring about the needed changes, which might result in the removal of current management who knows more about the company and bring in new management who would have the task of learning as beginners and thereby plunging the organization in to greater financial distress.

The present study is therefore concerned with addressing the following questions;

1. What are some causes of underperformance in businesses?
2. What techniques are adopted by businesses in operational restructuring?
3. What have been the benefits of operational restructuring to PBC Ltd. in particular?
4. What has been the operational efficiency of the company?
5. How the financial assessment can be used as a benchmark to guide management to improve upon the financial performance of PBC Ltd.

1.3. Objectives

The specific objectives of this study are:

1. To examine some of the causes of underperformance in businesses.
2. To examine the techniques adopted by businesses in operational restructuring.
3. To explore the benefits of operational restructuring to PBC Ltd. in particular.
4. To assess the operational efficiency of the company.
5. To use the financial assessment as a benchmark to guide management to improve upon the financial performance of PBC Ltd.

1.4. Hypothesis

Null Hypothesis HO = Pre operational restructuring Performance of PBC is similar to its Post operational restructuring Performance.

Alternative Hypothesis HI = Pre operational restructuring Performance of Produce Buying Company is not the same as post operational restructuring Performance.

1.5 Significance of the Study

In all for profit making organizations, management is charged with;

i. generating increasing amounts of cash flow for the owners now and in the future,
ii. meets or exceeds all customer expectations,
iii. And provides a stable and healthy environment for employees now and in the future.

When a company meets all three 'necessary conditions', it will be successful. If not, the company will suffer and eventually fail. The business environment is constantly dynamic and so, too, must the position and focus of the company.

The study therefore seeks to identify the relevant actions that a distressed company takes in order to reverse its distressed position into an economic viable one.

It is therefore justified to analyze the operational restructuring and hence performance of Produce Buying Company Limited, in order to determine the profitability, reliability, stability and attractiveness or otherwise of the company to enable the investing public take appropriate decisions as well as the employees of the company to renew their confidence and faith in the company.

- This study would provide a financial assessment which would be a benchmark to guide management of PBC Ltd. to further improve upon its financial performance.
- This study would also be a source of reference for the corporate world when the need arises for an organization to embark on an operational restructuring.
- This study would most of all be a source of reference for students and others in academia who would want to study more about operational restructuring in organizations in Africa and Ghana in particular.

1.6 Methodology

The study would be carried out using both Primary and Secondary data sources. Data to be collected and analyzed will cover 2002 to 2008 for PBC Ltd.

Primary data would be obtained for the study by interviewing some key personalities at PBC. Interviews would be conducted by both telephone and one-on-one. Also, unstructured questionnaire would be used because the target area is not wide. A simple purpose sampling technique would be applied.

Literature available on the subject would be assessed from articles, journals, Brochures, Internet, PBC's mini prospectus and annual reports, audited financial reports and statistics from the newspapers, ACCA Newsletters, would be used to obtain secondary data for the study.

1.7 Analysis of Data

Data obtained would be analyzed and presented using tables, graphs, charts and financial ratios and growth rates.

i. Growth rates would be used to show and explain in nominal terms, changes that have taken place in the market share of the Produce Buying Company Ltd.

ii. Financial Analysis

   Pre and post audited financial reports from 2002 to 2008 would be used for financial ratios to determine Liquidity, Profitability, Activity and Returns on investment.

1.8 Scope

The study looks at how operational restructuring has enhanced the performance of PBC Ltd. after its implementation between 2006 and 2008 as compared to the pre-operational period of 2002 to 2005. The study was conducted mostly at the Head Office of PBC in Accra, since information required was purely corporate management based. Two Regional Managers of Ashanti and Brong Ahafo and Two District Managers of Nkawie and Tepa were also interviewed due to proximity.

1.8a Organization of the Study

The research is divided into five (5) chapters.

Chapter one deals with the synopsis, which covers the general introduction and background to the study, objectives of the study, problem statement, methodology, analysis and limitation to the study.

Chapter two reviews the literature in the area of study. It therefore presents the concepts, techniques and definitions of operational restructuring and financial appraisal and analytical tools like profitability ratio, efficiency ratio and investment ratio, limitations of the ratios would also be dealt with.

Chapter three covers the research methodology, analysis of data, the history and business of Produce Buying Company Limited (PBC), Pre-and post operational restructuring performance on physical assets, turnover, profits, employee levels quality, development, future outlook and prospects of PBC Ltd.

Chapter four presents the analysis of the data gathered from various sources in respect of the study, while chapter five deals with the conclusions and recommendations of the study.

1.9 Limitation

To have access to information was a difficult task and the project requires traveling a lot to Accra thus inconveniencing my family most often. This notwithstanding has been beneficial to make the research a success. It is the conviction of the researcher that this Work would be a source of knowledge for all readers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Meaning and Concept of Corporate Restructuring

Corporate restructuring entails any fundamental change in a company's business or financial structure, designed to increase the company's value to shareholders or creditors. Corporate restructuring is often divided into two parts: **financial restructuring** and **operational restructuring**. Financial restructuring relates to improvements in the capital structure of the firm. An example of financial restructuring would be to add debt to lower the corporation's overall cost of capital. For otherwise viable firms under stress it may mean debt rescheduling or equity-for-debt swaps based on the strength of the firm. If the firm is in bankruptcy, this financial restructuring is laid out in the plan of reorganization.

The second meaning, **operational restructuring**, is the process of increasing the economic viability of the underlying business model. Examples include mergers, the sale of divisions or abandonment of product lines, or cost-cutting measures such as closing down unprofitable facilities. In most turnarounds and bankruptcy situations, both financial and operational restructuring must occur simultaneously to save the business. Corporate financial restructuring involves restructuring the assets and liabilities of corporations, including their debt-to-equity structures, in line with their cash-flow needs to promote efficiency, support growth, and maximize the value to shareholders, creditors and other stakeholders. These objectives make it sound like restructuring is done pro-actively, that it is initiated by management or the board of directors. While that is sometimes the case -- examples include share buybacks and leveraged recapitalizations -- more often the existing structure remains in place until a crisis emerges. Then the motives are defensive -- as in defenses against a hostile takeover -- or distress-induced, where creditors threaten to enforce their rights.

According to Focus Management Group, a corporate restructuring consulting firm, "with the ever changing economic environment, business objectives must constantly be evaluated in order to keep up with industry and consumer demands". There is therefore the need to streamline the business structure and create a strategic plan for long term recovery.

2.2 Operational Restructuring as a Science

According to (Neil Minihane, Aug 27, 2008), operational restructuring is a science. When restructuring small to mid-sized companies (those with revenues up to $500 million) the traditional investment banker approach of selling divisions and off-loading plants as going concerns often is not an option.

Operators must look at the blocking and tackling aspects of the production and process functions to determine which have the largest potential for improvement. In this arena, the distressed company cannot afford another big mistake, so it is helpful to have a repeatable process that reduces probabilities for errors and quickly focuses on the root issues.

Having a repeatable process reduces **operational restructuring to a science**, one that follows integrated and repeatable steps that rely on cold, hard, unshakeable facts, not gut or intuition. There are situations in which, due to lack of reliable data, cash concerns, and timing, gut calls are necessary and must be made, but these should be the exception rather than the rule.

While all businesses are different in some way, there are commonalities. The universal commonality, management, is charged with **generating increasing amounts of cash flow for the owners now and in the future, meets or exceeds all customer expectations, and provides a stable and healthy environment for employees now and in the future.** When a company meets all three 'necessary conditions', it will be successful and the cycle will perpetuate. If the cycle is broken, the company will suffer and eventually fail. The business environment is constantly dynamic and so, too, must the position and focus of the company.

The remaining commonalities lend themselves to a structured restructuring process. On a macro level, turnaround efforts can be broken down into five basic phases and then each one of these phases can be and should be subdivided into smaller actionable items. The five generally accepted stages of an operational restructuring are:

1. Evaluation

2. Management Change

3. Emergency Action/Execution

4. Stabilization

5. Return to Normal/Return to Growth

While these five stages are observed either formally or informally in every restructuring, the uniqueness among businesses shows up in how the different stages are emphasized: order, time, focus, energy, etc.

A structured process allows the turnaround specialist to drill down quickly and determine the various underlying problems. It also provides a foundation for the incumbent management, many of whom have never been in a distressed situation before, to grasp.

Employees look to the turnaround specialist for leadership to help stabilize the atmosphere and to provide a roadmap out of the current situation. It is the employees who do most of the heavy lifting. Ensuring that they know the thought process, rationale, direction of the company and how it is going to get there provides them with much needed insight and the opportunity for participation and buy-in.

The management especially needs clear objectives that, preferably, focus on cash. Invariably, incumbent management wants to grow its way out of the losses. This is a flawed approach. In many ways a company does not control its top line. The economy, customers, competitors, and the specific market all exert forces that determine if the company wins new business and at what price. Revenue growth, in the short term, is more often out of management's control.

Thus the initial turnaround focus is typically on the cost structure (even "fixed" costs are variable over time). So companies do well to forget about growth for a while, fix the cost structure, stabilize the business, and return to profitability. Then, growth opportunities can be explored.

New ideas may emerge with a right-sized footprint and the core assets of tomorrow firmly in place. Management must remember that cash is king. One cannot dismiss the importance of depreciation, but emphasizing earnings before interest, taxes, depreciation, and amortization (EBITDA) could lead to an inefficient conclusion and a poor investment choice. A cash return on an investment is the only return that counts.

2.2.1 Why does a company get into financial distress?

There are various reasons, but one constant is management's friend, DAN[1], an acronym for:

- **Denial** of the problem, despite broken bank covenants, cash flow problems, poor financial performance, or other issues.
- **Arrogance** that allows management to believe it has been through this situation before and knows how to solve it without outside help. Management is blinded by an "everything will be fine" attitude. "This is not a big issue. Just sit tight and ride it out," it believes.
- **Nostalgia,** or longing for the good old days of three martini lunches and fat profit margins. "The company never had this problem when… (Fill in the blank)."

One or any combination of these three DAN components occupies management's time and energy and fills space in the problem-solving gap. When DAN is coupled with the fact that many troubled companies do not know their real costs, the components of those costs, and how to adjust the cost structure, it becomes clear why a company is struggling.

According to Prof. Ian H. Giddy, New York University, just because a company needs restructuring -- financial or operational -- does not mean it will undertake the necessary reforms. Management and controlling shareholders may prevail for an extended period, during which time minority shareholders and/or creditors suffer an erosion of value. A number of East Asian corporations, saddled with debt, nearly collapsed during the financial crisis of 1997. Many have managed to avoid both repayment and restructuring, however, and remain overly indebted and invested in unprofitable businesses.

The term "management change" can refer to replacing incumbent management or simply working with the management team to change perspective and approach. If a company's management is open to change and is looking for guidance, it is often best to retain them. They know the company, customers, suppliers, and the market and, with buy-in, they can facilitate change quickly.

Even simpler than the five stages of a turnaround effort is the three-stage model that describes the problem, the solution, and the improvement process, and is detailed as follows.

The problem:

- Costs too high (revenue - cost = profit or loss)
- Productivity too low (units per labour hour)
- Too much indirect labour
- Sales and general administration expences too high

The Solution:

- For management by making clear, definitive decisions backed by hard numbers and logical thought processes
- Reduce all costs
- Monitor productivity daily
- Monitor product sales, revenue versus product costs

The Improvement Process:

- Know what the costs are and would be (both internally and externally)
- Use financial statements to develop detailed financial reports itemized by product
- Determine product actual and standard costs broken down by variable and fixed cost

Focus on Reducing Variable and fixed cost:

- Use scientific management based on data from their stop watches

- Watch overhead costs closely
- Increase productivity through careful trading, worker incentives and improved processes
- Weed out losing products

The problem often involves market dynamics that are beyond the company's control. The market no longer values the company's offerings at the price it charges. The reason could involve any of **Harvard's Michael E. Porter's elegantly detailed "Five Forces," such as a substitute product offering or lower cost option, changing customer tastes, or a disappearing market.** No company, regardless of effort, can reverse or change these dynamics, and the company must embrace them. Again, DAN comes into play.

How is the company losing money, or where is the company making and losing money? Depending on the company and industry, this can be compartmentalized by geographic region, product line, market segment, facility, or individual product. By viewing the company from a variety of perspectives, one can determine what is generating cash and what is draining it.

This type of detailed analysis occurs in each of the five stages. However, a turnaround specialist must be cautious not to get too tied up in the minutiae. If this happens the pace of change grinds to a halt.

A good plan is not perfect. One should pick the low-hanging fruit and return for another pass once the company is stabilized. A turnaround professional should follow the Keep It Simple, Stupid (KISS), approach and break every function down to simple steps. Simple measurements are easy to manage and troubleshoot.

Using a stopwatch is helpful in solving the tug-a-war over function rates. Each step in the process should be carefully isolated and timed. Along the way, methods to improve the system by rearranging the shop floor, modifying tools, or eliminating a movement should be identified. Supplying instruction cards so that the employees do not need to think about what to do can be helpful. The company must understand how each position and function adds value. The key is to blend a strict standard operating procedure (SOP) culture with floor management that continually learns from employees and updates instructions/procedures accordingly.

2.2.2 A Structured Approach

In the manufacturing and process-oriented arena, low-cost production is necessary to win. Exceptions, such as Caterpillar Equipment Corporation, do exist. CAT equipment is among the most expensive on the market, but intangible benefits, such as 24-hour service and access to supplies anywhere in the world, have allowed the company to charge a premium.

Even with this distinct advantage, however, the Caterpillars of the world must consider the low-cost/value producer equation carefully. Management of these companies must watch the costs and the market while constantly updating procedures and offerings. A strict operating discipline, along with a tight financial reporting model, is key factors in cost control, product quality, and timeliness, and customer satisfaction— hence financial success.

When a company's deliverables and the market's values do not align, the business underperforms. A turnaround specialist must be an analytical third party with a cold eye for facts, someone who can review operations, enumerate issues, and then develop solutions for each—one at a time, in a prioritized and methodical manner. A structured approach to this process is valuable, and the five stages of a turnaround provide guidelines.

2.2.3 Corporate Restructuring – Best Practices

According to William P. Mako, a Senior Specialist in the Private Sector Development Unit of the World Bank's East Asia and Pacific Region, corporate restructuring and financial sector restructuring are two aspects of the same problem. The amount of debt a company can sustain—and on which lenders can expect reliable debt service—is determined by the company's cash flow. Indeed, a company cannot sustain interest payments in excess of its cash flow.

There are a number of ways to resolve unsustainable debt, some better than others. The best is for a company to raise new equity and sell noncore businesses and assets to retire debt while restructuring its operations—discontinuing less profitable or loss-making businesses and reducing labor and other costs, for example—to increase its earnings and debt-service capacity.

A next-best approach is for creditors to convert debt into equity or lower-yielding convertible bonds. To avoid moral hazard, creditors should not consider debt write-offs until they have exhausted all other possibilities, and they should obtain some instrument (such as equity, options, or warrants) enabling them to participate in any recovery. (Equity ownership by creditors can create other moral hazard issues against which financial supervisors would need to guard.) Term extensions may be acceptable, provided they do not have the practical effect of transforming debt into an equity-like instrument without also giving creditors the rights of equity holders. Reducing interest below the risk-adjusted rate may also be acceptable, so long as principal is repaid (but governments should discourage rate reductions that provide an undeserved competitive advantage and preserve "zombie" companies from liquidation). Grace periods on debt service usually just postpone the day of reckoning for nonviable companies.

Creditors of corporations being restructured should take loan provisions that appropriately reflect the present-value effects of interest rate reductions, term extensions, or other debt rescheduling; debt-to-equity conversions; and any loan write-offs. They should also provision against possible losses on remaining debt, based on international, forward-looking criteria. If a creditor institution's risk-weighted capital falls below a certain ratio (say, 8 percent), the government may decide to close and liquidate the institution, merge it with a stronger partner, solicit additional capital from current shareholders, or recapitalize it and take ownership and control.

2.3 Restructuring initiatives

2.3.1 Philips India Ltd (PIL)

With revenues of Rs 16.65 billion for 2001-02, Philips India Ltd (PIL) had established itself as a leading manufacturer of consumer electronics and electrical goods in India. A subsidiary of the Holland-based Philips NV, PIL has dominated the Indian consumer electronics and lighting industry for more than six decades. PIL, with a product portfolio of audio systems, color televisions (CTVs), loudspeakers, printed circuit boards, various kinds of lamps, electronic components and electro-medical apparatus, had acquired considerable popularity and loyalty among Indian customers. PIL was established as Philips Electricals Co. (India) Ltd. in 1930 by Philips NV as a wholly-owned subsidiary.

The company's name was changed to PIL in September 1956 and it was converted into a public limited company in October 1957. After being initially involved only in trading, PIL set up manufacturing facilities in several product lines. PIL commenced lamp manufacturing in 1938 in Kolkata and followed it up by establishing a radio factory in 1948. It set up an electronics components unit at Loni, near Pune, Maharashtra in 1959. It began producing electronic measuring equipments at the Kalwa factory in Maharashtra in 1963. The company subsequently ventured into telecommunication equipment manufacturing at a unit in Kolkata.

During the 1980s, Foreign Exchange Regulation Act (FERA) regulations[1] forced PIL to bring down the foreign share holding to 40%. Philips NV directed PIL to change its name to Peico Electronics & Electricals (Peico). However, Peico was allowed to sell its products under the 'Philips' brand. In May 1982, Peico acquired the Kolkata-based Electric Light Manufacturing Industries (ELMI) and made it a 100% subsidiary. In 1988-89, Peico recorded its first ever pre-tax loss of Rs 170 million, largely due to **poor management and overstaffing**. However, cost cutting, organizational restructuring and sale of real estate enabled it to post profits in the next two years. In 1993, its foreign equity stake was raised to 51% and the name was changed back to PIL.

By the late 1990s, PIL had five manufacturing units situated in Salt Lake, Kolkata (for CTVs), Pimpri (near Pune for audio products and industrial lighting), Kalwa (near Thane for electrical lighting), Kota (in Rajasthan for picture tubes) and Loni (in Maharashtra for electroniccomponents).

In 1997, Philips NV restructured its business portfolios and processes worldwide. This had wide-ranging consequences for PIL's operations. The company examined the long-term viability and profitability of electronic weighing, plastic and metal ware businesses and critically reviewed manufacturing processes of the consumer electronics business, specifically the TV business, to cut costs and improve flexibility.

Measures to this effect were put in place. In 1998, Philips NV increased its holding in its subsidiary Punjab Anand Lamp Industries (PALI) from 39.96% to 51%. With PIL holding around 28.8% in PALI's expanded capital, the joint holding of the Philips group in the company increased to 79.8%.

In the late 1990s, the CTV market was characterized by intense competition and unprecedented price erosion. In an attempt to improve cash flows and bring down inventories, the company restructured its CTV manufacturing process.

Philips India Ltd (PIL) decided to leave the relatively low value adding manufacturing processes such as final assembly and testing to supplier-partners who were close to the marketplace. These supplier-partners not only had much lower cost-structures, they were also far more flexible. By having several supplier-partners in different parts of the country, PIL was able to reach out to customers in the shortest possible time and with very low inventory in the pipeline. In June 1997, PIL shifted the final component assembly process for CTVs out of its Salt Lake factory to three new assembling centers in West Bengal, Punjab and Uttar Pradesh, to keep the assembling unit of the final product as close to the customer as possible. PIL also started outsourcing low value components from local players, while concentrating on the production of high-value items.

2.3.2 Corporate Restructuring in East Asia

A number of East Asian corporations, saddled with debt, nearly collapsed during the financial crisis of 1997. Many have managed to avoid both repayment and restructuring, however, and remain overly indebted and invested in unprofitable businesses.

During the 1990s, East Asian corporations borrowed heavily and expanded into many low-margin or loss-making businesses and markets. The financial crisis sparked by the fall of the Thai baht in July 1997 made it difficult, if not impossible, for these highly leveraged corporations to service their debt, undermining, in turn, the health of the financial institutions that had extended loans to them.

Although the link between corporate restructuring techniques and financial sector restructuring is reasonably straightforward, too little operational restructuring has occurred, and East Asia's corporate and financial sectors have yet to recover from the crisis. The failure to shed marginal businesses and resolve unsustainable debt has left corporations, banks, and national economies less competitive, less able to respond to real growth opportunities, and vulnerable to future shocks. Why has restructuring proceeded so slowly, and what can international development institutions such as the World Bank and the Asian Development Bank do to encourage speedier resolution of corporate distress in future crises?

2.3.2.1 Responses to systemic crisis

Indonesia, Korea, Malaysia, and Thailand all adopted some variant of the "London approach" to out-of-court restructurings of unsustainable corporate debt. (The London approach, promoted by the Bank of England during the U.K. recession of the mid-1970s, encourages creditors and allow certain principles—for example, minimizing losses to creditors, avoiding liquidation of viable debtors, and continuing financial support to viable debtors—in out-of-court restructuring agreements.) However, the countries varied widely with respect to the amount of protection they provided to creditors and their use of public asset management companies to resolve company loans acquired from distressed financial institutions.

Indonesia is emphasizing two approaches to corporate restructuring. A public asset management company has taken over the corporate loans (amounting to 22 percent of GDP) of numerous failed financial institutions and is attempting to restructure them. As for amounts owed overseas (offshore borrowing having accounted for 50 percent of corporate debt), foreign lenders have been left to negotiate their own deals (some using formal time-bound mediation managed by the Jakarta Initiative Task Force) or sell their credits. Creditors cannot count on the courts to protect their rights.

Korea adopted a multitrack approach to corporate restructuring. In 1997, 10 of the most distressed chaebols—groups of companies, each typically controlled by one family—went into receivership. Subsequently, Korea's financial supervisor promoted out-of-court restructuring (workouts) for less distressed chaebols. An agreement among local financial institutions allowed two to five months to negotiate workouts, with a standstill on debt service during negotiations; established a 75 percent threshold for creditor approval of workout agreements; and created a committee to arbitrate differences among creditors. Last, the Korean government sought to impose greater financial discipline on large chaebols by requiring that companies implement capital structure improvement programs approved by their lead creditors, eliminating cross guarantees on debt, establishing tighter exposure limits, and imposing fines for improper transactions between related companies. Following the failure of the self-restructuring efforts of Daewoo, one of the largest chaebols, creditors took control of its companies. The public asset management company's role was limited to providing bank liquidity through purchases of nonperforming loans at substantial discounts on face value.

Malaysia, like Korea, took a multitrack approach. A debt-restructuring committee led by the central bank facilitated some out-of-court workouts, while Danaharta, a public asset management company—with powers to appoint administrators to run companies and seize collateral—had resolved 32 billion ringgit ($8.4 billion) of its 47 billion ringgit ($14.7 billion) corporate debt portfolio as of mid-2000. About 200 companies are being rehabilitated under court supervision, and at least another 10,000 are being "wound up" (liquidated) under Malaysia's Companies Act.

Thailand initially emphasized "Bangkok rules" modeled on the London approach. After a slow start, creditors were induced by the country's financial supervisor to adopt a time-bound process for negotiating corporate workouts. Two years later, a large volume of unresolved cases are being forwarded to the bankruptcy courts. Thailand still lacks an effective foreclosure and insolvency regime (although it is trying to develop one), which is hampering voluntary restructuring efforts. Thailand's public asset management companies have focused on the sale or management of loans, not on corporate restructuring.

2.3.2.2 Gauging results

Corporate restructuring results should be measured along three dimensions: (1) long-term deterrence of imprudent debt-fueled investment, (2) financial stabilization in the short term (3 months) to prevent the liquidation of viable albeit overleveraged companies, and (3) medium-term (6-18 month) operational restructuring to improve profitability, solvency, and liquidity.

Deterrence. Korea initially achieved a commendable record on long-term deterrence. The ability of Korean creditors to force many chaebols into receivership and seize Daewoo signaled that no chaebol was "too big to fail." (This lesson is being undermined by recent support for Korea's largest chaebol.) By contrast, the weakness of Thailand's foreclosure and insolvency system encouraged "strategic defaulting" and nonperforming loans, which at their peak represented 48 percent of all loans. Following delays in some high-profile cases, Thailand is beginning to make progress in court-supervised reorganizations. In Indonesia, recent proposed restructuring deals pose serious moral hazard issues. In several cases, if corporate debtors can repay the principal owed to the public asset management company within 12 years (including an 8-year grace period), the former controlling shareholders can regain 100 percent equity ownership, despite the large present-value cost to the public asset management company. Such deals, which could encourage other corporations to "go for broke" in borrowing funds to finance expansion, create moral hazard.

Stabilization. Short-term financial stabilization was not an issue for large corporations in the recent crisis. In Indonesia and Thailand, which had debtor-friendly legal environments, debtors achieved financial stabilization on a do-it-yourself basis, simply by unilaterally imposing a moratorium on debt servicing. In

Korea's more rigorous legal environment, companies that cooperated with creditors enough to avoid receivership were stabilized through debt standstills and financial restructurings that featured interest rate reductions, term extensions, grace periods, and debt-to-equity conversions. In other, earlier crises, the concern was that the "strong swimmers" would be dragged down along with the weaker ones. In this crisis, thousands of small and medium-sized enterprises have failed, but few large companies—either strong or weak—have had to close.

Operational restructuring. Three years after the crisis, relatively little operational restructuring has occurred. Even in Korea, which has seen the most restructuring—especially by less distressed chaebols acting outside the formal workout program—data from the central bank show that company liabilities decreased just 1 percent, while assets grew 9 percent between the end of 1998 and the end of 1999. Clearly, the 90 trillion won ($82 billion) in new equity raised or earned by Korean companies went toward acquiring additional assets rather than retiring debt. In the out-of-court workouts, the ratio of corporate "self-help" (for example, sales of noncore businesses and assets, issuance of new equity, and cost-cutting measures) to debt restructuring was 1:4, at best. Given Korea's initial debt overhang, it is no surprise that 1999 data show a cash flow/interest-expense ratio of less than 1.5:1 for 32 percent of 496 companies, less than 1:1 for 23 percent, and less than zero (that is, negative cash flow) for 13 percent.

2.3.2.3 Explanations

Differences among the four countries in the amount of financial and operational restructuring that has taken place mainly reflect differences in the ability of creditors to impose losses on debtors, the readiness of governments to impose losses on the shareholders of local banks and on taxpayers, and the public's tolerance for worker layoffs and foreign takeovers.

In Korea and Malaysia, debtors cooperated with out-of-court restructuring efforts, sometimes accepting debt-to-equity conversions that diluted ownership and diminished shareholder control because creditors had the power (through receivership or special administrators) to oust controlling shareholders and management. The absence of such "sticks" stymied corporate restructuring—even of the modest financial-stabilization variety—in Indonesia and Thailand until negotiation fatigue and macroeconomic recovery encouraged debtors and creditors to normalize their relationships.

In Thailand, the government was unwilling to nationalize the entire financial sector. It took over more than 50 finance companies and some mid-sized banks. For the remaining private banks, it offered up to 300 billion baht in public funds for recapitalization in return for corporate restructuring and new business lending. Only one-fifth of this amount was used, however, because the controlling shareholders of the remaining private banks were unwilling to have their ownership diluted or to risk loss of control. The Thai government did not impose this program or nationalize remaining large banks, despite nonperforming loan rates of about 40 percent. To have nationalized the remaining banks in the context of weak insolvency and foreclosure laws would have shown corporate debtors that they could drive creditors out of business and—unless repayment was effectively pursued by a public asset management company with super-administrative powers—taught the worst possible lesson.

The financial supervisor provided no forbearance on capital adequacy (that is, it did not allow a temporary reduction in required capital-adequacy ratios), but it allowed banks to recognize corporate restructuring losses over a $2^1/2$-year period. Liberal rules allowing provisions to be calculated net of collateral, on mostly overvalued property, provided additional implicit forbearance. This approach to forbearance probably discouraged private investment in Thai banks and may have further slowed progress on corporate restructuring.

While adept at financial restructuring, nationalized banks in Korea and public asset management companies in Indonesia and Thailand have been slow to pursue operational restructuring. Governments are reluctant to see nationalized banks or public asset management companies take losses, which must be borne by taxpayers and explained to parliament, from the follow-on operational restructuring of distressed corporations.

Governments are also reluctant to see nationalized banks or public asset management companies fire excess workers and shutter nonviable businesses because such actions could incite protests and affect the entire economy. Indeed, state-controlled financial institutions can be convenient vehicles for propping up distressed companies—for example, through debt rollovers; new credits; or term extensions, below-market interest rates, and grace periods—and postponing the day of reckoning. Companies and their creditors may also be reluctant to accept losses on sales of assets whose values have plunged since their acquisition. This reluctance is often coupled with widespread resentment of foreign "vulture" investors. It is relatively easy for debtors and creditors to mobilize workers and the public to oppose foreign takeovers and "fire sales" to foreigners.

Clearly, governments should minimize the present-value multiyear costs of corporate and financial sector restructuring. But this is easier said than done. Governments often succumb to the temptation to focus only on first-year costs, "kick the can down the road," and hope for some macroeconomic deus ex machina in subsequent years to lessen the ultimate cost of resolving corporate and financial sector distress.

2.4 Meaning and Concept of Financial Appraisal

Appraisal according to (Macmillan Dictionary, 2002) is to form an opinion about how successful, effective someone or something is. (Oxford Advanced Learner's Dictionary, 2000) on the other hand, defines appraisal as a judgment of the value, performance or nature of something/somebody. For instance, we have staff appraisal—assessing staff to know their weaknesses and strength, financial appraisal—assessing the financial performance of an organisation.

Finance, from (www.gogglefinance.com)is defined in various ways notably among them are:

a. The commercial activity of providing funds and capital.

b. The branch of economics that studies management of money and other assets.

c. Finance studies and addresses the ways in which individual businesses and organizations raise, allocate and use monetary resources overtime, taking into account the risks entailed in their project.

Financial Appraisal therefore is how successfully, effectively, management of an organization raise, allocate and use monetary resources taking into account the risks entailed in their projects to get a maximum returns for its stakeholders from the above two definitions.

Investors, Financial managers, and capital markets obtain a great deal of information about an organization from their financial statements. Financial databases and financial press (Watson and Head 1998) financial statement of an organisation comprise of: Profit and Loss Account, Balance Sheet and Cash Flow Statement

2.5 Ratio Analysis

On their own, however, a company's financial statements do not provide a user with much information about how that organization has performed (ACCA June 2003). In assessing the significance of various financial data, experts the world over use ratios analysis to evaluate any organization's performance to determine whether it 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).

It is important to recognize that ratios in isolation (Watson and Head 1998) have little or no significance unless they are compared to appropriate benchmark or yardstick. Frank Wood and Alan Sangster in their Business Accounting, 2008, put it in another way by stating that ratios analysis is relatively useless unless a similar task is undertaken on the financial figures for the previous period.

2.6 Categories of Ratios

Throughout the literature, various authors have agreed on the following commonly used ratios to appraise the financial position of an organization (ACCA June 2003), these ratios are:

- Liquidity or Solvency Ratios
- Profitability Ratios
- Activity/Efficiency/Use of assets ratio
- Gearing/Leverage/Capital structure ratios
- Investor/Return to Investors/Shareholders ratios
- Cash flow based ratios
- .Multivariate

2.6.1 Liquidity or Solvency Ratios

Of crucial importance to any organization is its ability to meet day to day debts as they fall due (ACCA June 2003) and being solvent means having sufficient resources to meet your debts when due (Wood and Sangster 2008). It is not uncommon for a business which (on paper) is making a profit to experience severe liquidity problems (Wood and Sangster 2008).

a. **Current Ratio** is calculated by dividing current assets by current liabilities (Wood and Sangster 2008). This ratio measures the relationship between an organization's current assets and current liabilities and the company's ability to meet its financial obligations as they become due.

$$\rightarrow \frac{\text{current Assets}}{\text{current liabilities}}$$

b. **Networking Capital Ratios**

Net working capital divided by total assets, where net working capital-current assets-current liabilities. (Wood and Sangster 2008).

$$\rightarrow \frac{\text{Net working capital}}{\text{Total Assets}}$$

2.6.2 Profitability Ratios

These ratios give a guide to how successful the managers of a company have been generating profits (Watson and Head, 1998). They are used to determine whether a company may be a worthwhile investment opportunity and assess a company's performance relative to its competitors (Wood and Sangster, 2008) They also provide an indication of how well an organisation controls its cost (ACCA June, 2003) These ratios are as follows:

a. **Gross Profit Margin (Gross Profit/ Sales x100).**

This ratio shows how well costs of production have been controlled (Watson and Head 1998).

$$\rightarrow \quad \frac{\text{Gross Profit}}{\text{sales}} \times 100$$

b. **Net Profit Margin/Operating Profit Margin.**

(Watson and Head 1998) defined it as a Profit before Interest and Tax/Sales or Turnover x100. The ratio indicates the efficiency with which costs have been controlled in the generation of profit from sales.

$$\rightarrow \frac{\text{Profit before Interest and Tax}}{\text{Sales or Turnover}} \times 100$$

c. **Return on Capital Employed (ROCE)**

An adequate return on capital employed is why people invested their money in a business in the first place (Wood and Sangster 2008) and the ratio relates the overall profitability of a company to the finance used to generate it, and links net profit margin to assets turnover—(Watson and Head 2007)

$$\rightarrow \quad \frac{\text{Profit before Interest and Tax}}{\text{Total Assets - Current Liabilities}} \times 100$$

2.6.3 Efficiency Ratios

These ratios show how efficiently a company has managed its short-term assets and liabilities: that is working capital, and they are closely linked to the liquidity ratios (Watson and Head 1998). Several ratios are used to indicate how efficiently an organisation is utilising its assets. In general, the better its use of assets, the higher an organisation's rate of return (ACCA June 2003).This is because profitability is affected by the way that the assets of a business are used(Wood and Sangster 2008). The common ones are considered below:

a. **Average Debtor Collection Period: (Average Debtors/Credit Sales) x365 days.**

The debtor collection period indicates the average number of days between a credit sale taking place and an organisation receiving cash payment from a customer. The shorter the collection period the better, since liquidity will improve and the risk of bad debts will be reduced (ACCA June1998). The ratio is basically on credit sales but since the value of credit sales is not available, sales or turnover is used as a substitute (Watson and Head 1998).

b. **Creditors Collection Period (Average trade creditors/Credit purchases) x365**

Another useful ratio is the creditors turnover period which shows the average number of days that a business takes to pay its suppliers for goods purchased on credit (ACCA June 1998). The ratio indicates how a business uses short term financing to fund its activities. (Wood and Sangster 2002. The purchase figure is usually not available in the published financial statements, and the cost of sales amount is usually used in its place.

c. **Stock Turnover: (Stock or Inventory/Cost of Sales x365)**

This ratio shows how long it takes for a company to turn its stocks or inventory into sales. Several components parts that is raw materials, work-in-progress, and finished goods. (Watson and Head 1998). A change in inventory/stock turnover period can be a useful indicator of how well a company is doing. a lengthening in the stock turnover period may indicate a slowing down of trading or unnecessary build up of stock (ACCA Feb. 2007).

d. **Asset Turnover Ratio**

Assets turnover is a measure of how effectively the assets are being used to generate sales= (Sales/Operating Assets.) Where operating assets is the total assets – liabilities (Wood and Sangster 2002).The higher this value is the more efficiently the company is producing sales. Care must be taken in comparing the results of the ratios of two business entities since companies differ greatly in the degree of mechanization required for their operations. There could be overinvestment in assets by one company or the assets may be new or depreciation may be based on historical cost.(Wood and Sangster 2009)

$$\rightarrow \qquad \frac{\text{Sales}}{\text{Operating Assets}}$$

2.6.4 Gearing Ratios

Investors, potential investors and other lenders will be particularly interested in an organistion's long –term funding arrangements. The higher the ratio of debt to equity the more dependent an organisation is on borrowed funds, and the greater the risk that it will be unable to meet interest payments on these funds when they fall due (ACCA June 2003).

a. **Gearing Ratio:**

The purpose of this ratio according to (Watson and Head (2007) is to indicate the proportion of debt finance employed by a company. Long term debt capital include: debentures, loan stock, bank loans, and preference capital, whilst total capital includes; Ordinary share capital, reserves, preference share capital and long term debt.

$$\rightarrow \quad \frac{\text{long term debt capital}}{\text{long term debt + shareholder funds}}$$

b. Debt/Equity Ratio:

Similar in purpose to capital gearing but here a company would be said to be highly geared if the ratio were greater than one hundred percent which is also a rule of thumb(Watson and Head 1998).

$$\rightarrow \quad \frac{\text{long term debt or prior charge}}{\text{share capital + reserve}}$$

c. Interest Cover:

This ratio shows whether enough profits are being earned to meet interest payment due.(Wood andSangster2002).This ratio is of particular concern to investors because it indicates how many times interest payments on long term debt are covered by the profit before interest and tax. The higher the level of interest cover, the less likely the chance that interest payments will not be met, and hence the lower the level of financial risk associated with the organisation.

$$\rightarrow \quad \frac{\text{Profit before Interest and tax}}{\text{Interest charge}}$$

2.7 Limitations of Ratio Analysis

A number of studies have been undertaken that examine the side effects arising from the ways that accounting information is used in performance evaluation. Hofstede (1968) found that stress on actual results in performance evaluation led to extensive use of budgetary information. However, this stress was also associated with the feeling that the performance appraisal was unjust. (Colin Drury 2000).

It can be seen that the calculation of a few fairly simple ratios will greatly enhance our understanding of an organizations financial performance by summarizing key information in a user friendly way. However, although undoubtedly useful, the use of ratios does have certain limitations discussed below;

- Ratio analysis is concerned with trends over a period of time, balance sheet information relates to the company's position in one day of the year if it had been prepared three months earlier, a different picture might have been presented and key ratios might have had different values (Watson and Head 1998). It is therefore of little use without comparative information from previous accounting periods or other organization.
- Changes in an organization accounting policies may make comparisons over a number of years difficult whilst variations in the accounting policies adapted by different organizations must be taken into consideration when making comparisons with other organizations (ACCA June 2003).
- Ratios are based upon past performance and hence historical data. Although, they can indicate future trends, there is no guarantee that these forecasts will be correct.
- Economic conditions must be taken into account when interpreting trends. For instance, if interest rates are high, the ROCE will need to reflect this. (ACCA-June 2003).
- The ratio calculated are only as good as the information on which they are based. The preparation of any financial statements will necessitate estimates being made with regard to items such as bad debts, the evaluation and depreciation of fixed assets and the outcome of any legal proceedings. Should any of these estimates be significantly incorrect, the ratios and the accounts upon which they are based will also be adversely affected (ACCA June 2003).

CHAPTER THREE

RESEARCH METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 Introduction

The chapter focuses on the research methodology and organizational profile of Produce Buying Company Ltd.

3.1 Research Design

The study was carried out using both Primary and secondary data sources. Data collected and analysed covered 2002 to 2008 for PBC Ltd. Primary data was obtained for the study by interviewing some key personalities at PBC Ltd. Interviews conducted .were both by telephone and on-on-one. Also, unstructured questionnaire was used because the target area was not wide. Purposive sampling technique was applied.

Literature available on the subject were assessed from libraries, Internet (Microsoft Encarta software) PBC's mini prospectus and annual reports, Audited Financial Reports and statistics from the news papers, Technical articles in ACCA, and Newsletters were used to obtain secondary data for the study.

a. Inter and Intra Company Comparison

The inter company comparison is difficult to be done since apart from PBC, all the other Licensed Buying Companies are privately owned and for that matter do not make their annual financial reports public.

Ironically, Ghana Cocobod, which is the industry's regulatory body has not got any industry benchmark to make any meaningful industrial comparison.

It is therefore more imperative to use only the six year audited annual financial report of PBC (intra company comparison) to assess the financial performance of PBC to enable investors, potential investors and all the other stake holders to take informed economic decision.

3.2 Analysis of Data

Data obtained have been analysed and presented using tables, graphs, financial ratios and growth ratios.

i. Growth rates have been used to show and explain in nominal terms, changes that have taken place in the market share, purchases volumes, and the company's key financial indicators.

ii. Financial Analysis

Pre and post Audited financial reports from 2002 to 2008 were used for financial ratios to assess the liquidity, profitability, efficiency and stock market performance of PBC Ltd, over the period under review.

3.3 Background and History of Produce Buying Company Limited

Produce Buying Company Limited (PBC) evolved from the Cocoa Purchasing Company, which was established in 1947 as a marketing wing of the then Cocoa Marketing Board (CMB) The Company operated alongside cocoa buying firms such as Cadbury and Fry, G. B. Olivant, UAC, J. Lyon and U. T. C which were already purchasing cocoa in the colonial era.

In 1956, the Jibowu Committee, which was instituted to review the operations and administration of internal marketing of cocoa, recommended among other things the dissolution of the Cocoa Purchasing Company. The company was subsequently abolished alongside the other expatriate buying firms. The United Ghana Farmers Co-operative Council was subsequently formed as the sole Licensed Buying Agency for the Cocoa Marketing Board. It operated for ten years up to 1966.

With the change of government in 1966, the internal marketing of cocoa was again liberalized. This saw the re-emergence of multiple buying system with firms like Sampa, Ghana Co-operative Marketing Association competing alongside Produce Buying Agency (PBA), a subsidiary of the then Cocoa Marketing Board (CMB).

In 1977, after the problems of non- payment of farmers and irregularities in the internal market, the Produce Buying Agency absorbed the Ghana Co-operatives Marketing Association and other private buying companies into the Produce Buying Division, a division of the Cocoa Marketing Board. It was incorporated as the Produce Buying Division Limited on November 13th 1981 as a 100% state owned enterprise and subsidiary of (CMB). It was however, granted a certificate to commence business on Nov. 18, 1981. By a special resolution of its Board of Directors, the name was changed to Produce Buying Company Limited (PBC) on October 27, 1983. PBC therefore remained a monopolist in the internal market until the 1992/93 main crop season. On September, 1999, the company was incorporated as public limited liability company under companies code of 1963, Act (179) and on May 2000, the company was listed on Ghana stock Exchange.

3.3.1 The Business of Produce Buying Company Limited

PBC's business is cocoa, the leading farming crop and a cornerstone of the Ghanaian economy with about 800 farming families linked to it. The company basically buys cocoa beans from farmers, store them in a purpose built sheds at the village/society level. The purchased beans are carted to collection deports where they are inspected, graded and sealed by the Quality Control Division (QCD) of Cocobod before their final evacuation and delivery to appointed take-over points of the Cocoa Marketing Company (CMC) at a guaranteed price. The company is then paid the take-over margin, which is a mark up over the producer price paid to the farmers and are linked to the F. O. B price per ton. The company also earns additional income from "secondary evacuation' of about 30% of its purchase to take over centers.

The ground operations are handled from the district offices which supervise and co-ordinate the activities of the village societies from where the cocoa is actually purchased.

PBC has staff strength of about 670 permanent employees and over 2,500 marketing clerks who operate on commission basis spread over a total of about 85 operational districts in the nine operational regions.

3.3.2 Vision and Mission Statement

i. <u>Vision:</u> To develop and maintain the Produce Buying Company Ltd to become the leading cocoa dealer in Ghana.

ii. <u>Mission:</u> To purchase high quality cocoa beans from farmers, store and ensure prompt delivery of the graded and sealed beans to designated take over centres in the most efficient and profitable manner.

3.4 Initial Public Offering of PBC Ltd.

The reforms in cocoa sector continued with the divestiture/privatization of PBC Ltd in mid 1999. By shareholder's agreement dated September 15th, 1999 pursuant to the divestitures objectives of the Ghana Government, the PBC Shareholding was transferred from the Ghana Cocoa Board to the Ministry of Finance on behalf of the Government of Ghana. In December 1999, the Minister of finance launched the initial public offer for the commencement of sale of shares to the public. 384,000,000 shares were issued to interested investors, institutions, individuals, residents in Ghana and other ECOWAS countries.

3.4.1. Shareholding Structure

The share holding distribution structure of the company as indicated below shows that the total number of shareholders by 2008 came to 19610 with a total holding of 480,000,000. Out of this figure, 39.35% of it is owned by ministry of finance on behalf of government of Ghana; the NTHC/Institutional Investor consortium 30.34%, SSNIT 20.00% NTHC Ltd 1.87%; current PBC employees/commission agents 1.07%; PBC provident fund 0.94% constituting 6 largest shareholders of PBC as at 2008.

Table 3.3 The Category of Shares held in PBC

Category	No. Of Shareholders	Total Holding	Percentage Holding
1-1000	14.475	5,2387,502	1.09
1001-5000	2392	6,027,677	1.26
5001-10,000	2,223	16,169,678	3.37
over 10,000	520	452,565,143	94.28
Total	19610	480,000,000	100.00

Source: PBC Annual report 2008

CHAPTER 4

ANALYSIS OF FINDINGS OF THE STUDY

4.0 Introduction

This chapter deals with the analysis of the study with emphasis on the impact on performance of the Produce Buying Company Limited after Operational restructuring. The analysis is based on the information and data gathered at the primary level on the views of the selected 2 directors, 2 regional managers, and 3 district managers of the company who were interviewed as part of this study as well as information from secondary sources namely, Annual report of the company from 2002-2008, ACCA Newsletters –June 1998 December 2000, October 2000, Newspapers, Business and financial Times, Websites and libraries. PBCs financial analysis has been done to determine how well the company has been performing over the last seven years and specifically, three years after its operational restructuring in the terms of profitability, cost reduction, liquidity, activity, cash flow and efficiency.

The analysis would enable the study determine where the company is now and recommend to management where the company is fallen short for remedial action to be taken immediately so as to reposition the company to be the first investment destination in the country and the world over.

Decisions by a firm's managers, employees, investors and other stakeholders are based on a firm's operating performance. Operating performance relates to how well a firm uses its assets to generating profits and ability to meet its obligations such as paying interest it owes on its debt obligations as defined in corporate finance. Financial analysis is therefore an evaluation and interpretation of financial and related-financial data to assist in planning and financial decision making to sustain growth. It is also used especially to evaluate potential investments and credit worthiness of borrowers. A pertinent data for the financial analysis is coming from PBC's Audited Annual Report on income statement and balance sheet for the period 2002-2008 shown in Appendix B and ratios analysis found on Table 4.2. Information on company is also provided in table 4.3

4.1 Analysis on PBC: Growth Rates of Key Profitability Factors and Financial Ratios

As part of analysis on PBC, table 4.3 shows the key profitability of the company and their growth rate from period 2002 – 2008. Table 4.2 presents information on financial ratios used to determine PBCs performance on liquidity, profitability, activity, gearing and investment ratios to determine the success or otherwise of the company for both pre and post operational restructuring periods.

Fig 4.1 shows the historical purchases of the company whilst fig 4.2 and fig 4 .3 show turnover and profit after tax records respectively. Figure 4.4 shows the market share of the company.

Table 4.2

Ratio Analysis and Market Statistics for PBC Ltd. 2002-2008

STATISTICS	2002	2003	2004	2005	2006	2007	2008
	PRE-OPERATIONAL RESTRUCTURING				POST OPERATIONAL RESTRUCTURING		
Liquidity							
Current Ratio	1.97	1.57	1.22	1.09	1.11	1.07	1.00
Quick Ratio	1.07	0.87	0.37	0.48	0.63	0.88	0.46
Networking capital	0.40	0.54	0.60	0.42	0.38	0.24	0.02
Profitability ratio							
(%) Gross Profit Margin	13.93	12.34	11.17	9.84	10.50	11.45	12.51
(%) Net profit Margin	1.44	2.58	2.48	-1.33	-0.50	3.41	4.52
ROCE (%)	25.08	68.64	67.06	-57.29	-29.51	84.77	74.15
Assets Turnover %	17.40	26.56	26.93	42.88	58.17	24.83	16.39

Activity ratio							
Debtors collection Period (Days)	1	3	4	17	12	16	19
Stock turnover (days)	9	10	35	26	11	11	48
Cash conversion cycle	3	9	25	40	22	31	54
Sales /Net Working capital	42	48	44	102	153	103	1069
Gearing Ratio							
Capital gearing (%)	0	0	0	0	0	0	0
Debt/Equity	0	0	0	0	0	0	0
Interest cover	0	0	0	0	0	0	0
Investment Ratios							
Return on Equity (%)	13.2	45.1	44.7	-58.0	-25.7	2.5	28.7
Dividend per share (Ghana Cedis)	-	0.0015	0.0025	-	-	-	0.0015
Earnings per share (EPS)	0.00114	0.0056	0.0079	-0.0065	-0.0023	0.0002	0.0044
Dividend cover		3.76	3.18	-	-	-	2.9
Share price (GH¢)	0.039	0.13	0.36	0.3	0.28	0.21	0.21
Price/earnings ratio	34.21	23.05	45.31	-46.22	-122.37	1050	47.73

Payout%	-	0.05	0.06	-	-	-	34.12
Dividend yield %	-	1.15	0.69	-	-	-	0.71

Source: Audited PBC Annual Financial Reports – 2002-2008 and ACCA October, 2000.

Table 4.2 above shows the pre and post financial analysis of PBC Ltd, in terms of its liquidity, profitability, and efficiency, gearing, and stock market performance.

4.1.1 Liquidity Performance

The company's liquidity performance after its operational restructuring has not been encouraging enough for the three year-period compared with its good times before the operational restructuring. The company recorded its highest current and quick ratios of 1.97 and 1.07 respectively in 2002. In 2005, the two ratios fell to 1.09 and 0.48. This was as a result of a huge loss of about GH¢4,1m it experienced in the preceding year associated with its spillovers. The company relied more on debt especially overdraft to finance its operations, accounting for a fall in its liquidity in 2006 (1.11 and 0.63), 2007(1.07 and 0.88), and 2008(1.00 and 0.46).

This notwithstanding, the study revealed that the company has a higher credit rating in the eyes of the financial institutions and hence has easy access to credit and at negotiable rates than all LBC's in the country.

4.1.2 Profitability Analysis

PBC'S overall profitability has been encouraging after its operational restructuring. Gross Profit Margin has been improving mainly due to the continuous increase in turnover over the period under review. Even though, net profit margin registered negative returns in 2005 and 2006 respectively mainly due to the overwhelming increases in total expenses especially the direct operating expenses in the respective years; the company however recorded the best net profit margin ever in the annals of the company in 2007 and 2008. ROCE of the company recorded its highest in 2007 and 2008, after recording negative figures in 2005 and 2006, implying that the company's post operational restructuring performance in terms of profitability has been significant because of the cost reduction measures employed by management.

4.1.3 Efficiency Performance

The company has not done enough after restructuring its operations in terms of the management of its working capital resources. Collection of its debt ranges from 16 days in 2007 to 19 days in 2008, compared with payment of its debt of 2 days in 2007 and 13 days 2008. This is as a result of the inability of Cocobod to promptly pay LBCs upon delivery of the produce to generate funds for recycling. However, it is obvious that the company has bargained very well for longer creditor period of 13 days in 2008 as compared to the previous year of 2 days.

4.1.4 Gearing Analysis

The company's operations is mainly supported by short term credit facilities from banks and does not rely on any long term financing making the company less financially risky as it will not have any obligation to pay interest on long term loans or the possibility of losing its assets on a secured loan.

According to management, the company relies largely on short term financing for its operations and hence most of its finance costs are from this source. It is the wish of management that increased profitability from the ensuing years would help reduce the reliance on bank loans.

4.1.5 Investment Performance

Return on equity of the company recorded only negative in pre operational restructuring period especially, in 2005 and 2006. However, there was a significant improvement between 2007 and 2008 recording 2.5% and 28.7% respectively. According to management, this increase has been largely as a result of cost reduction and increase in turnover. The company could not pay dividend in 2005, 2006, 2007, but managed to pay a dividend of GH¢0.0015 per share in 2008.

Earnings per share increased by 21% from GH¢ 0.0002 in 2007 to GH¢ 0.0044 in 2008, whereas before restructuring the company recorded negative figures in 2005 with a spill over in 2006 as evident by table 4.2. The increases in the price earnings ratio after operational restructuring have renewed investors interest in the company.

The balance sheet also showed a strong growth with shareholders equity increased by 47.4% from GH¢4.989 million to GH¢ 7.353 million in 2007 and 2008 respectively.

The company's share price is yet to increase as expected on the stock market which currently stands at GH¢ 0.21

Table 4.3

Key Profitability Factors – of PBC Ltd 2002-2008

Particulars	**Remark**	(+/-) **2002**	(+/-) **2003**	(+/-) **2004**	(+/-) **2005**	(+/-) **2006**	(+/-) **2007**	(+/-) **2008**
National cocoa output	tonnage	338,905	496,793	739,894	599,318	740,548	614,532	680,385
Variance	percentage		+45.87	+48.93	-19.00	+23.56	-17.02	+10.72
PBC'S Purchases	tonnage	136,952	167,998	244,597	225,358	242,473	186,051	208,482
Variance	percentage		+22.67	+45.60	-7.86	+7.59	-23.27	+12.06
Market share	Percentage	40.41%	33.81%	33.06%	37.60%	33%	30.28%	31%
Variance	percentage		-6.4	-0.75	+4.54	-4.60	-8.24	2.38
Take over margin (per ton)	GH ¢	69.93	120.25	97.99	106.22	127.6	140.00	190.00
Variance	percentage		+80.62	-18.50	+18.39	+12.01	+11	+13.57
Producer Price (per ton)	GH ¢	529.20	850.00	900.00	900.00	900.00	1,200.00	1,632.00
Variance	percentage		+60.62	+5.88	0	0	+33.33	+36
Turnover	GH ¢m	71.684	159.52	229.682	230.418	248.662	193.183	245.478
Variance	Percentage		+122.53	+44.00	+0.32	+7.91	-22.31	+27.07
Cost of sales	GH ¢m	61.69	139.84	204.02	207.73	222.53	171.07	214.77
Variance	Percentage		+126.65	+45.90	+1.82	+7.12	-23.13	+25.55

Gross profit	GH ¢m	9.99	19.69	25.66	22.69	26.13	22.12	30.71
Variation	Percentage		+97.11	+30.32	-11.60	+15.18	-15.35	38.83
Total expenses	GH ¢m	2.257	16.572	21.287	27.735	29.031	17.493	21.555
Variation	Percentage		+734.13	+28.45	+30.29	+4.67	-39.74	23.22
Profit before tax	GH ¢m	1.033	4.122	5.719	(3.078)	(1.261)	0.388	2.949
Variation	Percentage		+299.03	+38.75	-153.82	-59.02	+69.25	+660.6
Net profit after tax	GH ¢m	0.547	2.706	3.813	(3.116)	(1.099)	0.125	2.111
Variation	Percentage		+394.54	+40.91	-181.70	-64.74	88.63	1,594.8
Staff strength	Number	630	650	680	710	712	735	890
Share prices (GH ¢)	GH ¢	0.039	0.13	0.36	0.30	0.28	0.21	0.21
variance			+233.33	+177	-16.66	-6.67	-25	0
Competitors	Number	24	25	23	23	23	23	23

Source: P B C Audited Annual Report 2002-2008, Ghana Cocobod, News papers, and Ghana Television Business news.

BELOW ARE THE BAR CHARTS AND LINE GRAPHS SHOWING PBC'S PURCHASES, TURNOVER, PROFIT AFTER TAX AND MARKET SHARE (SOURCE: PBC'S AUDITED FINANCIAL REPORT- 2002-2008)

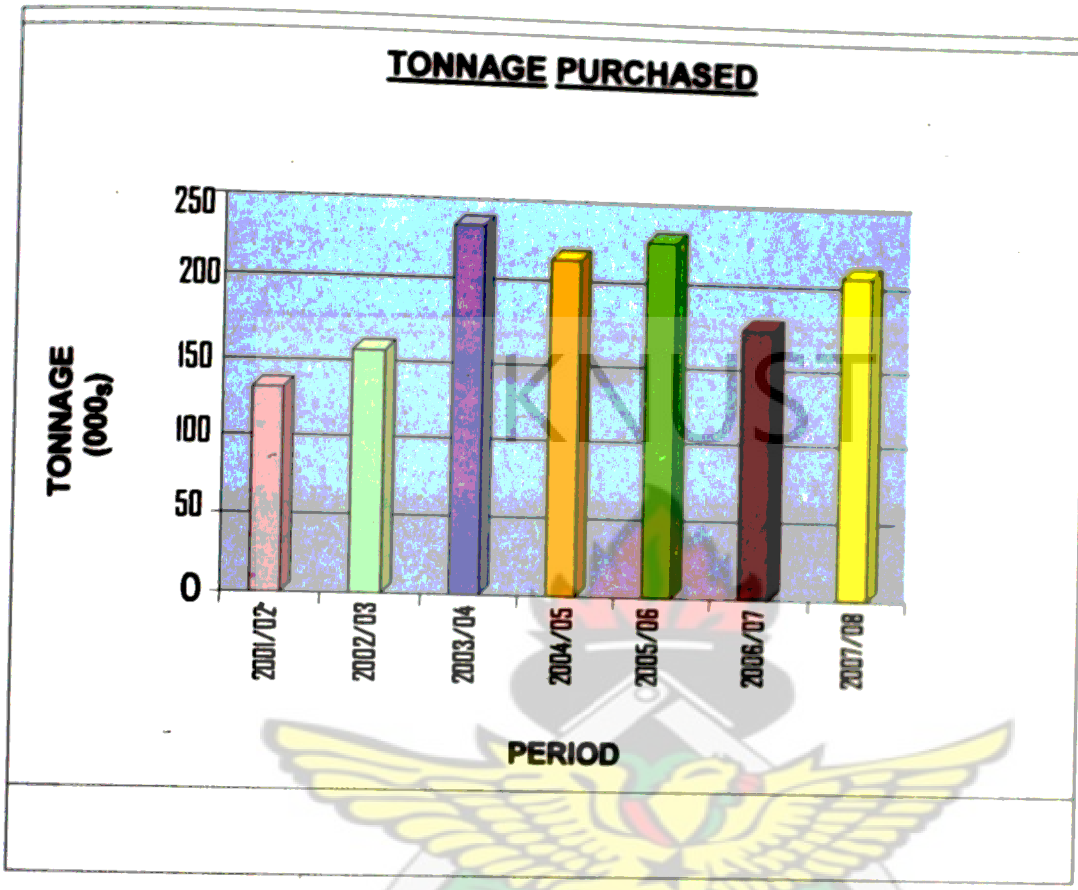

FIG. 4.1: Purchases (Tonnage) by PBC over the period – 2002-2008

4.1.6 Purchases Analysis

From fig. 4.1 above, PBC purchases have been checked. In 2002, purchases were 136,952 tons. However, it went up in 2003 to 167,998 tons representing 23%. It reached its peak in 2004 registering 244,597 tons. It has since been declining to 225,358 tons in 2005 and 242,743 tons 2006 respectively. It further declined to 186,051 tons in 2007, but appreciated in 2008 to 208,482 tons representing 12%.

The decline in the purchases was attributed to the keen competition faced by the company from other licensed buying companies whose number have increased from 4 in late 1990 to 23 in 2008 (Table 4:2), and sometimes the unfair tactics they used as well as improper supervision at the district levels. The 12% increase in purchases between 2007 and 2008 was as a result of the operational strategies adopted by management and board aimed at increasing purchases for the ensuing years, such as, providing enough logistics example, one brand new haulage truck to each district, enhancement of flow of funds for cocoa purchases and increase in the commission paid to marketing clerks.

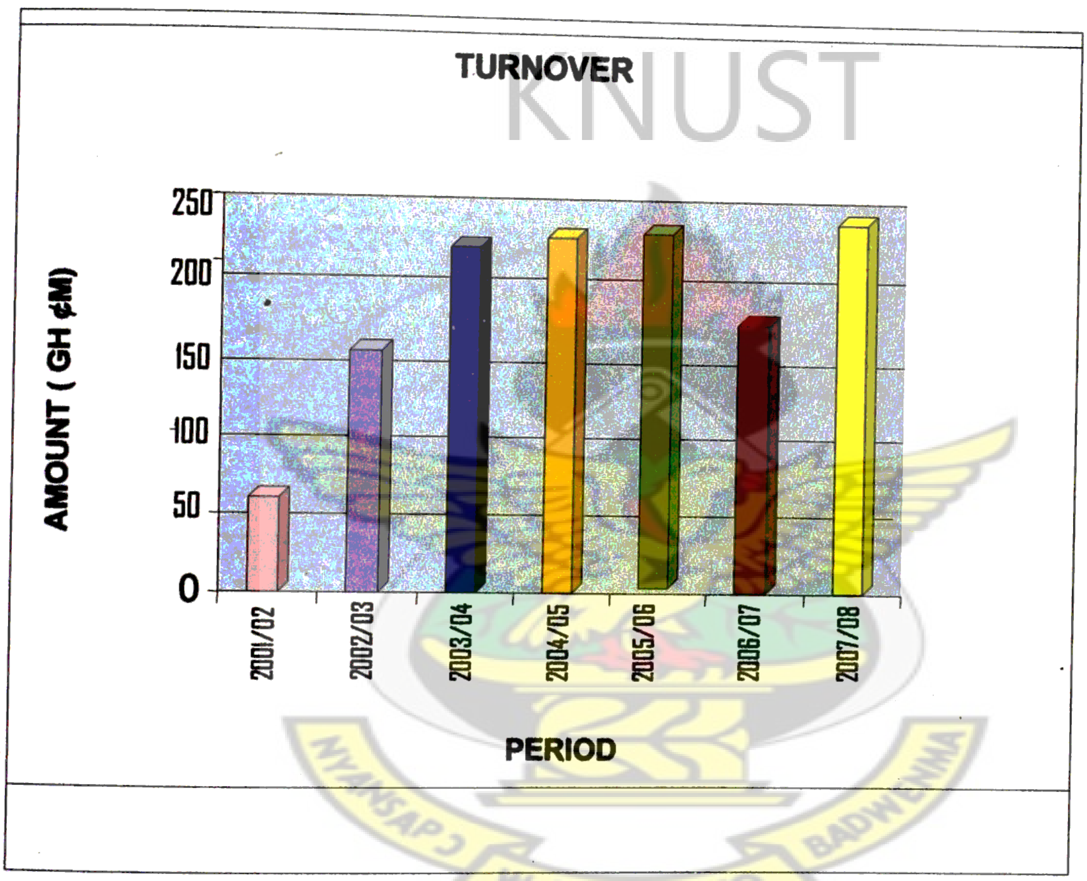

FIG. 4.2: PBC'S HISTORICAL TURNOVER RECORDS – 2002-2008

4.1.7 Turnover Analysis

The company's turnover has been increasing appreciably since 2003 reaching its highest point in 2006 at GH¢ 248.662m, and plummeted sharply by 22.31% to GH¢

193.183m. It however soared appreciably by 27.07% to GH¢ 245.478m. Please refer to appendix B attached on profit and loss account for the period under review and figure 4.2 above. The decrease in 2007 was mainly due to a general fall in the national cocoa output, and the sharp rise in 2008 is attributed to the increase in volume of cocoa purchased from 186,051 tons in 2007 to 208,482 tons in 2008 as a result of measures put in place by management to lift purchases, as well as the increase in the producer price of cocoa and hence, the increment in the takeover margin from GH¢140.00 to ¢190.00 per ton. (Table 4.3).

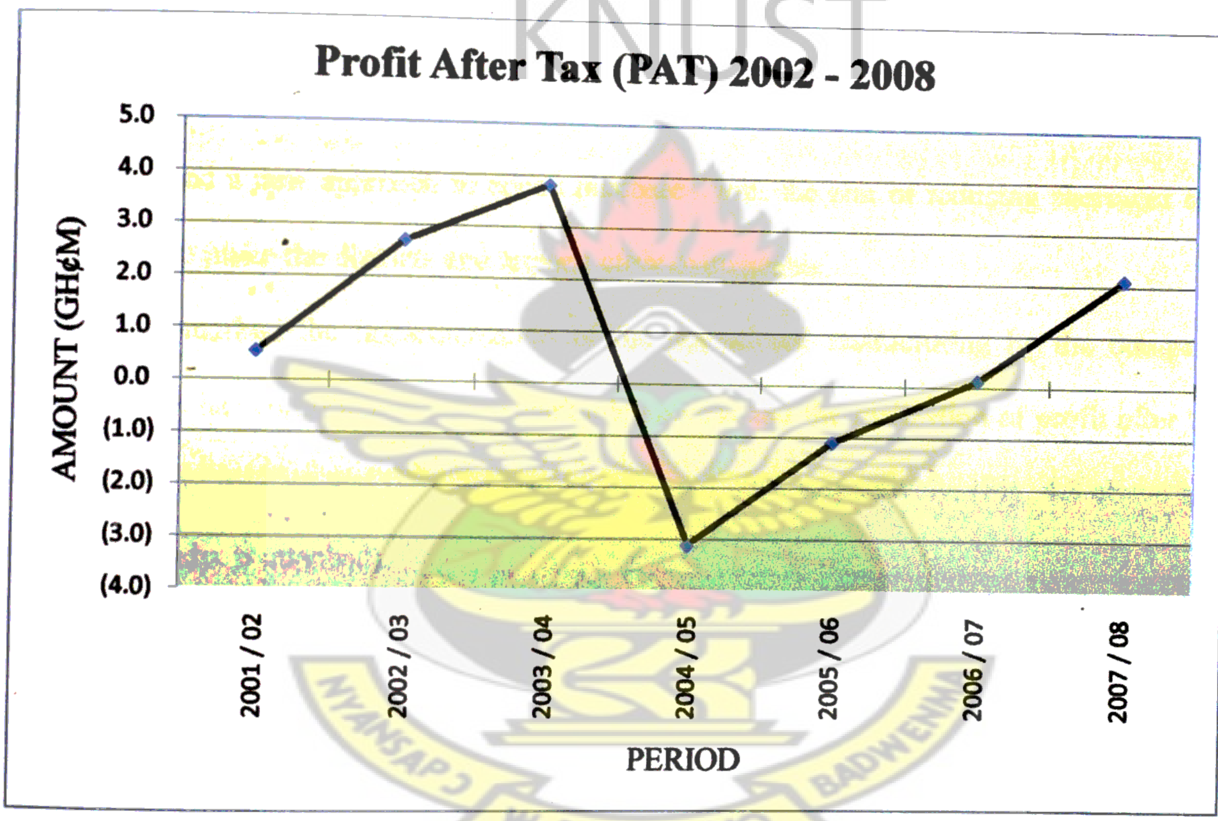

FIG 4.3: PBC'S HISTORICAL PROFIT AFTER TAX (PAT) RECORDS- 2002-2008

4.1.8 Profit after TAX (PAT)

The profit after tax history of the company has undergone through a checked history as being depicted in fig. 4.3 above and appendix B attached. After a two successive years of brilliant performance of the company in 2003 and 2004, making profits after tax of GH¢ 2.706m and GH¢ 3.813m correspondingly, it was hit by a big blow in PAT when the company recorded one of its significant losses of GH ¢3.115m in 2005 with another loss of GH ¢1.099m in 2006. This marked deviation according to management was due to various industrial problems such as delay in grading and sealing, shortage of jute sacks, delay in primary evacuation of cocoa stocks as a result of few trucks, poor monitoring and supervision and pre-financing of the cocoa purchases.

According to Ghana Television Business News of Friday, February 9th, 2006 the then New Managing Director Mr. Anthony Osei Boakye indicated that the company had re-positioned itself to reverse the two years loses due to the fact that the industrial problems had been dealt with effectively by Ghana Cocobod and that the company had adopted a new approach to cocoa purchases with the aim of reducing shortages and also to make the districts and regions more manageable.

This marked the implementation of the operational restructuring by the company which has contributed to its remarkable success and the realization of profit after tax of GH¢ 0.125m and GH¢ 2.111m in 2007 and 2008 respectively. (Fig. 4.3 above and appendix B attached).

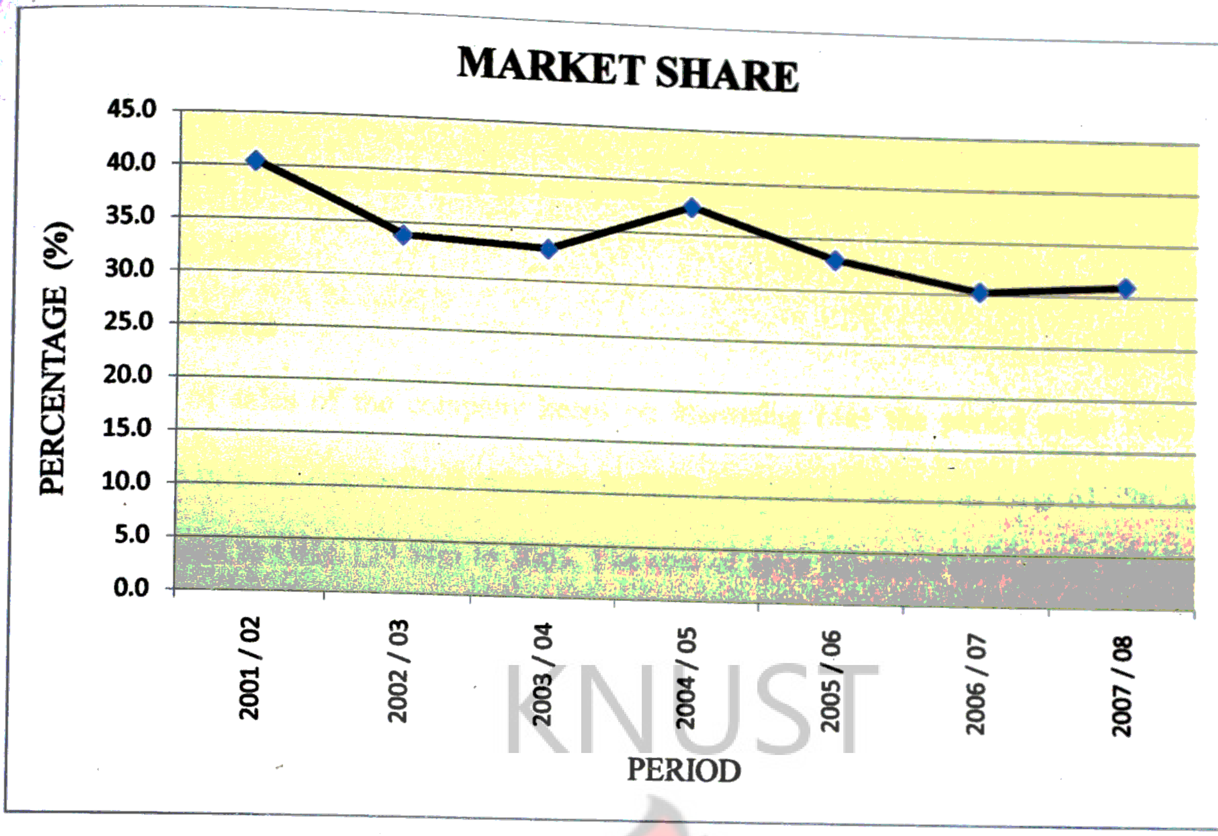

FIG 4: 4 PBC'S MARKET SHARE RECORD- 2002-2008

4.1.9 Market Share

From table 4.3, the company's market share for the seven year period averaged 34.17%. The highest of 40.18% in 2002, and the lowest of 30.28% in 2007. The dwindling nature of the market share is mainly due to decline in purchases as a result of the keener nature of the competition from other 23 licensed buying companies and improper supervision at the district level activities. The projected market share for the 2007/08 crop season is 34%.

The company as a matter of urgency and as part of its operational restructuring embarked on educational campaign and meetings with cocoa farming communities who are the main customers to renew friendship and cooperation, and to address the pressing concerns of the farmers. Training workshops has been organized for District Managers and Accountants and effective supervision has been conducted to curb the problem of misappropriation of funds for cocoa purchases. This action is believed to account for the slight increase of 31% market share in 2008. Again, recently, PBC limited has instituted a scheme by distributing promotional items like soap, salt, mosquito nets etc. to farmers who sell their produce to the company. Investigating the response, it is expected that the company would post a bigger market share of about 35% in 2009.

4.1.10 Cost of Sales

Cost of sales of the company keeps on increasing over the period under review. Please refer to Appendix B attached. In 2002, the cost of sales was GH¢ 61.69m and increased to GH¢ 139.84m in 2003. The cost of sales increased throughout the years and hit the all time high of GH¢ 222.53m in 2006. However, in 2007, cost of sales fell to GH¢ 171.07m representing 23.13% reduction due to the fall in volume in cocoa purchased. The figure went up by 25.55% to GH¢ 214.77 in 2008. The increases were mainly due to the increase in the volume of cocoa purchased and the producer price of cocoa. The phenomenal aspect is that Gross profit also kept on increasing over the period of restructuring. (See appendix B attached).

4.1.11 Shareholders Fund

The share holders fund have been increased from GH¢ 4.118m in 2002 to GH¢ 8.52m in 2004 an increase of about 106.9%, it however, went down to GH¢ 5.37m in 2005 and by 2006, the figure stood at GH¢ 4.27m, a decrease of about 50% mainly due to the losses incurred in 2005 and 2006 financial years. After operational restructuring, shareholders equity increased by 47.4% from GH¢ 4.989m in 2007 to GH¢ 7.353m in 2008. Please refer to Appendix B attached.

According to the board chairman's statement in the 2007/08 audit report, the good performance of the company was attributable to increased volumes of cocoa purchases, cost control measures, investment and operational strategies instituted by board and management during the year.

CHAPTER FIVE

5 Summary of Findings, Recommendations and Conclusions.

5.1 Summary of Findings

The study made the following findings;

1 Higher profitability

The study established that the profitability and liquidity performance of PBC Ltd, significantly improved after the implementation of its Operational Restructuring. The two years preceding the restructuring recorded net operational losses but the company was able to turn around immediately after restructuring its operations to record a significant net operational profits of GH¢ 124,531.00 in 2007 and rose to GH¢ 2,110,450.00 in 2008, representing a fascinating 1,594.7%.

This suggests that businesses need to know about the benefits of cooperate restructuring by adopting the best strategies and commitment in its implementation.

2 Management Efficiency

The operational restructuring enabled the management of the company to eliminate operational inefficiencies by identifying the particular cost drivers which should be avoided and or reduced as well as recognizing potential revenue generating departments with proper supervision to drive the company to record impressive operational performance especially in 2008. The major cost drivers had been the haulage department and finance cost.

3 Free Flow of Funds for Operations

The study revealed that the institution of the operational restructuring has made the company more credible in the books of creditors. Banks make funds readily available upon request and hence shortage of cash for operations is no more. The company raised funds through this goodwill to expand its operations, replacement of old with new vehicles for prompt cocoa evacuation to increase income from freights, as well as operational vehicles for efficient monitoring and supervision by the field staff to enhance efficiency, improvement in the company's storage infrastructural base and opening of new Regional and District offices.

4 Turnover Improvement

The study again revealed that the company's market share for the seven year period averaged 34.17%. The highest of 40.18% in 2002, and the lowest of 30.28% in 2007. The dwindling nature of the market share is mainly due to decline in purchases / turnover as a result of the keener nature of the competition from other 23 licensed buying companies (LBC$_S$), with unfair trade practices, as well as misappropriation of funds for cocoa purchases at the district levels and poor supervision.

The company as a matter of urgency and as part of its operational restructuring embarked on educational campaign and meetings with cocoa farming communities who are the main customers to renew friendship and cooperation, and to address the pressing concerns of the farmers. This action coupled with the increase in the takeover margin, is believed to account for the increase in turnover from GH¢ 193.183m in 2007 to GH¢ 245.478m in 2008 representing 27.07%, recording slight increase in a market share of 31%.

Again, recently, PBC limited has instituted a scheme by distributing promotional items like soap, salt, mosquito nets and others to farmers who sell their produce to the company. And as part of an improvement in its corporate social responsibilities the company has dug boreholes for several cocoa farming communities. Gyankobaa in the Atwima Nwabiagya District of the Ashanti Region is an example. Investigating the response, it is expected that the company would post a bigger market share of 35% in 2009 and 39% in 2010.

5 Cost Reduction

The study also revealed that total operating expenses showed an increasing trend from a low level of GH¢ 2.257m in 2002 to a high level of GH¢ 29.031m in 2006 representing 1,286.26%, mainly due to increasing cost in jute sacks, twine, increasing in fuel prices translating into higher primary evacuation freights, motor vehicle running cost, higher commission payment and finance cost. The figure however dropped significantly by 39.74% to GH¢ 17.493m and further increased to GH¢ 21.555m in 2008 after the full implementation of the cost cutting measures as part of the operational restructuring.

According to the managing director's review of operations, the components of the direct operating expenses that saw reduction in cost include motor vehicle repairs and maintenance, motor vehicle running, primary level road freight and Akuafo cheque commission.

- The Motor Vehicle Repairs and Maintenance reduced by 12.6% from GH¢ 535,633 to GH¢ 468,023 and motor vehicle running also reduced by 45.7% from GH¢ 572,638 GH¢ 310,691 mainly due to the sale of all over aged vehicles and heavy reliance on the new fleet of vehicles bought for both primary and secondary evacuations.

- Primary Level Road Freight reduced by 61.6% from GH¢ 1.745m to GH¢ 0.670m due to the almost takeover of the primary level evacuation by the company's cargo trucks from the private cargo trucks.
- Akuafo Cheque Commission reduced by 60.3% from GH¢ 530,514 to GH¢ 210,727 as a result of the reduction of the rate charged by operating banks following managements negotiation with the officials of those banks.

The haulage department which was a major inefficient cost driver has been made more efficient by providing it with many new fleets of vehicles, proper supervision, and is run or managed as a separate entity to make its own profits.

6 Share Holder Fund Improvement

After the implementation of the restructuring of its operations, PBC Ltd. has increased its share holder's fund from the negative of (GH ¢6,421.00) in 2006, to a positive of GH¢4,988,565.00 in 2007, and a further increase to GH¢7,353,415.00 in 2008, representing 47.4%.

7 Dividend

Finally, the study revealed that the Board of Directors has recommended a dividend of GH¢0.0015 per share amounting to GH¢720,000.00 for the year 2008. This amount represents 34% of after tax profit and 44% of balance on the income surplus account.

5.2 Conclusion

The study shows that undertaking an Operational Restructuring has its benefits, responsibilities and challenges. The progress made in PBC Ltd. so far attests to the fact that there are concrete benefits to gain if a well planned strategy is put in place in the implementation of the restructuring processes. It is the responsibility of corporate management to be able to identify the need for restructuring operations, the actual problem(s) encountered, and the actual practices to adopt to solve such problems which hinder the performance of the company, as well as the challenges to face in the event of the restructuring.

Management of the Produce Buying Company Limited was able to identify higher cost at the haulage department, cost of borrowing from banks, and the misappropriation of funds for cocoa purchases by the various Districts and delayed evacuation of the produce from the hinterlands and other areas of operation as the main problems that accounted for a heavy loss of about GH¢4.1m in 2005 and 2006 main crop seasons. This informed the need for an operational restructuring.

The benefits chopped so far by the PBC Ltd. most importantly, in higher revenue and profits and reducing cost of operations would be a great motivating factor for both management and staff to pursue strategies and practices which would further spur the company on to greater heights of performance to attain a market share of 40% as a stronger market leader in the industry.

It has been the responsibility of management to sell the idea and processes of restructuring the operations of the organization to stakeholders most importantly, members of staff to whip up their interest to be committed in the implementation process.

The challenges posed rest in the hands of the directors who are the principals and the management, known as the agents, to be agents of change in times of operational restructuring to tackle problems appropriately devoid of conflict of interest, and to manage the funds efficiently in the pursuit of the goals of the company for increased profitability and sustained growth of the company. It is therefore very necessary for companies embarking on restructuring in operations to evaluate their performance indicators periodically to enable them know and chart paths for growth so that projections can be made into the future to make the companies attractive to investors.

Unfortunately, despite benefits from operational restructuring, most companies fail to recognize the need for change in times of underperformance, and sometimes unable to identify the actual problem(s) associated with business failure, until organizations are plunged into serious financial distress which mostly results in liquidation and bankruptcy of such organizations.

5.3 Recommendations

Considering the company's strength and profit drivers listed, there are very strong indications that the company can continue with its higher turnover and profitability for the ensuing years, since its operational restructuring can certainly be sustained. The assertion is based on the fact that some of the profit drivers form an integral part of the company's new vision of improving on operations vis-à-vis profitability so that company's image would improve with her stakeholders, including shareholders, the financial institutions, the government and the general public.

It must be recognized that PBC operates within a highly dynamic economic and social environment, which will ensure the continued relevance of the company judging from the favourable macro-economic environment.

The company however must therefore ensure the following;

- A system of reports for the monitoring of key objectives and ratios are always on target set.
- To review relevance of the objectives and strategies of PBC ltd.
- To ensure that the company's human resources and logistics are developed in line with the current work challenges.
- To engender a high level of morale and enthusiasm within the company towards the achievement of its mission statement to remain in business for growth and profitability.
- To adequately motivate the CMCs in order to secure their loyalty, by paying high and competitive commissions to them and on time.
- The company must continue to tackle the issue of competition seriously by increasing its market share. The company's market share dropped by 6% from 40 percent in 2002 to 34% in 2003. The average drop since enlistment in 2000 has been about 8% per year, a situation that does not augur well for the sustainability of the company.
- The company should continue unabated to draw strategic plans to guide their future operations in the interest of overall national development objectives. A strategic plan, which aims at realigning the company for effective competition by drawing on the organizational strengths to improve operational efficiency. Avenues should be explored to increase the company's income through active increase in cocoa haulage for freight income.
- The company must make every effort to recapture part of its lost market share.
- Operating cost should be further reduced to ensure sustained profitability.
- The company must also ensure that the renewed interest of financial institutions in the company is sustained so that sources of seed fund guarantee

for the purchase of cocoa is expanded, and to ensure prompt receipt of funds from COCOBOD for cocoa purchases.

- The company in reducing operating cost must also reduce holding cost and time through quick delivery of cocoa to the takeover centres to improve seed fund recycling.
- Societies and districts should be well reorganized to make the company more efficient. The company as a market leader should continue to provide high quality service to its farmers and adopt healthy competitive practices which will set proper standards for the cocoa industry.
- The company's structure that encourages complex and cumbersome bureaucracy should be further reviewed in this competitive era.
- Over centralization – the company is heavily over centralized so much, in that even anything worth GH¢50 should have to be approved from headquarters. Such over centralization kills initiative and does not empower the staff at all levels to be innovative. This lack of innovation is completely at variance in the way modern businesses are organized and managed.
- The current operational gains should be increased and sustained to bring on board all stakeholders whose interest in the company eroded in the past.

BIBLIOGRAPHY

ACCA, June 2003, Financial Management and Control; Capital Structure and Financial ratios. Middlesex: Foulks Lynch publications. 152 – 167

Arthur J. Keown (et al): (2005): Financial Management: Principle and Applications, Pearsons Education International, New Jersey, Tenth Edition, pp. 71 – 89

Beixin Lin, Zu-Hsu Lee, Lance G. Gibbs (2008), Operational restructuring: reviving an ailing business. Management Decision: 46; 4; 539-552

Brealey R. A. and Myres S. C. (2001): Fundamentals of Corporate Finance, 3rd Edition. Irwin MacGaw-Hill. New York.

Colley John L. Jr. (et al): (2003): Corporate Governance, Chicago: McGraw-Hill. Vii. 11

Cullingham W. H. and Aldag J. R. (1993): Business in a Changing World, College division Block 13, South-Western Publishing Company, Cincinnati Oluo, USA

Drury C. (2000), Management & Cost Accounting: Side Effects Arising from using Accounting information for performance Evaluation, Fifth Edition, Thomson learning, London. 620

Frank Wood and Alan Sangster (2008) Business Accounting I, 11th edition, Pearsons Education Limited, Harlow, Essex. 621-630

Evans L. (2009). PBC to Maintain Market Share, Daily Graphic, (No. 17903, Thursday, April 30, 2009). 57

Incoom, S.E. (1992) Monetary and Financial system in Developing Economy; Tema, Ghana Publishing Corporation.

Jennings A.R. (1993). Financial Accounting, 2nd edition. Harlow, Essex: Pearsons Education Limited. 401 - 408

Neil Minihane, (Aug 27, 2008), Operational Restructuring as a science. [www.tmassist.turnarround.org/publications/Articles.aspx?]. (Accessed 2008 December 15]

PBC; 1ST Medium Term Corporate plan; 2001-2003

PBC; 2ND Medium Term Corporate Plan 2004-2007

PBC; 3RD Medium Term Corporate Plan 2007/08 – 2009/10

Produce Buying Company Ltd, (1997); Prospectus for Initial Public Offering.

Produce Buying Co. Ltd. Audited Annual Reports and Financial Statements for the years – 2002-2008.

Prof. Ian H. Giddy, (2007), Meaning & Concept of Operational Restructuring. [www.stern.nyu.edu/~igiddy/restructuring.htm], (accessed 2008 December 15)

Watson D. and Head A. (1998) Corporate Finance, 1st edition, Pitman Publishing Imprint.Uk.

Watson and Head, (2007). Corporate Finance: principles and practice 4th edition. Pearsons Education Limited, Edinburg Gate, Harlow. 46 – 56

Mako William P. (2003), Corporate Restructuring in East Asia: Promoting Best Practices. [www.imf.org/external/pubs/ft/fandd/2001/2003/mako.htm], (accessed 2008 December 12)

INTERNET WEBSITE

Focus Management Group

http://www.focusmg.com/home.aspx

APPENDIX A

QUESTIONNAIRE FOR PBC LTD

1. Name of company

2. When was the company incorporated in Ghana?

3. When did your company list on the Ghana Stock Exchange?

4. Has the company undergone any restructuring?

   Yes ☐ No ☐

5. What type of restructuring?

....

....

....

6. What informed your decision for such a restructuring?

....

....

....

7. Which areas of operations were targets for restructuring?

....

....

....

8. Were major cost drivers identified?

   Yes ☐ No ☐

9. If yes, what were these cost drivers?

....

....

....

10. How are these costs managed to ensure efficiency and effectiveness?

....

....

....

11. Are there any major value (revenue) drivers identified? If yes, what are they?

....

....

12. Which areas of operations are dropped due to inefficiency?

....

....

13. Which areas of operations are strengthened due to cash generating viability/ capabilities?

....

....

14. Has the company diversified into any other business to strengthen its revenue base?

....

....

15. Did the company undertake any major project as part of the restructuring process?

Yes ☐ No ☐

16. If yes, what is this/are these project(s)?

....

....

....

17. How was the project(s) financed?

Debt ☐ Equity ☐ Both ☐

18. Does your company go for financial support from financial institutions?

Yes ☐ No ☐

18b. What has been the recent response from financial institutions to your company's request for funds to support operations?

....

....

....

19. What has been the company's agenda for human resource development/capacity building in recent times and in the past?

....

....

....

20. What has been the specific benefits gained by the company after three (3) years of operational restructuring? In terms of;

a. Cost:

....

....

....

b. Revenue/Income:

....

....

....

c. Shareholders' equity:

....

....

d. Profitability:

....
....

e. Market Share:

....
....

f. Labour output:

....
....

g. Public confidence in the company:

....
....

21. Could you please outline the challenges faced by the company after the implementation of the operational restructuring? In terms of:

a. Cost:

....
....

b. Revenue/Income:

....
....

c. Shareholders' equity:

....
....

d. Profitability:

....
....

e. Market Share:

....

....

f. Labour output:

....

....

g. Public confidence in the company:

....

....

h. Any other:

....

....

....

22. What are the future expectations of the company?

....

....

....

....

....

Thank you for having spent your invaluable time on this questionnaire.

I appreciate your contribution to knowledge.

APPENDIX B

PBC Ltd. – Profit and Loss Account and Balance sheet as at September 30th, 2002 – 2008 (GH ¢)

PARTICULARS	2002	2003	2004	2005	2006	2007	2008
Turnover (GH ¢)	**71,683,700**	**159,520,000**	**229,682,100**	**230,417,500**	**248,662,200**	**193,182,770**	**245,478,455**
Cost Of Sales	(61,693,500)	(139,828,500)	(204,019,800)	(207,731,100)	(222,530,400)	(171,064,521)	(214,769,353)
Gross Profit	**9,990,200**	**19,691,500**	**25,662,300**	**22,686,400**	**26,131,800**	**22,118,249**	**30,709,102**
Direct Operating Expenses	(6,989,700)	(12,943,800)	(16,462,500)	(22,588,500)	(22,601,700)	(10,025,845)	(10,979,054)
General & Admin. Exp.	(2,554,200)	(3,628,500)	(4,826,000)	(5,146,500)	(6,428,800)	(7,466,932)	(10,575,625)
Total Expenses	(9,543,900)	(16,572,300)	(21,288,500)	(27,735,000)	(29,030,500)	(17,492,777)	(21,554,679)
Operating Profit	**446,300**	**3,119,200**	**4,373,800**	**(5,048,600)**	**(2,898,700)**	**6,595,309**	**11,102,838**
Other Income	586,600	1,002,300	1,345,000	1,970,400	1,637,300	1,969,837	1,948,415
Profit Before Taxation	1,032,900	4,121,600	5,718,800	(3,078,200)	(1,261,400)	387,794	2,949,395
National Reconstruction Levy	(24,800)	(87,200)	(86,500)	-	-	-	-
Taxation	(459,900)	(1,312,400)	(1,762,500)	(37,300)	(162,900)	(263,263)	(838,945)
Profit After Tax	**547,200**	**2,706,100**	**3,813,300**	**(3,115,500)**	**(1,098,500)**	**124,531**	**2,110,450**
Fixed Assets	2,417,700	3,116,000	3,336,000	3,093,400	2,625,300	5,223,208	13,798,027
Long Term Investment	25,000	25,000	25,000	25,000	25,000	691,055	945,455
Total Fixed Assets	**2,442,700**	**3,141,000**	**3,361,000**	**3,118,400**	**2,650,300**	**5,914,263**	**14,743,482**
Current Assets	**3,390,600**	**8,947,400**	**28,293,700**	**27,106,200**	**16,341,300**	**30,418,322**	**52,724,179**
Stocks	1,555,400	4,000,500	19,661,600	15,159,100	6,996,700	5,388,376	28,369,610

Accounts Receivable	409,300	1,297,300	7,081,200	10,956,800	8,365,400	8,411,156	12,474,943
Short Term Investment	438,800	534,900	325,000	162,000	164,300	14,020,442	385,218
Cash And Bank Balances	987,000	3,114,700	1,225,900	828,300	814,900	2,336,893	11,063,421
Current Liabilities	**1,715,500**	**5,669,200**	**23,127,800**	**24,851,800**	**14,717,300**	**28,552,006**	**52,494,640**
Bank Overdraft	133,100	1,952,500	12,588,000	12,606,200	9,820,400	11,903,628	11,220,204
Accounts Payable	1,145,000	1,408,100	7,838,900	1,468,000	841,900	913,601	7,527,478
Short Term Loan	0	414,800	414,800	10,576,200	4,204,100	14,000,000	29,980,000
Taxation	412,600	1,087,900	1,002,400	114,600	250,900	72,121	763,853
Net Current Assets	**1,675,100**	**3,278,200**	**5,165,900**	**2,254,400**	**1,624,000**	**1,866,316**	**229,539**
Net Assets	**4,117,800**	**6,004,300**	**8,526,900**	**5,372,800**	**4,274,300**	**36,332,585**	**67,467,661**
Stated Capital	4,914,400	4,914,400	4,914,400	4,914,400	4,274,300	4,914,377	4,914,377
Share Deals Account	-	19,100	25,600	2,000	2,000	1,882	1,882
Income Surplus	(796,600)	1,070,800	3,586,900	456,400	2,000	(457,385)	1,653,065
Share Holder Fund	**4,117,800**	**6,004,300**	**8,526,900**	**5,372,800**	**(642,100)**	**4,988,565**	**7,353,415**
Issued Shares	48,000	48,000	48,000	48,000	48,000	48,000	48,000

Source: Business and financial Times, Monday, October 2, 2006 Page 33, 2002—2008 Annual audited financial report of PBC. And Daily Graphic, Thursday, April 30, 2009.