CHAPTER 5

SUMMARY AND CONCLUSIONS
Performance appraisal reflects the disposition and utilization of the resources in order to achieve the targets efficiently and effectively. Performance appraisal is the process that analyzes the various factors of organization to evaluate the relative strengths and weaknesses so as to meet the opportunities and threat of business environment.

In business, as in any other area of activity, success is always a relative concept; relative to other business organizations or relative to some predetermined concept. The implication is that performance may be described as of normal standard, above standard, or below standard but before performance can be described as standard or otherwise, it is first necessary that a rather specific indication of the standard be established. Actually a standard should be established for virtually every area of business activity, like sales, production, and profit to mention a few.

Measuring and appraising performance involves several distinct steps. Specific goals or objectives must be established (these are the standards) and there must be evolved some means of measuring the extent to which these standards have or have not been met. The purpose of organizational appraisal is to determine the organizational capability in terms of strengths and weaknesses that lie in the different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for proper strategy formulation. In organizational appraisal, the various forces and influences operating within the internal
environment of an organization viz. organizational resource, behaviour, synergistic effects and the distinctive competencies of the organization have to be analyzed. Organizational capability is dependent on these forces and influences. By appraising the organization, the strategists have to develop an assessment of their organizational capability to compete in the markets. There are a number of considerations in organizational appraisal.

Appraisal of performance of a company can be done through a careful and critical analysis of the financial statements. Financial analysis helps managers in controlling their enterprise performance. It does this by providing them with a system and set of procedures for analyzing and understanding financial indicators of performance. The two important financial statements are the 'balance sheet' and the 'profit and loss account. Although any formal statement expressed in money value might be thought of as financial statement, the term has come to be limited by most accounting and business writers to mean the 'balance sheet' and the 'profit and loss account'.

The appraisal or analysis of financial statements spotlights the significant facts and relationships concerning management performance, corporate efficiency, financial strength and weakness and creditworthiness, which would have otherwise been buried in a maze of details.

According to Metoalf and Titard, "Analysis of financial statements is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of a firm's position and performance. The various important techniques of performance appraisal through financial statement analysis are:
1. Ratio Analysis,

Under this technique of appraisal, various ratios are calculated, the classification of these ratios may be as follows
(1) Liquidity Ratios  (2) Leverage Ratios  (3) Activity Ratios  
(4) Profitability Ratios

2. Trend Analysis

3. Common-size Statement Analysis

4. Fund Flow Analysis

5. Inter-Firm Analysis

Charoan Pokphand Foods Public company Limited is the largest integrated agribusiness company in Thailand. Charoan Pokphand Foods Public Company Limited ("CPF") was established in 1978 under the name "Charoan Pokphand Feedmill Co., Ltd. After receiving promotional privileges from the Board of Investment in 1981, the company began production and distribution of animal feed in southern Thailand. CPF was listed on the stock Exchange of Thailand in 1987. The business had expanded to animal farming. Towards further integration, in 1988, CPF began aquaculture operations, especially integrated shrimp business in Thailand. Through vigorous research and development program, CPF became a pioneer in disease prevention as well as in culture systems, which ensure environmental safety. In 1994 the company became a public limited company. In 1998, CPF underwent major business restructuring, acquiring shares of the Charoan Pokphand Group Co., Ltd.'s livestock and meat processing companies in Thailand. The business restructuring process was completed in early 1999, making CPF the flagship agribusiness entity under the Charoan Pokphand Group in Thailand. In December 1999, the Company's name was changed to the present "Charoan Pokphand
Foods Public Company Limited” to reflect the business structure and mission to become a world-class food producer.

CPF’s principal business segments are livestock operations and aquaculture operations rations. Both business lines are highly vertically integrated, which yield the benefits of operational flexibility and economies of scale to produce an efficient mix of products while reducing the costs of production. The principal operations in CPF livestock business involve chicken, swine and table duck, with main activities comprising feed production and distribution, animal farming and meat processing. In the aquaculture business, operations comprise mainly shrimp feed production and distribution, and shrimp processing.

In regards to the company's market status, CPF is the largest producer of livestock and shrimp feeds, the largest supplier of supermarket table eggs, and the largest supplier of livestock breeders and livestock meat in Thailand. CPF, also among the largest Thai exporters of frozen chicken and shrimp products.

The organizational structure of CPF is headed by the Broad of Directors. Executive Committee and Audit Committee are the second highest level of authority. Down the vertical hierarchical chain is the President who is the most important person, in the sense that he directs Senior Executive Vice Presidents, Vice President and Assistant Vice President of different business fields and functional departments for efficient utilization of resources and coordinates their efforts towards the accomplishment of overall organizational objectives in the best possible manner. Any problem faced by these administrative officers is referred to the President to seek his direction and advice. They are accountable to him for their work. Senior Executive Vice Presidents of Livestock, Aqua Business and Supporting Units are the immediate subordinates of the President. The hierarchy of the administrative block
of officers has also been drawn separately. Assistant Vice Presidents, Directors and General Managers are appointed in different regions of Thailand for farm production distribution, quality control and research of each product and also for proper maintenance of books of accounts. Thus, we can say that apart from some sort of functional department, the organizational structure of CPF is by and large governed by the line and staff form of organization, with centralization at the top and decentralization at the lower level.

The financial performance of CPF has been analysed on the basis of different parameters viz., ratio analysis, fund flow analysis, trend analysis, inter-firm analysis and competitor analysis. The tabulation, calculation and interpretation of various ratios for the period 1989 to 1998 of the corporation form the major portion of this unit.

Financial ratios analyzed here are the Liquidity, Leverage, Activity and Profitability ratios. Liquidity ratio includes current, acid test and interval measure ratio. Current ratio has been considered as an acceptable standard, but 1.33:1 has also known to be satisfactory. In nine out of ten years, this ratio was less than 1.3-3. Similarly, Quick ratio was also marginally less than 1:1 (which is the adequate norm) throughout the span of ten years of study, though it had definitely tried to achieve it. CPF has sufficient liquid assets to finance its operations for many days as is clear from the interval measure ratio. The liquidity ratios in all have thus been able to meet its current obligations and to strike a proper balance between high liquidity and lack of liquidity. Financial leverage ratios are calculated. Under it, debt ratio, dept-equity ratio, total liabilities ratio and interest coverage ratio are discussed. Except the first year i.e., 1989, debt-equity was found to be satisfactory. Lenders have full faith in the concern because of which more than 75% of the net assets, on an average, are financed through them. The creditors too are well assured of receiving regular interest.
Total liabilities are around 50% of the total assets. On the basis of its capital structure, the corporation is ranked high on safety. The turnover ratios depending upon the different concept of assets employed, the variants of this ratio are. Total assets turnover, fixed assets, net assets and current assets turnover ratio indicate that assets have been utilized efficiently to a large extent except current assets which have shown a downward trend. The Profitability Ratio have been equally impressive during the period. They even became negative but CPF had tried hard to improve in recent years. The trend analysis has been examined among all items, earning before interests and taxes (EBIT) and profit after taxes (PAT) have shown the maximum increase, followed by current liabilities, which are much more than current assets. Sales have also maintained a continuous growth. Through the net assets grew manifold, the corporation did not invest much in fixed assets. The net worth also increased but not to a large extent. Fund flow analysis has been done of the uses and sources of funds of the firm for the period 1989 to 1998 through which we find that CPF has in general been able to prove that resources generated by it have been put to proper use.

From the current situation and trends 1989 through 1998 of the CPF, the Scholar has, however, found that there are many problems, which affected the performance of the company. Important amongst there are in this followed:

1. **Production and Investment Problems**

   (1) Deterioration of the environment

   There are two main reasons why this business has endangered the environment surroundings:

   (1.1) *The encroachment of swamp forests.* Despite the government's zoning measures to protect the mangrove swamp, there is still no effective control on utilization of these
lands. This has resulted in widespread encroachment on the swamp forests for the prawn farming, especially by those using the natural culture method, which creates damages to be ecological system.

(1.2) Lack of proper farming techniques. This is another factor that aggravates the environmental destruction. Lacking in technical knowledge and yet aiming at a quick short-term return, prawn farmers try to maximize production and increase the number of production cycles. As a result, the environment is rapidly jeopardized. Specifically, the causes of mismanagement of the prawn farms are:

- Releasing excessive quantity of prawn fry. Most farmers believe that releasing a huge volume of prawn fry into the fields will generate great profit. But in fact, the appropriate volume should not exceed 30 fry/square metre. However, they often release as many as 60-80 fry/square metre, which is excessive and causes a large volume of residue at the bottom of the ponds, thus escalating pollution problems.

- Sludge squirting practice. After the harvest and draining the water, the prawn raisers would clean the bottom of the pond to prepare for the next crop. When using the water to flush the sludge out, all the residues are drained into external water sources or into the sea in a huge volume, thus polluting the water.

- Unsuitable water drainage system. Most prawn farms have to pump the sea water right into their fields through large pipes connecting the sea with the farms. However, since investment required for the pipeline is
huge and most prawn farming is small scale, farmers join together to share the water pumping line to reduce their costs. As a result, the water is insufficient and this causes the water in their farms to be quickly polluted. When they drain the polluted water out into the sea, the environmental destruction is inevitable.

(2) The average yield per rai was still rather low, because prawn culture was still based on the extensive system. In addition, there were other problems, namely:

- Sea water pollution in the culture grounds, due to release of waste water from industrial factories, use of insecticides in the surrounding areas, lack of a saltwater irrigation system, particularly for prawn culture, and pollution in ponds due to the use of chemicals.

- Lack of essential public utilities for prawn farms resulting in high production cost, small individual farmers could not operate independently.

- Lack of capital and knowledge of prawn culture and farm management, particularly among small producers.

- Lack of parent prawn stocks, driving up prices.

(3) High cost of production, particularly prawn feed whose price greatly increased as a result of a shortage of raw materials, particularly fishmeal. At the same time, the demand for prawn feed was increasing due to expansion of prawn culture under the intensive system.

(4) Problems connected with the use of swamp forest areas for prawn culture. Measures to control use of swamp forest areas are inefficient, resulting in illegal use of these areas for prawn culture, and adverse ecological effects.
(5) Natural disasters such as the wide spread floods is one significant problem that the fishery could not avoid.

(6) Drought

(7) Animal epidemic resulting in out break of disease, which affected the shrimp-farming nation wide.

(8) The animal feed crisis, this crisis exerted pressure on prices of raw materials animal feed and meat, as well as the increase in the import of animal feed inputs.

(9) Depletion of natural resources

(10) Water quality

(11) Shortage of water

(12) Feed-raw material cost rising

(13) Deteriorating of agriculture outputs

2. Marketing Problems

(1) Problems relating to the quality of fresh prawn and processing, due to poor management at the various stages, starting from the time of pulling in the nets, preservation of freshness on board, cleanliness at the Fish Marketing Organization, as well as standards of other processed prawn, are obstacles to prawn exports.

(2) Lack of cold storage facilities and standard freezers for prawns. It is estimated that the frozen marine prawn food industry, both promoted and unpromoted. Moreover, there is problem of quality of the cold storage plants, particularly the cleanliness.

(3) Problem of disadvantage in the export market and the price fall, reflected the main disadvantages of Thai prawn markets, due to bunching of exports to only a few countries, namely Japan and the US,
resulting in Thailand having to bear the full brunt of the upheaval in the above foreign markets.

3. Economic, Export and International Trade Problems

(1) Inflation increased which forced the Bank of Thailand to apply strict financial control policy, in order to control the inflation, and this propelled the interest rate to a rather high level.

(2) Trade Protection, include the import ban by the United State of sea catch shrimp from countries that did not comply with the ruling that all shrimp trawlers must be equipped with TED's (turtle excluder device) and the protests from various environmentalist groups regarding mangrove destruction by shrimp farming.

(3) The increased value of imports was the results of the price increase of oil and raw materials in the world markets.

(4) Steeper labour costs and lack of basic infrastructure that are imbalanced with economic growth

(5) High interest rate

(6) Weakening of Thai Currency

(7) Imports of goods related to the increased foreign investments.

(8) Heavy reliance on single markets

(9) Chemical residues in prawn meat. Importing countries are reluctant or unwilling to accept chemical residues in imported goods.

(10) Higher production costs than its competitors due to surcharges on imports of raw materials.
An excessive number of stages in the export process. Exports are consequently delayed.

Shortage of credit facilities for upgrading of prawn farms.

MEANS OF SOLUTION

1. Problems of Poor Yields per Unit Area

The remedial measures should be:

1. Strict control to forestall and eliminate problems of water pollution in the prawn culture grounds.
2. Promotion of research to produce parent stocks in the culture ponds.
3. Accelerated training of farmers to develop systems of culture and development of the agricultural information system.
4. Strict control and prevention of trespassing and destruction of swamp forest areas.

2. Problems of the Cost of Production

The Government may help to reduce production costs for prawns by providing public utilities essential for prawn culture, in all areas and at fair prices, and allowing the free import of raw materials used in prawn culture, for example, fishmeal, soyabean meal, etc.

3. Problems of Marketing

The following measures may be adopted.

1. Support, by investment, to build standard cold storage facilities for processing and preserving frozen fresh prawn since the period of prawn yields and that of its demand abroad differ. Operators need cold storage facilities which have adequate capacity to accommodate products appearing on the markets during certain periods. This will not only help to cushion the effects of seasonal fall in
prawn prices but also improve the bargaining position of Thai prawn exporters.

(2) Widening the export market. Dependence on one single market involves high risks and, therefore it is necessary to export to other markets, such as the EEC countries and other high-income countries.

(3) Support of the expansion of processing of prawn products for export. At present, almost all prawn output are exported in the form of frozen fresh prawn, and most large exporting countries do likewise, resulting in keen price competition. Processing of fresh prawn into foods ready for consumption such as canned prawns, cocktail prawns, flour-wrapped fried prawn, will help to reduce competition and at the same time expand markets.

4. Problems of International Trade

The Government should;

(1) Consider repaying import duties and surcharges on imports of prawn feed raw materials.

(2) Both promote and provide assistance in the keeping of fish for use in the production of high quality fishmeal.

(3) Increase the budget for research aimed at improving soyabean varieties and at finding production techniques, which can reduce the production cost per rai of soyabean.

(4) Ensure that there are clearly defined zones to separate areas under black tiger prawn cultivation from industrial or agricultural areas.

5. Problems of the Environment

The preventive measures could be summarized as follows:
**Government sector**

1. There should be clear and effective zoning of the marine prawn farming areas to reduce the swamp forest encroachment.

2. Develop and promote intensive farming method. This method does not depend on feed and prawn breed from natural resources. Therefore, the future expansion of marine prawn farming areas can be based on any coastal land without the need to utilize the areas of swamp forests.

3. Prawn farming in enclosure should be promoted as an alternative way to expand the culture areas without affecting the swamp forests. This method could produce a large volume of marine prawn.

4. Speed up the survey of marine prawn farming areas both on an extensive level and on a localized level to fix the prawn culture promotion zone so that the suitable culture method would be used in those areas in the future.

5. Issue legal measures to control the draining of polluted water from the prawn farms. This includes the stipulation on quality of water that is to be released onto external water sources. This would push the farmers to be more aware of the importance of water quality to be released out of their farms.

6. Promote the multi-usage of swamp forests instead of concentrating on any single purpose. This would prevent the felling of trees in swamp forests for the aquaculture usage.

**Private sector**

The private sector has the most crucial role in the environmental conservation, as present pollution problems arising from the prawn culture business are mainly caused by the private sector. Therefore, to
educate and encourage the farmers to realize the benefits of the proper farming management, and to refrain from encroaching the swamp forests, can be advantageous both to the farmer themselves and to their surrounding condition. The right farming management and avoidance of bad effect on the environment could be done in the following ways:

1. Good farm design would be the first step to prevent the environmental problems. Good designs should include various systems such as the water resting ponds, water inflow and outflow systems, residual water canals for treatment before being drained into the sea, etc. Designing of farms in this way would greatly keep a healthy environment condition and also prevent any problem that may otherwise arise on the natural surrounding.

2. Number of prawn fry released into the ponds should not be over 30 fry/square metre. In the past, farmers liked to put as many as 60 fry/square metre in the field which resulted in a high the residue volume that mixed in the water. Draining of this polluted water to the external sources without any treatment would destroy the marine environment. Therefore, avoidance of excessive releasing of prawn fry will help to conserve the environment.

3. Proper harvesting method should also be scrutinized. At present, there are three ways to harvest prawn by opening Watergate, by using the seine from the embankment, and by using the electric seine. The good harvest method should cause the least stirring of the sediment at the pond's bottom, hence the least residues is left in drained water from the pond.

4. The pond's bottom management. After the harvest and the draining of wastewater, most farmers used to clean the ponds by the sludge squirting method. This caused a lot of pond's bottom residues to be drained out into the external sources. The right method should be to
let the pond dry so that soil condition at the pond's bottom can be improved. This method will prevent various kinds of residues, including the sludge and the sediment, from flowing into the external.

5. Making partial harvest in the case that farmers releasing excessive volume of prawn fry can alleviate the problem of mortality usually occurs when the prawn grows up to a certain level. The partial harvesting also helps lessening the residue volume in the water and at the pond's bottom. Thus, the treated water could be drained into the sea without negative effect on the natural environment.

All the above-mentioned measures could help to protect and preserve the environment from being affected by prawn culture business. But all these measures must be pursued simultaneously by both sectors. The Government sector could not alone succeed in the environmental conservation without the cooperation from the private sector, particularly from the farmers who are directly involved in this matter. In the same way, if only the private sector takes part in taking care of the proper farm management, those environmental protection measures may not be put into effect. The environmental problem would gradually lessen the available lands for the prawn farmers. To shift the production base to other locations may not be easy any more as Thailand has limited coastal areas and at present there remains only the eastern coast of the South that is suitable for the marine prawn culture. Therefore, there are many interesting questions needed attention. Can Thailand continue to enjoy a more a 10 Billion Baht annually of foreign exchange derived from its export of prawn in the future? What would be the effect on a large number of labour whose income depends on this industry and related business? Would Thailand's seaside traveling attractions be lost? These challenging issues are left to the government, the private sector and the farmers involve finding out appropriate answers. Pursuing of the proper
direction will enable the prawn culture business and the environmental conservation to perform well together.

6. Problems of Animal Feed Crisis

Solutions to the problem of shortage of animal feed raw materials, the Thai Government announced of government measures to eliminate the shortage of animal feed raw material. The government's policy was essentially to protect producers of animal feed raw materials in the country by:

1) setting up a tariff on maize
2) fixing a quota for soyabean meal import
3) a ban on fishmeal import

The above measure could not effectively solve the shortage of animal feed raw materials because they had many limitations. Then the Government announced new measures to deal more effectively with the shortage in raw materials used to produce animal feeds.

The Government announced 7 measures to fight inflation, chief of which was the solution to the problem of the shortage of three kinds of animal feeds, i.e. maize, soyabean meal and high-grad fishmeal- the principal causes of the high process of animal meat. These measures were as follows:

The Government allowed free import of the 3 main animal feed raw materials without quota restrictions. To protect producers of agricultural raw materials, it fixed floor prices for animal feed raw materials in each category and collected an ad tax (ad valorem) duty of 6 percent on the import price. It the import price plus duty was still below the floor prices, a surcharge was added.

The measure announced by the Government will help to alleviate the shortage and high prices of the three animals feed raw
materials, will thus help to smooth the operation of the animal feed and related industries. However, measures of this type will only be effective in the short run. In the long run, the Government should strive to raise the efficiency of animal feed production which, at the moment, is still very low. Raising production efficiency will not only increase the quantities produced but also reduce the cost of production, bringing down the cost of animal feed and will enable the animal feed and other related industries to compete in foreign markets as well as encourage the animal feed raw material market to rely on the free market.