CHAPTER 1

CONCEPTUAL FRAMEWORK OF THE STUDY
INTRODUCTION:

Appraisal of a firm is as difficult as appraisal of any individual of a family. Like all individuals and families, firms also have different objects and goals. It would be uncharitable to judge a firm on the basis of the notions of the person carrying out the appraisal, just as it would be entirely improper to apply one's own values to another person and family and to declare that person or family to be unsuccessful. Everyone is entitled to be judged by one's own objective.

Though it is commonly accepted that profit is the main objective of a firm, it cannot be said that all firms have this objective to the same extent. Many industrialists do their work just because they love to do it and for their profit; it is merely a measure of approval of the society for the work being done by them and not the objective of carrying on the business. One can see that profit cannot be the objective of all firms without this being qualified. In any case, firms have to consider both the future and the present. If profit is looked upon in this light, to judge a firm merely by the size of profit would be wrong. It is easy to think of circumstances when the size of profits would be a bad index when earning profits are the objectives. During periods of inflation or prosperity almost all firms make profits without much effort. During slump or depression, it is difficult to make profits, without any fault of the individual firm.
Even if the objective of a firm is to make profit or to maximize the wealth of the shareholders, it must be circumscribed by the requirements of the society and prevailing attitude towards profits. A firm, which would be proud of being at the top of the list showing profits, earned by various firms, in one country maybe rather afraid of that position in another country. No country really allows too much of profiteering or monopolistic behaviour. Therefore, firms always take care that the position enjoyed by them is not lost which would be at a risk if it is the objective of an attack by the influential sections of the society. Firms, these days are becoming increasingly responsive to social obligations, such as the need to see that pollution of water or air is the minimum possible. Firms with such sense of responsibility will have much greater acceptance in the society and their chances of doing well in the long run, rather than in a shorter period, will be very bright.

There may be firms which would deliberately sacrifice profits either because they want that the people working in the firm should not have unnecessary strains or because of the very high rates of income-tax which take away the bulk of their profits and which do not make much greater volume of work very attractive. Firms, therefore, may intentionally decide that the people working there should be spared of the unduly strenuous volume of work. Some other firms may deliberately adopt the path of sharing the prosperity with worker by raising their wages or by giving them bonus, even beyond those laid down by the Payment of Bonus Act, 1965. Such firms again will not show good profits but to condemn such firms as inefficient would be again uncharitable.

A firm should be appraised on the basis of the work done by it and on the basis of the objectives, which the firm has set for it, rather
than on the basis of some criterion, which may apply to the firm in
general.

Appraisal of performance may be used for achieving the three
fold purpose: firstly to determine the adequacy of operating programs;
secondly, to assure that standards are being met; and finally, to assure
that the overall organizational objective is being achieved. Appraisal
provides management with control over the organization’s activities
and reveals the matter both in program and in the performance
requiring corrective action.

An enterprise can be appraised by a number of economic
factors, such as net profits, return on investment (ROI), return on total
capital, production value, and relative position in the industry, rate of
growth, rate of development in new markets and products, or a number
of other such factors. The system of appraisal presented here looks to
practices of management first and finds the economic results through
their practices.

Measuring performance can cut both ways. It can play a
valuable role in improving organizations – or it can stand in the way of
unnecessary change.

Measurements can provide vital feedback that shows whether
approaches being used are moving the organization towards its goals.
It can assess whether staff training, teamwork, empowerment, process
improvement, re-engineering, or other trendy ideas are producing real
results.


2 ibid, p.151.
But it can downgrade organizational morale, slash team effectiveness and wound quality improvement efforts. Here is four of the most commonly used measurement traps which I have seen in many organizations.

1) Managing results. The bottom line is history, it shows today's consequences of yesterday's management decisions, but is an unreliable predictor of how today's decisions will affect tomorrow's results.

Results can't be managed any more than you can turn back time. Like a score, it forms a historical record of how you did. In competitive sports, you improve your score by improving your play in key strategic areas.

Improvement starts by identifying and measuring the critical few service or product production processes and support systems that have the biggest impact on your results. But if you're driving through the rear-view mirror of bottom-line results, you won't be able to see the swamp until you are sinking in it.

2) Inside-out measurement. Too many measuring techniques are designed to meet the internal needs. They may satisfy management's command-and-control paranoia by tracking every activity and minute of the day. Or they're designed to serve accounting, information technology, human resources or other supporting departments.

What's missing in this measurement mania is the customer. High-service providers measure from the outside in. They begin by measuring what's important to customers. Next on the priority order are the needs of those serving the
customers. Then attention shifts to the people producing products or services. The measurement needs of managers and support departments should bring up the rear of this customer-server-producer train.

3) The measurement stick. Just as important as what's being measured is how the information is used. In many organizations, team members and managers resist measuring accuracy rates, cycle times, and rework or customer satisfaction because they've been beaten with this information.

To counter the growing complaints from distributors, one manufacturer began measuring its rate of incomplete orders. Managers discovered mounting back-order levels, wrong parts being shipped and clerical errors. More than 60 percent of the “pick orders” didn’t match the distributors’ invoices.

The solution was to replace the shipping department manager. The new manager promptly disciplined fired and “motivated” the clerks and shippers to shape up. After a temporary improvement, the rate of incomplete orders settled was slightly below their previous level. The company finally focused its measurement, problem-solving, and improvement activities across a wider spectrum. It looked at the entire sales, order-entry, picking-and-packing, inventory-control, accounting, and invoicing process. Only then did incomplete orders plunge by nearly 300 percent. For instance, weighing you 10 times a day won’t take off the pounds. No matter how sophisticated, you measure because your measures are only indicators. Improvement takes place by pulling people together throughout your organization to analyze and improve key processes and support systems. What the indicators say is much less important than what’s being done with the information.
Measurements that don't lead to meaningful action aren't just useless—they're wasteful. Measurement is an essential tool for improving organizations. Choosing the right tool is important, but how skillfully the tool is used determines its effectiveness."

Performance measurement has increasingly important themes in public and private institutions across America. Long regarded as a support function, Information management is now viewed as a strategic enabler for achieving an organization's mission and economic health. Performance measurement, too often treated as a formulation of technical measures, is now recognized as a strategic foundation to help reach organizational goals.

In any business organization it is essential that the performance of the managerial team is properly evaluated and examined. This performance of the management group can be appraised on the following fronts:

1. Financial performance.
2. Operational performance.

This chapter is devoted to present the problem and scope of research to be undertaken in this study. It will also review of literature suitable to the subject. The chapter will also focus on the scope of the study, objective, hypothesis, methodology, and limitations adopted in this study.

Last but not the least the chapter has discussed the scheme of research design and includes chapterisation of the study.

PRESENT STUDY: “CHAROAN POKPHAND FEEDMILL CO., LTD. THAILAND”

Charoan Pokphand aquaculture (CPA) of Thailand is one of nine business divisions of the Charoan Pokphand Group (CP) and is also the fastest-growing division. CPA produce the most popular aquatic animal feeds in South East Asia, mainly for Shrimp, Catfish, Tilapia, Fancy carp, and Tropical fish. At present CPA are the world’s largest shrimp farmers who use Charoan Pokphand shrimp feed is enjoying excellent feed conversion rates (FCR) of 1.2 to 1.4 under high intensity culture systems one kilogram of shrimp feed can be produced at a feed cost of US$ 1.20 to 1.40.

In an attempt to reach the highest production efficiency with the least cost CPA, adopted the concept of a fully integrated system, especially in the shrimp farming business, starting from production of shrimp feeds, shrimp culture and finally cold storage and shrimp processing. Its aim is to attain the highest level of efficiency at the lowest cost, i.e., to produce high quality at low prices. It has developed good breeding shrimp stock, which can be easily cultured and has a high growth rate. CPA has also developed shrimp feeds of superior quality and improved its management and marketing techniques.

In expanding the shrimp farming industry, CPA emphasizes on the favourable tropical coastlines, for which, it has invested in aquaculture business in Indonesia, Malaysia, Vietnam, India, China and Mexico. In future, CPA plans to invest in many other countries where the conditions are optimum for developing aquatic animal farms. CPA believes that aquatic animals can provide an affordable high-
protein food source which is able to be consumed by people at all economic levels.

As required by the ministry of Commerce, CPA Thailand had to change its name to Charoan Pokphand Feedmill Public company limited (CPF) on 27th July 1994.

The performance of CPF during the period 1989-1998 was adversely affected by several factors such as economic crisis, depreciation of Thai Baht which was a result of the change in foreign currency, political instability, and depletion of natural resources and deterioration of the environment, spread of contagious diseases, and the floods. All these problems have made the present research study more interesting, challenging and equally more critical.

REVIEW OF LITERATURE:

Many scholars have shown great interest in studying at broad levels about problems concerned with performance appraisal through financial and productivity. The notables among them are:

John N. Myer has made a study on “Financial Statement Analysis” in 1939. The whole study has been divided into two parts. In the first part, the author describes the introductory aspect of the financial statements in which early use of structure statement, nature and limitations of financial structure, problem of the unit of measurement etc. have been discussed. Part two deals with the technique of financial analysis, comparison of balance sheet, income statement, and variation in income standard ratio, etc. A separate

chapter has been provided for the financial structural relationship, return of capital, etc.

P.V. Kulkarni in his book entitled “Financial Management - A Conceptual Approach” in 1981 dealt with the basic concept of financial management. The study has been divided into thirty-three chapters. The first part deals with the introductory aspect of Finance with further discussion on financial planning, internal financial control, fund-flow analysis, ratio analysis, budgeting and budgetary control, and different leverages with their implications. He explained in detail how financial decisions are arrived at in the areas of capital structure, capital budgeting evaluation of a firm and the risk involved in them. The author also deals with the financial management in public sector undertakings and in the joint sector in detail.

A. Aziz wrote his book entitled “Performance Appraisal - Accounting and Quantitative Approaches” in 1993. His book is divided into eight chapters. The first chapter deals at length with the meaning and concept of performance appraisal. The second chapter analyses the production performance of the tyre companies covered by this study. The third chapter gives a picture of cost and sales trends of the companies. The fourth chapter throws ample light on the profit performance; fifth views a well-defined picture of funds management in the tyre companies; next chapter measures the financial strength of the companies. the seventh chapter deals with the study of value addition and the last chapter presents conclusions and suggestions.

Prahlad Kumar Basu divided his book entitled "Performance Evaluation for Performance Improvement" in 1991 into five parts. First part deals with the introductory aspect of scope and methodology – Key Milestones in India’s Public Enterprises. The second part deals with the operating context. Third part deals with the evaluation of performance that consist of evolution of performance, evaluation system of public enterprises in India, appraisal of performance evaluation system, a case study of public enterprises evaluation-cum-turnaround model in mines and steel sector enterprises, performance of operating enterprises, and performance of public enterprises in project management. Part fourth deals with the evaluation of government policy and its impact on performance. Last part deals with the Performance evaluation for performance improvement.

Alan Lawlor in his book entitled "Productivity Improvement Manual", 1985 introduce a system of productivity improvement based on a powerful combination of audits, inter-firm comparisons and action learning, and explains how to set up and run productivity improvement programmes. The methods described in the Manual are based on actual programmes developed in companies of various sizes in a range of different industries. In a stimulating final chapter, the author looks ahead to the end of the century and analyses the likely impact of changes in information technology, patterns of trade, international attitudes and techniques of economic measurement. In doing so he challenges many widely held beliefs about productivity and wealth. His study has been divided into four parts. The part 1st deals with the sense of setting about Productivity: the key to prosperity. The part 2nd deals

---


with Measuring Productivity. The part 3rd deals with Improving Productivity. Last part covers the New Perspectives.

A.Q. Khan in his study entitled "Productivity Dynamics in Public Enterprises" in 1991 presented a critical appraisal of the public enterpriser's overall performance. It gives an extensive coverage to the various aspects of public enterprises and introduces the subject of public enterprises. A specific framework (i.e. total factor productivity concept) for the study of productivity measurement has been prepared to examine the extent to which the factor-inputs have been deployed efficiently in Public Enterprises. The total factor productivity approach for empirical investigation consists of capital input, labour inputs and overall efficiency of the time.

Britan, Gerald M. research and analysis of issues and alternatives in measuring program performance in federal agencies. He discusses on how the Congress and GAO can benefit from having good program performance information. Mr.Britan considers different levels of an organization and corresponding levels of objectives and performance considerations. He highlights the concerns and responsibilities of different parts and levels of an organization. The paper presents this multi-level structure using an "objective tree". Mr.Britan also discusses performance indicators (measures) which he groups into two categories: direct and relational. The direct indicators focus on achievements in comparison to the program objectives at various levels, while relational indicators measure how well results at


one level of the objective tree (inputs, outputs, outcomes, etc.) translate into results at the next level. He found that the nature of goods or services a program produces determines the type of performance indicators needed.

Dumond, E.J.¹ This article provides managers with increased understanding of the effects of different approaches to performance measurement to maximize contribution of a function to the overall organization. The research was oriented to simplify the complex boundary-spanning operations, particularly procurement. The article explores the effects of three factors on an individual's "comfort level" and "decision-making": performance measures, interactions with other internal organizations and access to information about external events. The results show that the performance measurement system drives an individual's decision-making performance. The broader and more effective-oriented measures tend to make individuals more confident and satisfied with their operating environment and decisions.

Kaplan, Robert S., and David P. Norton²: This article discusses about the use of the balanced scorecard by 12 companies which is created by Robert Kaplan and David Norton. They describe the balanced scorecard as "a set of measurements that give top managers a fast but comprehensive view of the business". It includes financial measures but complements them with operational measures. The scorecard includes four perspectives which are linked to performance measures: customer, financial internal business, and

innovation plus learning, Mr. Kaplan and Mr. Norton found that
consideration measures like customer satisfaction, internal processes
and drivers of future financial performance, help a company to address
the range of questions critical to its success.

*Donald F. Kettl* In this testimony at a hearing on performance
measurement, benchmarking, and reengineering efforts within
government, Donald Kettl, Professor of Political Science at the
University of Wisconsin - Madison, focuses on how to manage
performance. Mr. Kettl shows that performance measurement works by
shifting the focus from input to output. This change forces people
to look at their processes more strategically because Mr. Kettl feels
performance measurement concerns improving the quality of
communication versus just measuring it. He emphasizes on
performance-based management over performance measurement. Mr.
Kettl says that performance-based management is about political
communication at different levels. He discusses the difference between
outputs and outcomes and addresses various approaches to
developing and using performance measures. He also highlights the
pitfalls of performance measures and shares important conclusions
obtained from research on performance management, accountability,
and governance. His key words are “Don’t promise something that is
impossible; focus on communication, not measurement; and be clear”.

*Linda Kohl*, Director of the Planning for the State of
Minnesota, presented her testimony at a hearing on performance
measurement, benchmarking and reengineering efforts within the government before the House subcommittee on government management, information and technology. She describes the "Minnesota Milestones" program, a comprehensive statewide benchmarking project that she characterizes as a new way of thinking about government. Minnesota Milestones uses benchmarking and performance measurement as a three-step process: identifying long-term vision, developing measures against five criteria (clarity, validity, availability of data, accuracy, and output), and obtaining feedback on the measures. The testimony also highlights the part Minnesota Milestones play in other government processes.

Joseph Kohoe, Managing Partner of Government Services for Coopers and Lybrand Consultants, delivered this statement at a hearing on performance measurement, benchmarking, and reengineering efforts within government, held by the House subcommittee in government management, information and technology. He provides background information on how activity-based costing can be used by government and industry for measuring costs, measuring performance, and improving operations. The statement describes activity-based costing as a system of management cost accounting; this gives executives and managers accurate information about the cost of products and services. Mr. Kohoe discusses the disadvantages of traditional cost accounting. He argues that few government organizations have accurate cost information, but only few know that how much they are spending on the items in the annual technology report.

---

1 Kohoe, Joseph G., "Activity-Based Costing in Government", Testimony before the House Committee on Reform and Oversight subcommittee on government management, information and Technology, June 20, 1995. (Internet Words Searching: Activity-Based Costing, Performance Measurement)
budget. He recognized however, that it is very difficult to decide what a
government produced product or a government service costs, because
federal accounting system, currently is not set up to provide accurate
cost data.

Dr. A. Shankaraiah and K. Anjaiah1 in their article entitled
“Performance Evaluation of Industrial Cooperative Societies – A case
Study of Vishwakarma Brass, Silver and Cooper Industrial Cooperative
Society Ltd., Pemberthy”. The purpose of this study is to evaluate the
performance of handicrafts Industrial Cooperative Societies by
adopting a case study method. The Vishwaharma Brass, Copper and
Silver Industrial Cooperative Society Ltd., Pemberthy, Jangaon is
selected for the purpose, as the Society has been a great success that
Industrial Cooperatives are failures to a large extent but Pemberthy
Society never faced any crisis at any stage since its inception.

An attempt is made to evaluate the performance of the Society
in terms of the following indicators:

(i) Financial growth represented by share capital,
borrowings, grants and subsidies received from the
government.

(ii) Trends in production and sales.

(iii) Operational performance measured in terms of
revenues and profits.

(iv) Growth of employment and achievement of full
employment.

1 Shankaraiah, A. & Anjaiah, K., “Performance Evaluation of Industrial
Cooperative societies – A case study of Vishwakarma Brass, Silver and
Copper Industrial Cooperative Society Ltd., Pemberthy”, Indian Journal of
Principles and Practice of Management" a study carried out by E.F.L. Brech' in 1952 discussed about the various aspects of management. The book has been divided into four parts. The author dealt with the basic concept of management. The first part deals with the Distribution. The study of Distribution is immediately concerned with those aspects, hence its pride of place among the four divisions of management studied. The second part is devoted to the production. Finally the activities of control, which can be briefly summarized as the means of assessing management's performance and achievement is studied in part four.

Dr. (Miss) Sudha Nigam' in her book entitled “Performance Efficiency” in 1989, deals with one of the problem areas of an enterprise. The subject matter in each chapter has been presented in a very lucid style. The present work has been undertaken to examine the functioning of air-corporations in India, which are service oriented. The study speaks about the evaluation of the financial and operational health of two air-corporations, namely Indian Airlines and Air-India.

The author has thrown ample light on the various techniques adopted. The current theories of financial management have been discussed and subsequently an attempt has been made to bring their relevance and their bearing on the original data of the corporations under study. The study has been divided into eight chapters. The first chapter deals with the ‘Introduction’ of the study. The second chapter is devoted to ‘A Profile of Air-Corporations of India’. The third chapter deals with the ‘Financial Strength & Capital Structure’. The forth chapter deals with the ‘Fixed Assets Analysis’. The fifth chapter is

concerned with the 'Working Capital Analysis'. The sixth chapter clarifies 'Profits Analysis'. The seventh chapter deals with 'Operational Efficiency Analysis', and the last chapter devoted to 'Summary of Findings and Suggestion'.

SCOPE OF THE STUDY:

Charoan Pokphand Feedmill Co. Ltd., Thailand, is having three businesses comprising Agro-Industry business, Aquaculture business and also having four Subsidiaries and twelve Joint Ventures in the Investment sector. The scope of the study covers the financial and operational performance of these businesses. The period covered under the study extends over 10 years from 1989-1998.

OBJECTIVES OF THE STUDY:

The main objectives of the study are as follows:

1. To review the concept of performance appraisal of the organization: its methods and practices.

2. To review the structure and scope of service in Charoan Pokphand Feedmill Co. Ltd., Thailand.

3. To review the performance appraisal of financial and operational sections of the organization.

4. To examine the performance and progress of Charoan Pokphand Feedmill Co. Ltd., Thailand.

5. To examine the performance appraisal of Charoan Pokphand Feedmill Co. Ltd., Thailand.

1 Nigam, Sudhs, "Financial Efficiency", Printwell Publisher, India, Jaipur, 1989
HYPOTHESIS:

The selection of the topic is made with a view to evaluate and appraise the financial and operational performance of the Charoan Pokphand Feedmill Co. Ltd. in Thailand and measuring the efficiency and effectiveness of the company performance in various business areas of operations. The progress of Charoan Pokphand Feedmill Co. Ltd., in Thailand, ultimately depends upon the development of their production.

METHODOLOGY:

In the present study, the researcher mainly relied on the primary and secondary data. The primary data has been gathered through questionnaires, interviews, and discussions with the officers of the Commission. The secondary data relating to the production and financial performance of Charoan Pokphand Feedmill Co. Ltd., Thailand, under study, has been collected from the published Annual Reports and Accounts of the respective companies for the years 1989 to 1998, which were obtained directly from the registered offices of the respective concerns. Financial statistics and operational data along with other information have been collected from various journals, periodicals and newspapers, such as, The Chartered Accountant, The Economic Times, The Financial Express, The Business India, etc. Books and various publications of financial institutions have also been used in the study.

All the financial data related to the study has been rounded off in Baht. Balance sheets and profit and loss accounts have been re-arranged in a format suitable for the analysis. With the help of the data contained in the financial statements, various statements have been prepared and ratios calculated. All the statements and ratios have been interpreted and conclusions have been drawn. In support of the conclusions.
various findings have been made through the use of statistical techniques. With the help of the conclusions drawn, suitable, significant and useful suggestions have been made to improve the performance of the company.

SCHEME OF THE CHAPTERISATION:

Keeping in view the objectives of the study, the present work has been divided into five chapters. Given below are the basic contents of the various chapters in a nutshell.

The first chapter deals with the introduction, review of literature, objectives of the study, hypothesis of the study research methodology etc.

The second chapter is devoted to review the concept of performance appraisal of the firm and its methods and practices.

The third chapter concerns with the structure and scope of service, etc. of Charoan Pokphand Feedmill Co., Ltd., Thailand.

The fourth chapter technically analyzes the appraisal of financial performance along with the trends analysis, fund flow analysis and balance sheet changes, etc.

The fifth chapter summarizes and concludes the findings of the study.

LIMITATIONS OF THE PRESENT STUDY:

The data used in the present study have been primarily collected from published financial statements of Charoan Pokphand Co., Ltd in Thailand for the years from 1989-1998. The data has also been collected from various publications. However, the company was reluctant to provide information on the cost per unit and detailed
information on various items as provided in a summarized form in Annual Reports. The company also refused to provide information on various budgets, management policy, and standards fixed by them. In spite of the above constraints, statistical and quantitative techniques, wherever possible, have been used so as to arrive at objective conclusions.