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DEPARTMENT OF MANAGEMENT**

**A RESEARCH ON THE TOPIC:
THE IMPACT OF NGO'S IMPORTED EDIBLE OIL
ON THE PERFORMANCE OF ADAMA EDIBLE
OIL FACTORY**

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Abstract

Much has been said about the impact of imported goods on the performance of domestic industries particularly in developing nations. And the need to protect these industries to survive and grow the economy.

A study was made in Adama edible oil factory, which is found in Nazreth. It sought to determine whether the performance of this factory is affected by NGOs imported edible oil and whether the factory market problem is caused by the above problem. To measure the factory performance different performance indicator analysis such as profitability, debt, liquidity, activity and sales was made.

To this end the study compared the performance indicators for the three years before NGOs entrance and three years after entrance in to the market.

The study resulted that the performance of the factory is affected by NGOs imported and sold edible oil.

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1. Chapter one

1. Introduction

1.1 Background of the study

Since Ethiopia is an agrarian country, it might not be blessed with many industries both light and heavy. However there are industries, which are doing well, and others, which are not in good position. Since the introduction of the market economy in the country however there are some industries that exploited the opportunity and make applaudable gains while lot of them failed to make them competent in the market. One thing that we should not deny is that we are not competent enough in the industry sector. Among the many problems lack of modern technology, skilled manpower, inadequate infrastructure development, low levels of finance and bank provisions are the main factors contributing to the problem. Moreover since our production cost is high the price also high.

Many nations exert substantial restraints on international marketers through import controls. This is particularly of countries that suffer from a major balance of trade deficit or major infrastructure problems. In these countries ether all imports or the imports of a particular product are controlled through mechanisms such as tariffs voluntary restraint agreement or quota system on occasion, counters cut off imported of certain product entirely in order to stimulate the development of a domestic e industry

Currently there are plenty of products with best quality and fair price imported in to Ethiopia and one of these product is edible oils of which most are imported by NGOs. These imported edible oil products are sold at the market at reasonable price to acquire funds for development activities, which is

being performed by NGOs in the country. They have a legal certificate to import and sell in the market. But after NGOs entrance in to the market the domestic oil producers could not be competent with them so that some of oil producing industries have closed and the rest are on the verge of collapse. one of the oil producers facing a problem is Adama Edible Oil fFactory . It is one of the biggest oil producer in the country and established in 1967. It is a government owned factory and has 113 employees currently. A study made by minister of trade and industry has shown that in the past three years (1990-1992 E.C.) domestic oil producer only produce 26 thousand tons from their capacity of 60 thousand tons. This shows that they were producing under their capacity because of different problems that face the industry.

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1.2 Statement of the problem

NGOs are playing an active role in the country socio-economic development initiatives and poverty reduction efforts. They are participating in the efforts of capacity building as well as rural infrastructure development activities. Those local and international NGOs supported by USAid together have established project called Ethiopians monetization concertim. Care Ethiopia functions as coordinator of the project. These NGOs are performing their activity by design and implementing developmental projects in different parts of the country. After the acceptance of the new project by the regional government, it is sent to Federal Disaster Prevention and Preparedness Commission to get further approval. The project is implemented by the support of US aid which is given in kind. NGOs through monetization get edible oil and they sell it in the market to get the required fund to implement developmental projects.

Both private and government owned local oil producers have been complaining about NGOs selling of oil at low price in the market. Domestic producer could not supply all of the oil demand but the amount of NGOs supply makes the supply more than the demand. This is because NGOs use 60 million Ethiopian population in the study made to identify the total demand in the market. But as we know all the Ethiopian people are not users of edible oil. Those live in the urban area and produce cash crop are only use the product. Even though NGOs oil has high quality the selling prices are below what are stated in the study. The selling price of NGOs is less than the cost of production in the country. The price as well as the quality of the product makes NGOs oil acceptable in the market.

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1.3 Objective of the study

The main constraints to industries in Ethiopia and what explains the poor performance of the sector are less acceptance in the market, in ability to compete with cheapest imports shortage of capital and unfair completion are among the main problems of the sector. These problems need serious and quick attention if the industry is to improve and domestic investors to play the role they are expected in developing the national economy.

Adama Oil Factory is one of those factories industries which is affected by the above mentioned problems.

The objectives of this study are:

1. To determine that Adama Oil Factor's performance is affected by NGOs imported edible oil.
2. To determine whether Adama oil factory market problem is truly caused by NGOs imported edible oil.
3. To analyze to what extent the organization performance is affected, by NGO's imported oil that is rate of decline in profit, sales, production etc.

To achieve the above mentioned objectives different performance indicator analysis such as profitability, debt, liquidity, activity and sales was made.

1.4 Significance of the study

Edible oil industry is one of the early started industries in Ethiopia. It was found in good position when we compare with the others. Adama edible oil factory is one of the modern factories, which produce oil in the country. The reason Adama oil factory selected to this study, are because it has relatively modern technology and produce supply quality product in the market.

Identifying this factory current problems and finding a solution for profitability and development is very essential because:

- It incorporates the life of farmers in addition to its existing employees. This is because the raw material that is used by the factory produced and supplied by the farmers.
- It saves foreign currency. Since it uses local raw materials for production it saves the currency, which is used to import finished oil products.
- It generates foreign exchange

The study was made to identify the causes of market problem and to what extent the organization performance is affected by NGOs, imported oils.

CHAPTER TWO

Literature review

Governments have become very creative in designing and implementing import restrictions. One typical method consist of “voluntary” import restraints that are applied selectively against trading partners such measure have been used mainly in areas such as textiles, automobiles and steel in the U.S.A.. Voluntary restriction, which are of course, implemented with the assistant of severe threats against trading partner are intended to aid domestic industries to reorganize, restructured and re capture their trade prominence of years past.

If countries don't use the subtle mechanism of voluntary agreements, they often resort to tariffs and quotas. A tariff is a tax on products imported from other countries. The tax may be levied on the quantity or on the value of the imports goods. Governments may have two purposes in imposing tariffs: They may wish to earn revenue and/or make foreign goods more expensive in order to protect national producers. Today, however, the protective purpose generally prevails. One could argue that with a tariff, a country penalizes its consumers by making them pay higher price on imported goods. The rationale is that a national policy that is too liberal with imports may hurt employment in that countries own industries (Terpstra & sarathy 1997) For example, Japans heavy motorcycles imported in to the United States were assessed a duty of 49.4 percent. This regulation kept the last US producers of motorcycle the Harley -Davidson Company, in business. Quantitative restrictions or quotas are barriers to imports. They set absolute limits on the amount of goods that may enter the country. An import quota can be amore serious restriction than a tariff because the firm has less flexibility in responding to it. The government's

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1990/1/10

goal in establishing quotas on imports is obviously not revenue. Its goal is rather the conservation of scarce foreign exchange and/or the protection of local production in the product lines affected. Quotas have been proposed on imports of tuna fish packed in water because US producers have complained that Japanese processors are taking away their market share in this field. Even if, from a historical perspective, it was us processors who encouraged Japanese concentration in water packed tuna by preventing them in the early 1970's from entering the US market with tuna fish packed in oil.

More appropriately a limited number of carefully designed import duties could be justified to provide temporary protection to domestic industries that the government wishes to encourage. In Tanzania, protection is provided by both tariff and non-tariff barriers. Until the early 1970' tariffs were more prominent in determine the protection structure. However, with the emerging shortage of foreign exchange in the late 1970's and early 1080's quota restriction become more prominent. In Tanzania with the introduction of trade liberalization measure in early 1984, and especially through the introduction of "own funds" imports and imports through retained export earning, quota restrictions have been eased and tariffs now have a bigger role to play(Lyalurwa,1981).

The third major method by which import has been restricted is through non tariff barriers. Typically, these barrier are much more subtle than tariffs. Compared with tariffs or even subsidies, which are visible and at least force products to compete for market acceptance on dimensions other than price. Some non-tariff barriers are much more difficult to detect, prove and quantify. Non tariff barriers are more extensive in Africa than in any other regions (Nusha,1990). These barriers may be government or private sector "buy domestic" campaign, affect imports. Other non tariff barriers consists of using

national standards that are not comparable to international standards, providing general difficulties in the market entry of foreign products most famous in this regard are probably the measure implemented by France to stop or at least to reduce the importation of foreign video recorders, France ruled in 1983 that all of them had to be sent through the custom station at Poitiers. This customhouse is located in the middle of the country, was woefully under staffed and was open only a few days each week. In addition, the few customs agents at Poitiers insisted on opening each package separately in order to inspect the merchandise. Within a few weeks, imports of video recorder in France came to halt.

CHAPTER THREE

Methodology

3.1 Data and data collection

The research relied primarily on the analysis of secondary data contained in the annual reports. The annual reports covered sixes year from the period 1987 to 1992 E.C. Because NGOs imported oil highly started entering in to the market in the year 1990 E.C

Comparison of the performance of the factory for the three years before and three years after the NGOs entrance in the market could be made.

The data was collected from finance and marketing department of Adama edible oil factory through structured interview.

3.2 Methods

Using ratio analysis method calculating and interpreting financial ratios to assess the factory performance was made. The basic data to ratio analysis are the factory income statement and balance sheet.

Performance indicators are

- Profitability
- Liquidity
- Debt
- Activity
- Sales

3.3 Data analysis

1. **Profitability**:- These measures allow the analyst to evaluate the firms earning with respect to a given level of sales, a certain level of asset, the owners investment or share value. Gross pr

- **Gross profit margin (GPM)** – measures the percentage of each sales dollar remaining after the firms have paid for its goods. The higher the GPM the better and the lower the relative cost of merchandise sold.

$$\text{GPM} = \frac{\text{sales} - \text{cost of goods sold}}{\text{sales}}$$

- **Net profit margin (NPM)** –measure the percentage of each sales dollar remaining after all costs and expenses, including interest and tax have been deducted. the higher the NPM , the better.

$$\text{NPM} = \frac{\text{net profit after tax}}{\text{sales}}$$

- **Return on investment (ROI)** – measure the over all effectiveness of the management

In generating profits with its available assets.

$$\text{ROA} = \frac{\text{net profit after tax}}{\text{total assets}}$$

The higher ROA the better.

2. **Analyzing liquidity**

The liquidity of a business firm is measured by its ability to satisfy its short term Obligations as they come due.

The .two basic measures are;

- **Current ratio** – measure the firm's ability to meet its short-term obligations. It is

Expressed as follows:

Current ratio = current assets/ current liability

The higher the value is desirable.

- **Quick (acid –test) ratio** - is similar to the current ratio except that it excludes inventory that is generally the least liquid current assets.

Quick ratio=current asset- inventory/current liability

The higher their value, the more liquid the firm is typically considered to be.

3. Analyzing debt

The debt position of a firm indicates the amount of other people's money being used in attempting to generate profits.

Measure of debt- the degree of indebtedness measures the amount of debt relative to other significant balance sheet amounts. Two of the most common used are:

- **Debt ratio (DR)**-measure the proportion of total asset financed by the firms creditors. The higher this ratio the greater the amount of other people money being used in attempt to generate profits. Therefore low ratio amount is desirable.

DR=total liability/total assets

Debt equity ratio(DER) -indicate the relationship between the long term fund provided by creditors and those provided by the firms owners.

DER= $\frac{\text{long term debt}}{\text{stock holders equity}}$

4. Analyzing activity

Activity ratios are used to measure the speed with which various accounts are

Converted in to sales or cash.

- **Fixed assets turnover (FAT)** measures the efficiency with which the firms has been

Using its fixed asset to generate sale.

$FAT = \text{sales} / \text{net fixed asset}$

Generally, the higher fixed asset turnover is preferred.

- **Total asset turn over** – indicate the efficiency with which the firm uses its entire asset to generate sales. It also indicate the firm's operations have been financially efficient. High value desirable

- Total asset turn over = $\text{sales} / \text{total asset}$

- **Inventory turn over (ITO)** measures the activity or liquidity of a firm's inventory high

rate desirable, it is calculated as follows

$ITO = \text{cost of good sold} / \text{inventory}$

At the end, the above mentioned performance indicators was compared for the three years before NGOs entrance and the three years after entrance in to the market.

3.4 Scopes and Limitation of the Study

3.4.1 Scope of the study

Oil industry is one of the local industries, which faces major problems. The cause for the problems is shortage of raw materials, Shortage of working capital; low quality, low level of finance and bank provision can be mentioned. But the main problem, which explained by the oil industry, is lack of acceptance in the market. The market problem is started when NGO's start

selling edible oil in the market in order to get the fund required to perform developmental projects.

Adama oil factory is one of those oil factories, which faces a problem. So the study has focused particularly on the impact of NGO's imported oil in the performance of Adama edible oil factory.

3.4.2 Limitation of the study

- ❖ Inflation has badly distorted firms' balance sheets – recorded values are historical and are often substantially different from “ true” value further, because inflation affects both depreciation charges and inventory costs profits are also affected. Therefore a ratio analysis must be interpreted with judgment.
- ❖ The study does not consider the impact of illegal and legal imported edible oils
- ❖ The shortages of raw materials and working capital in the factory are not considered in the study.

CHAPTER FOUR

RESULT AND DISCUSSION

1 Profitability ratio

➤ Gross profit margin (GPM)

The GPM ratio was 18.6% in 1987; it increased 21.8% in 1988. It decreased a little to 21.4% in 1989. The GPM average before NGO's entrance was 20.6% GPM was 14.6% in 1990, it decreased to 13.3.1 in 1991. It became -3.5% in 1992.

The average GPM decreased on average from 20.6% before NGO's entrance to 8.1% after NGO's entrance. The reason for the decrease was the falling of the sales price of oil in the market. GPM was negative in 1992 because the factor sold its product below cost of production. Even if the cost of production was Birr 7.60 per little the factory sold its Product by Birr 6 only. The cost of good sold also increased 12.1% after NGO's entrance in the market.

➤ Net Profit Margin (NPM)

Adama oil factory profitability based on NPM ratio was 6.9% in 1987, but it fell to 6.7% in 1988. The NPM ratio rose to 7.3% in 1989. The NPM average before NGO's entrance was 6.9%.

NPM was 3.5% in 1990. It declined to 1.6% in 1999 and become 0% in 1992.

The NPM average after NGO's entrance was 1.7%

In general, as measured by NPM, profitability decreased on average from 6.9% before NGO's entrance to 1.7% after NGO's entrance in the mkt.

NGO's oil started entering the market in 1990 E.C.

The fall in the NPM after NGO's entrance was attributable to a high decrease in the income of the factory. Income decreased on average 76.8% after NGO's entrance but operating expense decreased only 7.7%

Return on investment (ROI)

The ROI ratio was 11.2% in 1987; it increased to 12.9% in 1988. It further increased to 17.3% in 1989. The average of ROI before NGO's entrance was 13.8%

ROI was 6.6% in 1990. It decreased to 4.5% and became 0% in 1992. The average ROI after NGO's entrance was 3.7%

In general ROI decreased on average from 13.8% before NGO's entrance to 3.7% after NGO's entrance. This trend showed that management's capacity in using the assets of the factory to earn a return was lower after NGO's entrance. The reason for the decline of ROI was the decrease of the selling price of oil in the Market. Most of the time they were selling their product below the cost of the production.

The profitability indicators of Adama oil factory are shown in Fig 1.

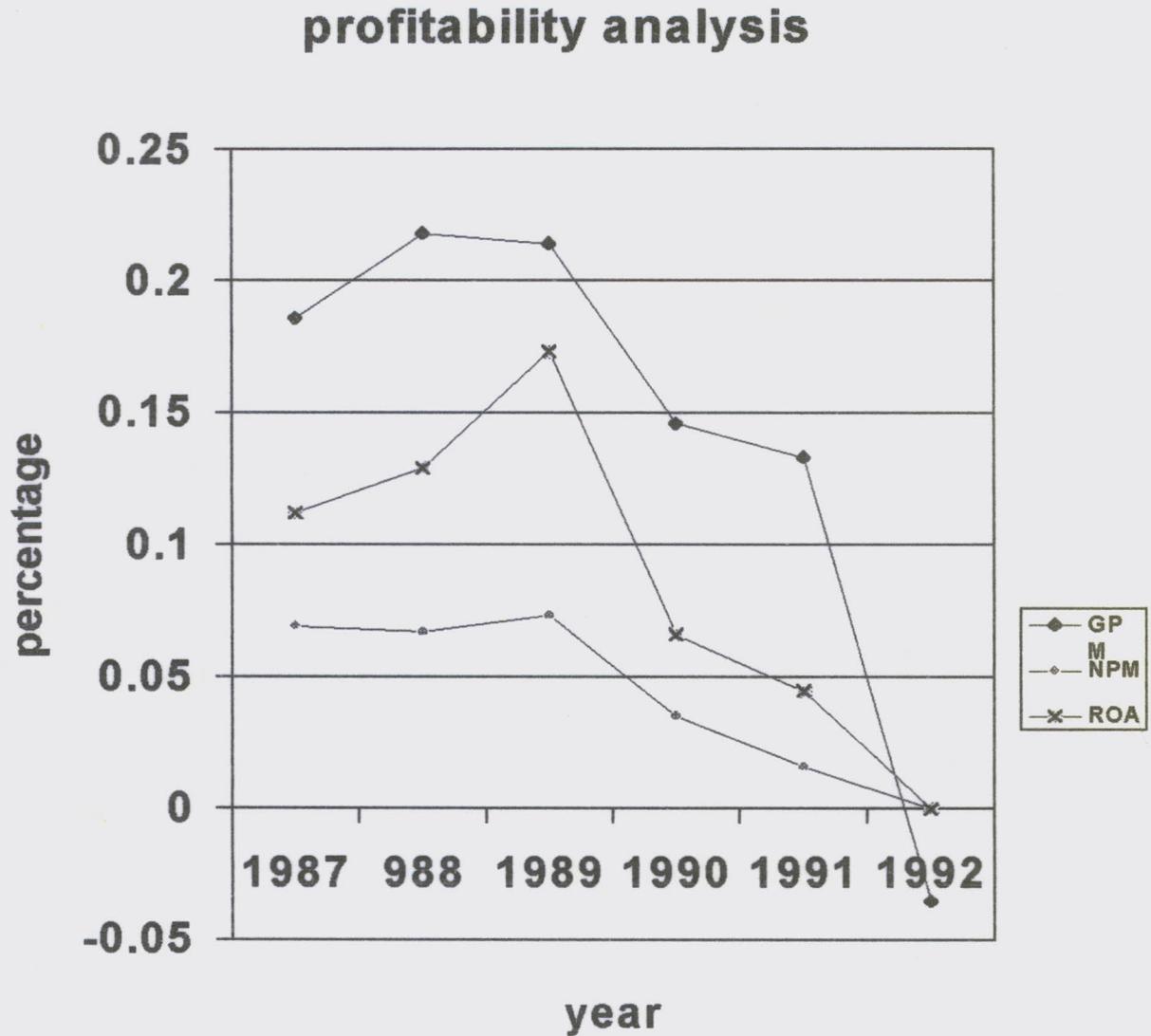


fig.1

2. Liquidity ratio

➤ - **Current ratio (CR)** In 1987, the current ratio was 0.41 times. The ratio dropped in to subsequent two years to 0.31 times in 1988 and to 0.25 times in 1989. The average CR before NGO's entrance was 0.32 times.

In 1990 it rose to 0.35 times before dropping even further to 0.23 times in 1991. It rose to 0.36 times in 1992. The CR average after NGO's entrance was 0.31 times.

In general the CR of Adama oil factory has decreased little on average from 0.32 times to 0.31. the reason for the decrease of CR was the factory current liability increased more than current asset in 1991.

➤ **Quick ratio (QR)**

In 1987 the QR was 0.05 times, however, it fell to 0.02 times in 1988. In 1989 the QR rose to 0.04 times. The average before NGO's entrance was 0.04.

QR was 0.07 times in 1990. It decreased to 0.02 times in 1991. It rose to 0.12 times in 1992. the average after NGO's entrance was 0.07 times.

In general the CR increased on average from 0.04 times before NGO's entrance to 0.07 after NGO's entrance. The QR was good. This means that if Account receivable can be collected, the factory ability to pay of its current liability without having to liquidate its inventory has increased.

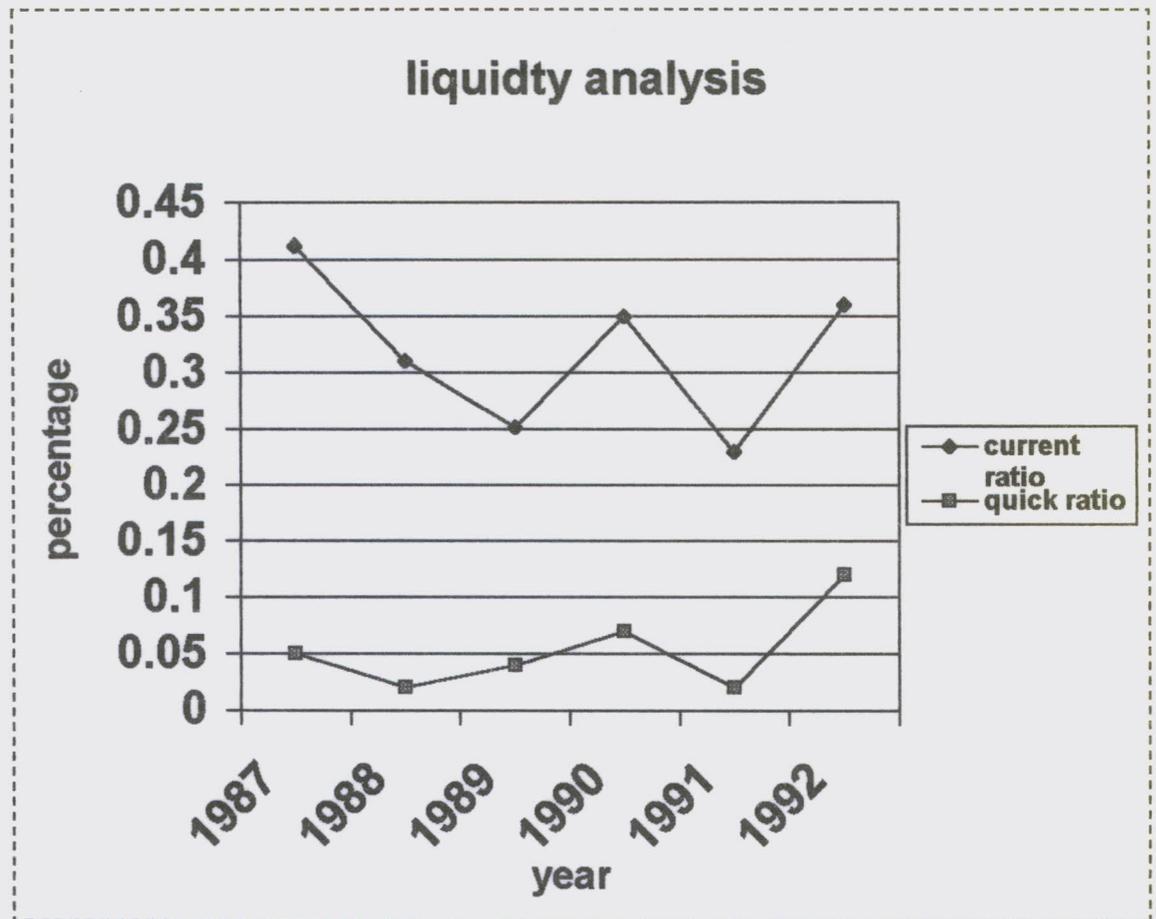


fig 2

The liquidity analysis for Adama oil factory is shown in fig. 2

fig.2

Analyzing Debt

➤ Debt ratio (DR)

In 1987, the DR was 113.1% It increased for two subsequent years to 132.9% in 1988 and 154.3% in 1989. the average DR before NGO's entrance was 133.4%. DR was 127.1% in 1990. It rose for two subsequent years to 137.5% in 1991 and to 152.2% in 1992 .

In general the DR increased on average from 133.4% before NGO's entrance to 139% after NGO's entrance. The increase in debt ratio shows that creditors supply of finance has increased after NGO's entrance creditors might be reluctant to lend the factory more money and the management would be subjecting the factory to a greater chance of bankruptcy.

The Debt Analysis of Adama edible oil factory is shown in fig.3

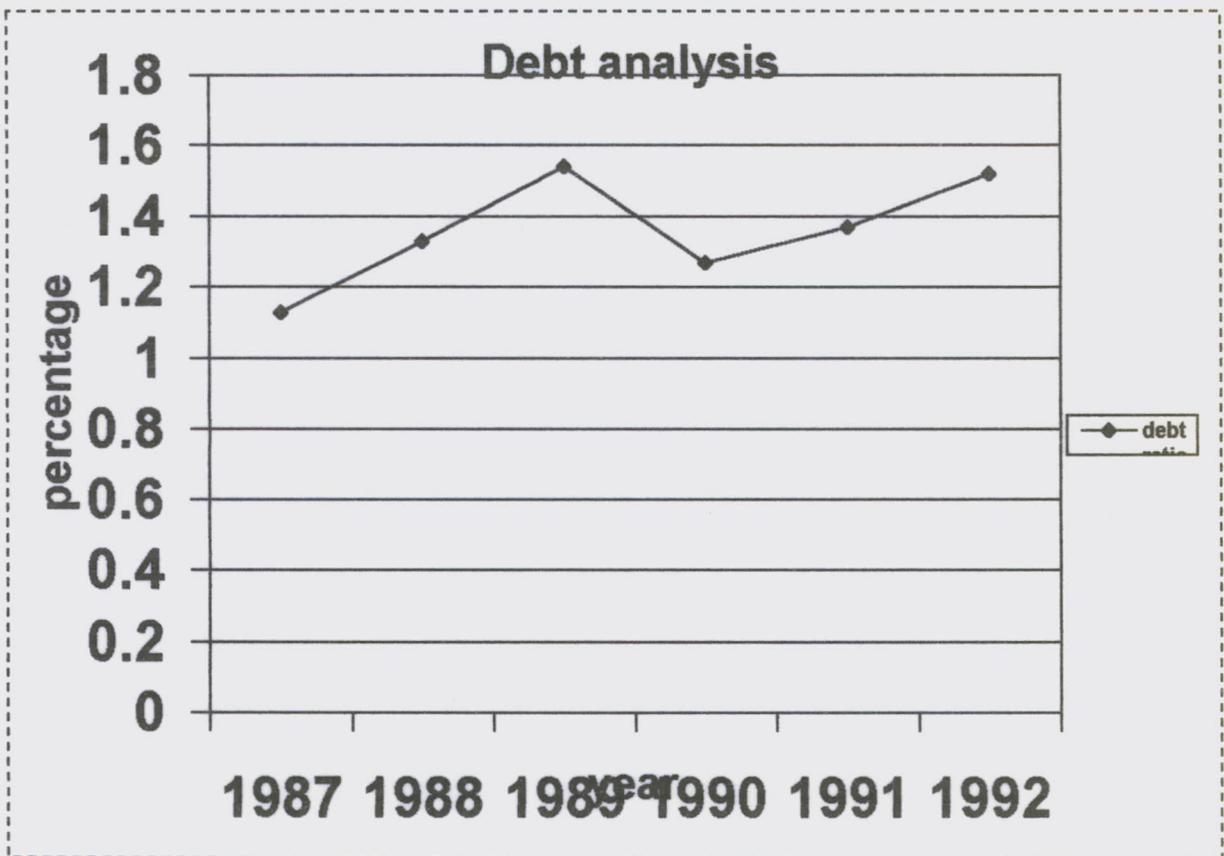


fig.3

4. Activity ratio

➤ Fixed asset turn over (FAT)

FAT was 3.03 times in 1987. It rose in the subsequent two years to 3.31 times in

1988 and 3.76 times in 1989. the average FAT before NGO's entrance was 3.36 times. It was 2.95 times in 1990. It rose in the subsequent two years to 3.17 times in 1991 and to 3.73 times in 1992. the average FAT after NGO's entrance was 3.28 times. In general FAT decreased on average from 3.36 times before NGO's entrance to 3.28 times after NGO's entrance in the market.

The reason for the decrease of FAT was because the factory was unable to use its fixed assets about as intensively (efficiently) as before NGO's entrance because of decrease in sales volume.

➤ **Total Asset Turn Over (TATO)**

In 1987, TATO was 1.62 times. It rose in two subsequent years to 1.97 times in 1988 and to 2.29 times in 1989. The average TATO before NGO's entrance was 1.95times.

It was 1.56 times in 1990. It rose to 2.15 times in 1991 but decrease to 1.63 times in 1992. The average TATO after NGO's entrance was 1.78 times. In general, TATO has decreased on average from 1.95 before NGO's entrance to 1.78 times after NGO's entrance. This indicates that the factory could not generate a sufficient volume of business (sales) given its investment in total asset after NGO's entrance in the mkt.

➤ **Inventory turn over (ITO)**

In 1987 ITO was 3.18 times. It rose in the subsequent two years to 3.97 times in 1988 and to 5.57 times in 1989. The average ITO before NGO's entrance was 4.24. It was 3.54 times in 1990. It rose to 6.49 times in 1991 but it decreased to 4.49 times in 1992. the average ITO after NGO's entrance was 7.84 times. In general ITO increased on average from 4.24 times before NGO's entrance to 4.84 times after NGO's entrance. The ITO is good because it suggests that the factory has decreased stocks of inventory which is unproductive and represent an investment with a zero rate of return. The main

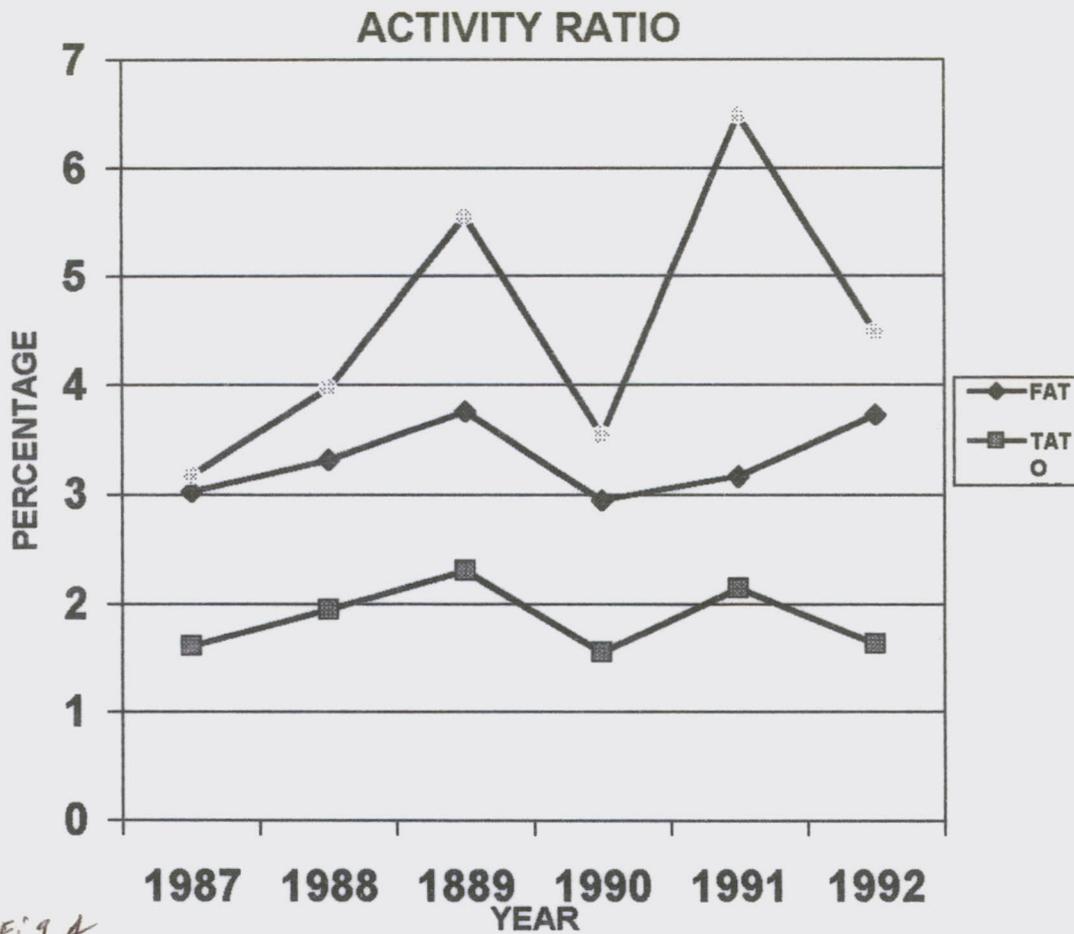


Fig 4

reason for the increase of ITO was the management effort to sell product by considering the prevailing price in the market.

Activity analysis for Adama oil factory is shown in fig 4

fig.4

5. Sales analysis

Sales decreased on average from 10,173,727 before NGO's entrance to 9,845,716 after NGO's entrance in to the market. The decrease in sales reflected the decrease out put of the factory. The reason for the decrease was the decrease of selling price and quantity of the product sold.

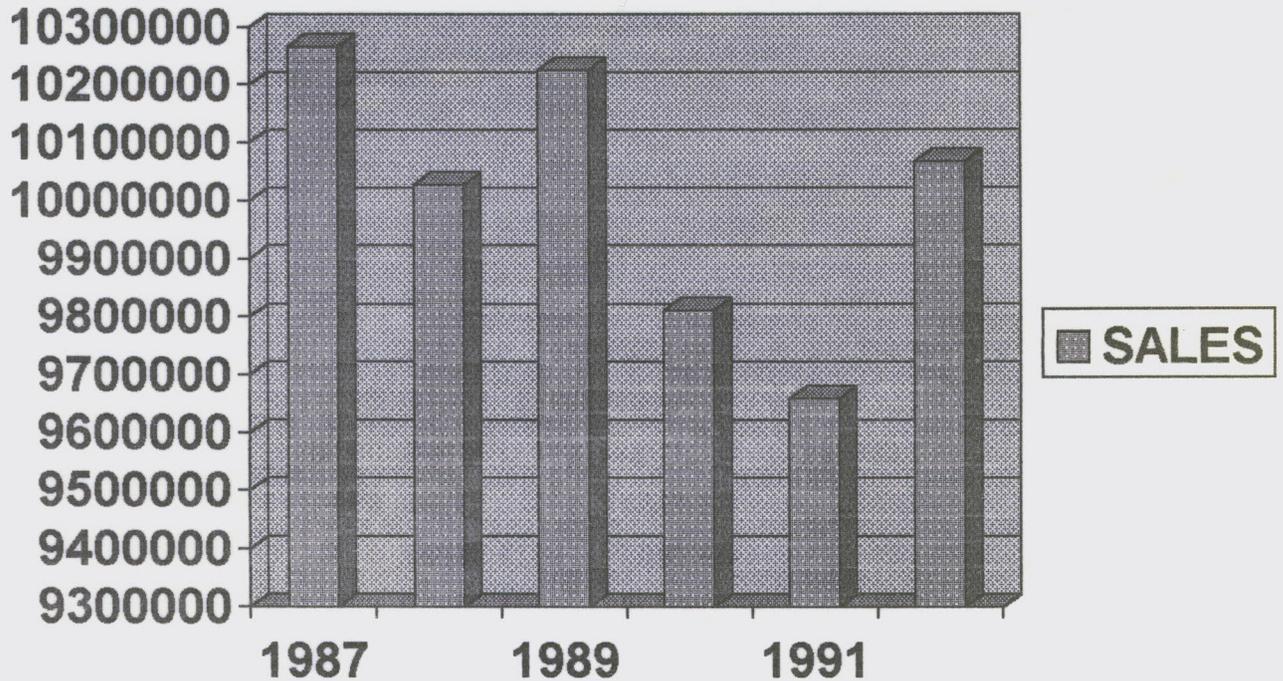
Table -1 the sales of Adama oil factory before NGO's entrance

Year	1987	1988	1989	Average
Sales	10,267,296	10,027,471	10,226,415	10,173,727

Table - 2 The sales of Adama oil factory after NGO's entrance

Year	1990	1991	1992	Average
Sales	9,811,586	9,659,197	10,066,364	9,845,716

Sales analysis



CHAPTER FIVE

Conclusion and Recommendation

The study sought to determine whether Adama Oil Factory performance is affected by NGO's imported and sold edible oil and whether the factory market problem is caused by the above problem. The major premise of the study are Adama oil factory performance is affected by NGO's imported edible oil. The main conclusions of the study are as follows.

1. Profitability

Profitability is net result of a number of policies and decisions. The ratio examined thus far provide some information about the way the firm is operating, but the profitability ratio shows the combined effects of liquidity, asset management and debt management on operating results.

Adama oil factory profitability analysis revealed that the factory operating results have suffered after NGO's entrance in the market due to its poor asset management and increased debt.

2. Liquidity

A firm's liquidity position deal with the question of how well the firm is able to meet its current obligations. Converting assets, especially current assets such as inventory and receivables, to cash is the primary means by which a firm obtains the funds to pay its current bills.

Adama oil factory liquidity analysis reveled that the liquidity position was found in a good position after NGO's entrance. This was because the

management effort to decrease inventories in the factory.

3. Debt

Debt ratio measures the percentage of the firm's assets financed by creditors. Creditors prefer low debt ratio because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation.

Adama oil factory debt analysis indicated that the factory debt ratio increased after NGO's entrance in the market. This indicates that the factory might have greater difficulty borrowing additional funds until its debt position improves.

4. Activity

It measured how effectively the firm is managing its assets. Adama oil factory activity analysis indicated that the factory activity ratio have decreased after NGO's entrance. It suggested that the factory is not generating a sufficient volume of business given its investment in total asset. It also indicated that the factory was not using its fixed assets intensively. From the activity ratio only inventory turn over was found in a good position. This suggested that factory was not holding excessive stocks of inventory.

To sum up, the ratio analysis indicated that the factory performance is affected by NGO's imported edible oil.

The sales analysis of Adama edible oil factory has shown that sales decreased on average from 10,173,727 before NGO's entrance to 9,845,716 after NGO's entrance in to the market. There for we can conclude that the factory market problem is caused by NGO's imported edible oil.

Recommendations

The following recommendations are given to solve the problem of the factory.

1. Privatization

Privatization is the process of introducing in to the public sector conditions that typify the private sector (swannD, 1988). It involves the sale of government corporate assets other government industrial assets, local authority house and government owned land to the general public. .

privatization of Adama edible oil factory may have the following advantages:-

- ❖ As the factory move from public to private ownership, its profitability might increases.

In response to share holder's wish to maximize profits, the mangers of factory expected to place greater emphasis on profit goals. And privatization typically transfers both control rights and cash flow rights to the mangers, who then show a greater interest in profits and efficiency then in pleasing the government with higher out put or employment.

- ❖ The greater emphasis on profit and the cuts in government subsidies following privatization can be expected to lead the factory to use their human, financial, technological resources more efficiently.
- ❖ The greater emphasis on efficiency might lead newly privatized firms to increase their capital investment spending. privatized firms are also expected to increase their capital expenditures because they have greater access to private debt & equity markets and more incentives to invest.
- ❖ The switch from public to private ownership can be expected to lead to

reduced leverage, size, the government removal of debt guarantees will increase firms' cost of borrowing and the firms will gain increased access to public equity markets.

Divided payment increase, since private investors, unlike government demand divides. Therefore privatization may alleviate the current problems of the factory such as low profitability, efficiency, high leverage and technological problems.

2. Government Intervention

Because domestic oil producers could not supply all of the market demand and the benefits of NGO's activity in the country, hindering NGO's from selling edible oil is not advisable.

In order to protect local oil industries the government must take measures

Such as:-

Price control – The government must control the selling price of NGO's oil. The selling price should be at least nearest to the price of domestic oil producers. The government can use counter vailing duty which use to raise the price of the cheapest import to the price of the nearest domestic competitor by adding the necessary tax to the import and Anti- dumping duties which is the penalty duties on goods that have been declared in violation of anti-dumping laws.

Quotas control- Quantitative restrictions, or quotas are barriers to imports. They set absolute limits on the amount of goods that may enter the country. Domestic oil producers could not supply all of the oil demand in the market but the amount of NGO's supply makes the supply more than the demand. Therefore the government by applying quotes must control the import of edible oil in order to balance the supply and the demand. NGO's should be allowed to import only the amount of demand that could not supplied by local oil industry.

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7 Appendix

Questions interviewed

1. What are the products of the factory?
2. How is the quality of the products?
3. Who are the major customers?
4. Do you see advertisement to introduce and sell your product?

Yes _____ No _____

If yes, to what extent ?

5. Have you tried to improve the quality of the products?

6. Do you use sales promotion?

If yes, what are they?

7. Is there any effort to develop a new product?

8. Did you decrease selling price after NGOs entrance in the market?

Yes _____ No _____

If no, what was the reason?

9. Is there a decline in sales volume?

If yes, what are the reasons?

10. Who are the major competitors in the market?

11. What are the strengths of your competitors?



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