Corporate Failures & Bankruptcies in Ghana*
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*connectedthinking
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Section one

Overview
Recent Corporate Failures in Ghana

<table>
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<tr>
<th>Company</th>
<th>Date</th>
<th>Status</th>
<th>Asset Base ($m)</th>
<th>Creditor Base ($m)</th>
<th>Staff Count</th>
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<td>Bank for Housing &amp; Construction Ltd</td>
<td>2000</td>
<td>Official Liquidation</td>
<td>12</td>
<td>16</td>
<td>1,000</td>
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<tr>
<td>Ghana Cooperative Bank Ltd</td>
<td>2000</td>
<td>Official Liquidation</td>
<td>2</td>
<td>7</td>
<td>400</td>
</tr>
<tr>
<td>Divine Sea Foods Limited</td>
<td>2003</td>
<td>Receivership</td>
<td>0.8</td>
<td>Over 1.5</td>
<td>10</td>
</tr>
<tr>
<td>Bonte Gold Mines Ltd</td>
<td>2004</td>
<td>Official Liquidation</td>
<td>1.2</td>
<td>20</td>
<td>350</td>
</tr>
<tr>
<td>Juapong Textiles Ltd</td>
<td>2005</td>
<td>Private Liquidation</td>
<td>12</td>
<td>24</td>
<td>400</td>
</tr>
<tr>
<td>Ghana Airways Limited</td>
<td>2005</td>
<td>Official Liquidation</td>
<td>25</td>
<td>Over 200</td>
<td>1,400</td>
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The Corporate Life Cycle

Maturity

Demise Curve

Turnaround / Exit

Liquidation

Rapid Growth

Lost Control - receiver manager

Lost the Business - liquidation, optimised exits + DA&I

In Trouble but In Control - restructuring, biz regeneration,

In Trouble, Not Aware - IBR, DA&I

M/A Activity - due diligence, valuations,

Going Public - privatisation advice, valuations, lead financial advisor (PwC)

Idea - fundraising, due diligence
What is corporate failure-the corporate demise curve®

- Comfort
- Concern
- Crisis
- The Control Watershed®
- Catastrophe?

- In Trouble, Not Aware
- In Trouble, But In Control
- Lost Control
- Lost the Business
Section two

Causes of Corporate Decline
Causes of corporate decline - Stuart Slatter

**Internal factors**
- Inadequate management
- Organisational inertia and confusion
- Lack of financial control
- Poor working capital management
- Relatively high cost structure
- Big projects/acquisitions
- Lack of marketing effort
- Inappropriate financial policies
- Overtrading

**External factors**
- Strong competition
- Changes in market demand
- Adverse movements in external costs

*Usually more than one cause!*
Internal Factors
Inadequate management

One-person/autocratic rule
Combined chairman and chief executive
Unbalanced/ineffective management team
• missing knowledge/skills/attributes
• gaps/overlaps in roles
• unbalanced board (e.g. all accountants)
• non executive directors do not contribute
• lack of communication/in-fighting

Ineffective/incompetent managers
Inability to think strategically
Neglect of core business
Lack of management in depth
Inadequate management cont...

Corruption

Lack of control

Aptitude (and attitude)

Personal interests

Poor planning

No drive

No corporate policing

MANAGEMENT
Organisational inertia and confusion

No strategic direction

Inability to make decisions

Inability to implement change

Poorly defined accountabilities
Lack of financial control

- Poor management accounts
- Poorly designed systems, inadequate information
- Poorly used information
- Control hindered by organisation structure
- Inadequate costing systems
- Product costing distorted by overhead allocation/internal profits
- Unreliable forecasts
Poor working capital management

Working capital/cash management
Often linked with poor financial control
Understanding of cash consequences of business decisions
Increasing working capital (stocks plus debtors less creditors)
Impact of seasonal trading
Relatively high cost structure

Relative cost disadvantages (scale economies)
Competitor control over key supplies
Access to cheaper labour
Impact of management style/organisation structure
Operating inefficiencies
Unfavourable Government policies
Poor product design
Poor purchasing efficiency
Excessive product range
Big (one-off capital & revenue) projects

Capital requirements underestimated
Start up delays and problems
Capacity expanded when demand is static - or even falling
Market entry costs underestimated
Major contract quoted at too low a price
Acquisitions

Price paid was too high (excessive “goodwill”)
Acquired business was a “loser”
Poor post-acquisition integration

PwC research: 80% of acquisitions/mergers fail to meet expectations!
Lack of marketing effort

Weak sales director/manager (or none at all!)
Failure to understand/check customer needs
Sales force ineffective/not motivated
Customers/markets not targeted effectively
Poor after sales
No market research
Poor advertising/promotional material
Weak new product development
Product range too large/fails to meet market needs
Inappropriate financial policies

80+% debt?

Capital structure
High debt:equity ratio - policy of high gearing
Inappropriate sources of funding
Over-high dividends/drawings
Insufficient capital investment

Lending criteria/decisions
Overtrading

Sales growing faster:
• than can be funded
• than can be controlled by management

Turnover chased at the expense of margins
External Factors
Economic

Strong competition
• lower cost alternatives or substitutes
• obsolete product range
• poor new product development

Changes in market demand
• new products
• cyclical/economic changes
• long term decline in demand
• changes in pattern of demand

Adverse movement in external costs
• raw materials, fuel, interest rates, exchange rates, property prices
Economic factors cont…

- Recession
- Too few qualified people
- Taxation
- Structural changes
- Liberalisation
- Infrastructure
Legal and regulatory

Judiciary

Auditing standards

No corporate policing

Corporate governance
Relative frequency of causes of decline - Gething

1997 draft MSC thesis

- Poor management
- Financial policies
- Acquisitions
- Changes in market demand
- Poor financial control
- High cost structure
- Competition
- Marketing effort
- Commodity prices
- Big projects
- Overtrading
Section three
Warning Signs
Warning Signs!

- Over-dominant CEO/chairman
- Unbalanced board
- Weak finance team
- High staff/management turnover
- Generally poor locations
- Loss of significant customer
- Excessive diversity
- Questionable acquisitions

- Trading losses
- Declining gross margin %
- Poor information on segmental profits
- Increasing working capital
- Cash shortages
- Fully geared
- Delays/errors in management accounts
- Budgets not meaningful
Section four

Options Available
Conduct an Independent review

Obtain an expert to carry out a scrutiny of the financial, operational, market conditions affecting a business independently.

The objective is to identify the problem, the stage in the corporate demise curve and to evaluate the options for the business going forward.

Options available will depend on the businesses' position on the corporate demise curve.

Time is of the essence. If there is delay in diagnosing the problem, the options available diminish accordingly.

What does this review entail?
Focus of Independent review

Corporate health

Business Unit Review

Under performance

Profit and Loss

Distress

Balance Sheet

Financial & Options Review

Crisis

Available Options

Cash

Time
So how do you get out of this space—options?

- **Turnaround Point**
- **The Turnaround Corridor**
- **Tactical Skills**
- **Operational Skills**
- **Change Agent Appointed**
- **Turnaround or Exit**
- **Insolvency**
Options cont…

**Optimised exit** - advise on client’s withdrawal from country, market, product, brand etc.

**Business regeneration/turnaround** - Helping seriously underperforming companies, and those in distress and crisis, rebuild value for stakeholders

**Receivership/administration** - an option for the lender to realise their security

**Liquidation/Reorganisation** - the worst case scenario ie. if all else (above) fails.
Liquidations-Legal Framework

Different territories have different Bankruptcy legal regimes.

US law for instance provides for **liquidations-Cap 7**, **reorganisation** which provides a framework for negotiating and approving binding reorganisation plans thus protecting the company from creditors as it reorganises-**Cap 11**, **Cross Border Insolvency-Cap 15**

UK Bankruptcy regime, South Africa bankruptcy regime also provide for reorganisation to help preserve the value of the debtor’s business where possible.

Liquidations in Ghana are governed by the Companies Code and the Bodies Corporate-Official Liquidations Act. No provisions for reorganisation.
Liquidations

The winding up of a company (in Ghana) may be either,

(a) by an official liquidation in accordance with the provisions of the Bodies Corporate (Official Liquidations) Act, 1963 (Act 180); or

(b) by a private liquidation or members voluntary winding up in accordance with the provisions of the Companies Code (Act 179)
Official Liquidation

The official winding up of a company may be commenced by,

(a) a special resolution of the company;
(b) a petition addressed to the Registrar-by creditor or member or contributory;
(c) a petition to the Court-petition can be by creditor, member or contributory, AG
(d) a conversion from a private liquidation-if its unable to pay all its debts after 12 months from declaration of solvency.

Company is insolvent and all creditors will not be paid.
Private Liquidation

This occurs where the company is solvent

- Directors must swear statutory declaration of solvency to show that this is the case
- As the company is solvent it is the members who control the conduct of the winding-up. Creditors will all be paid and so have no interest in how the winding-up will be conducted
- So members appoint/replace the liquidator and the liquidator lays his annual and final accounts before members only
- On appointment of a liquidator all the powers of the directors cease.
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