Corporate Failures & Bankruptcies in Ghana*

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*connectedthinking

PricewaterhouseCoopers

Investment Advocacy Forum

Business House JCR of

The University of Ghana

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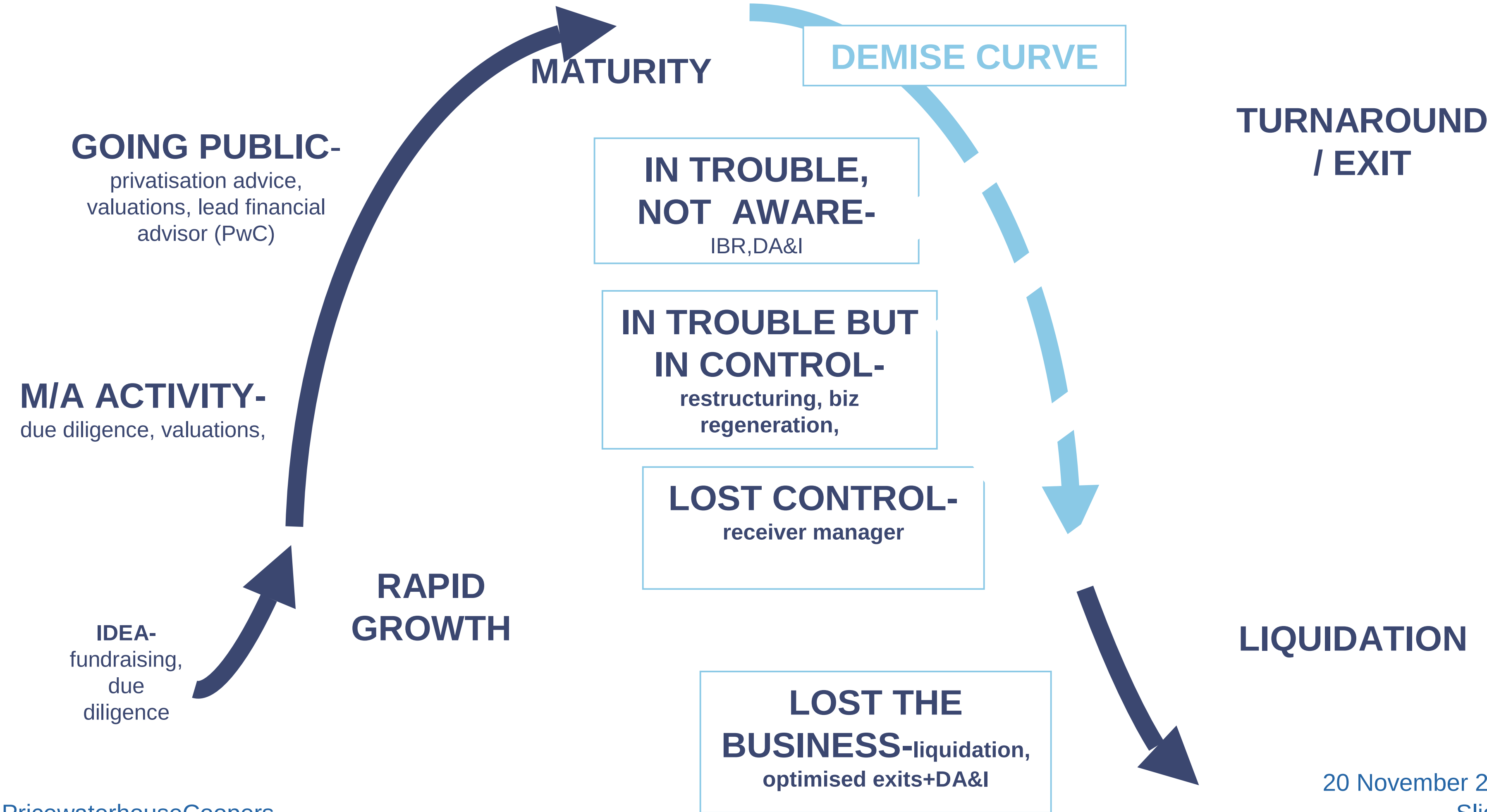
Section one

Overview

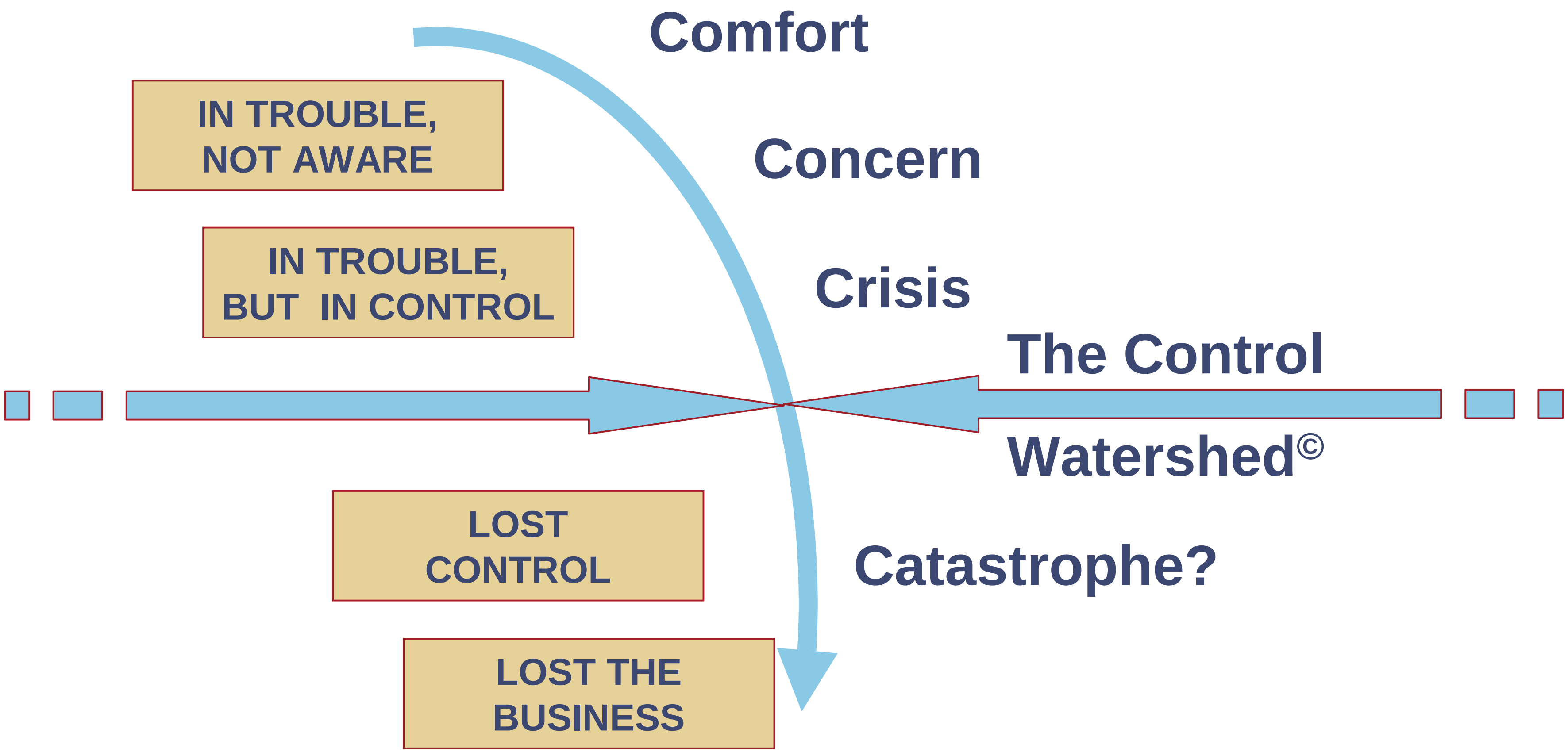
Recent Corporate Failures in Ghana

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

The Corporate Life Cycle



What is corporate failure-*the corporate demise curve*©



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

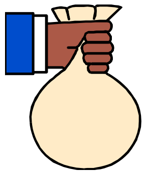
Ineffective/incompetent managers

Inability to think strategically

Neglect of core business

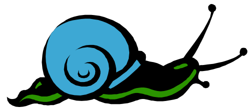
Lack of management in depth

Inadequate management cont…



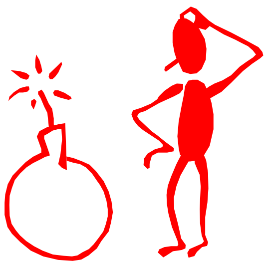
Corruption

Aptitude (and attitude)



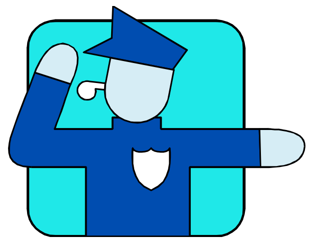
Poor planning
no drive

Lack of control



MANAGEMENT

Personal interests



No corporate policing

Organisational inertia and confusion

No strategic direction

Inability to make decisions

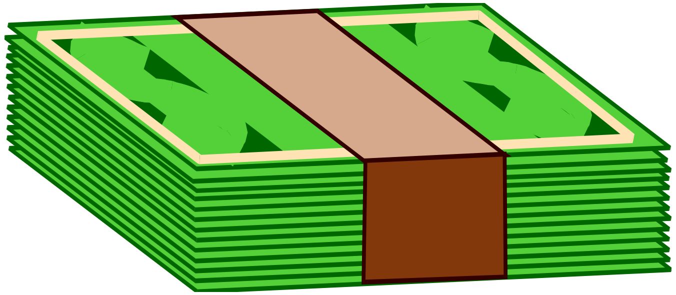
Inability to implement change

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 acquistions/mergers fail to meet expectations!

Lack of marking 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?

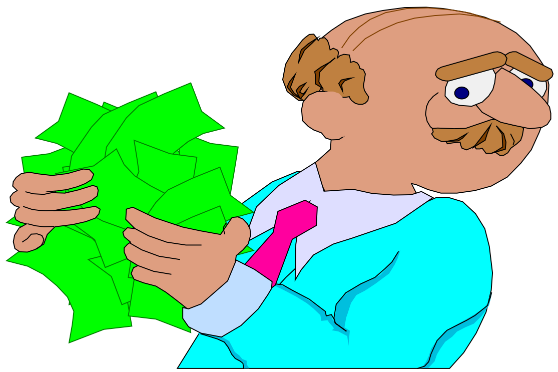
Capital structure

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

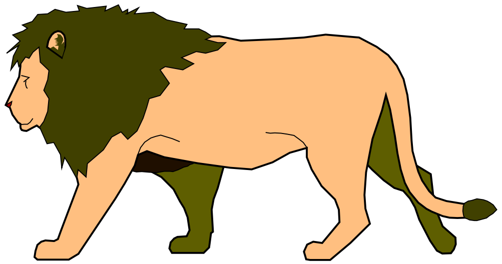
Economic factors cont…

Recession

Too few qualified people

ECONOMIC

Liberalisation



Taxation

Infrastructure

Structural changes

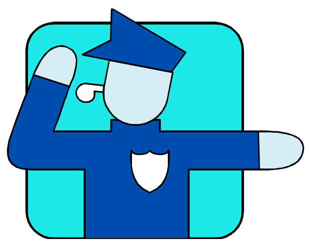
Legal and regulatory

Judiciary

Auditing standards

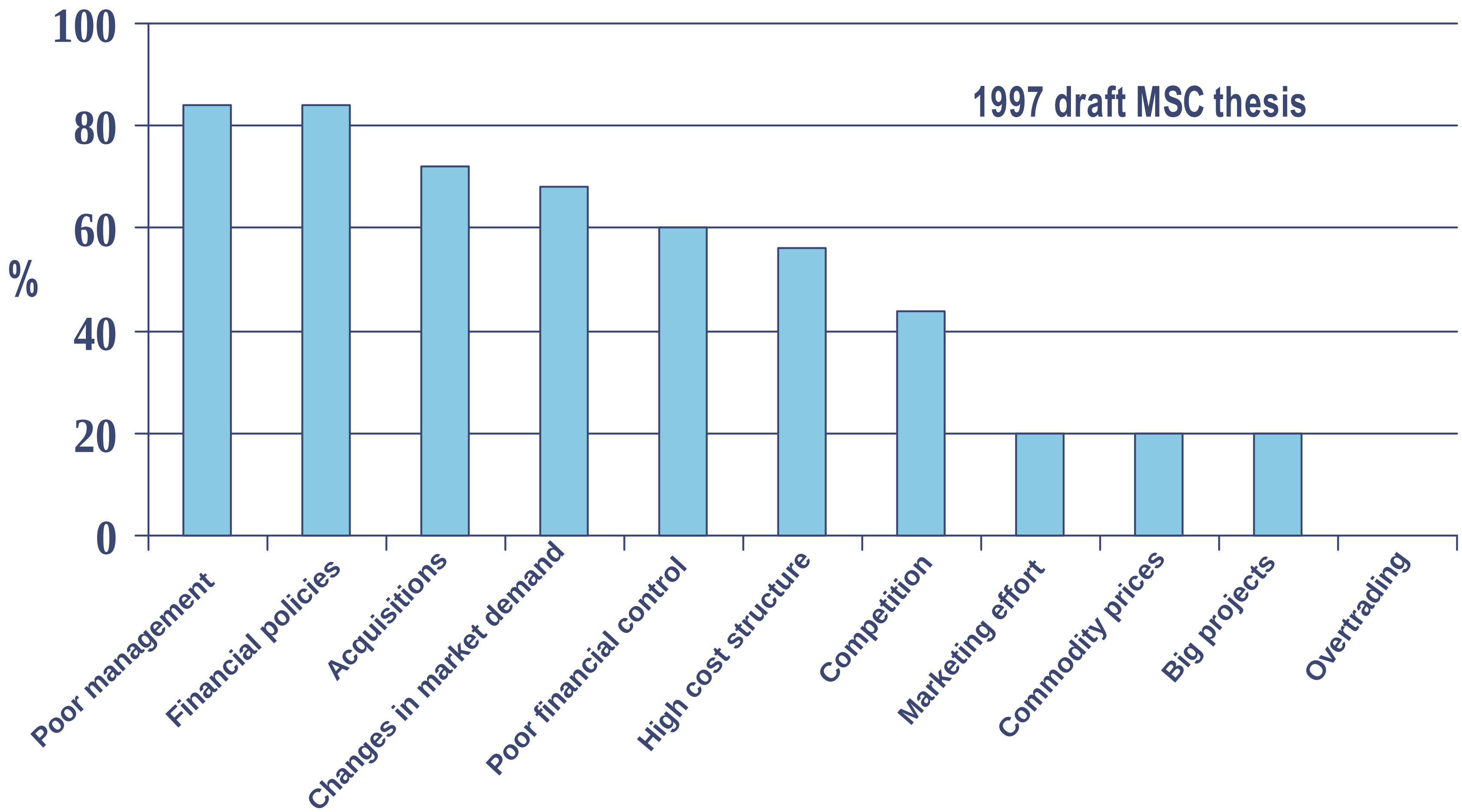
LEGAL & REGULATORY

Corporate governance



No corporate policing

Relative frequency of causes of decline - Gething



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.

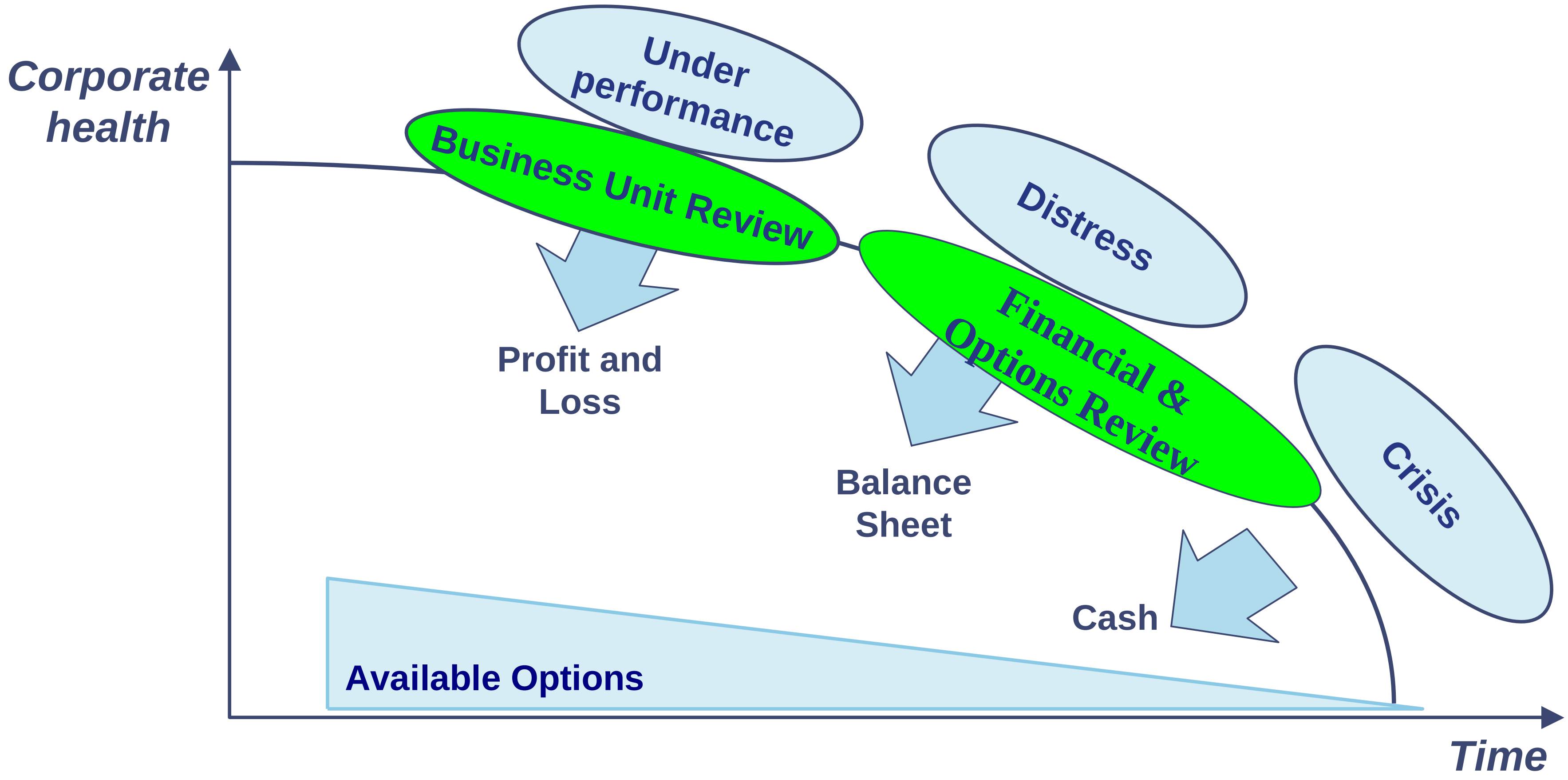
The objective is to identify the problem, the stage in the corporate demise curve and to evaluate the options for the business going forward.

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

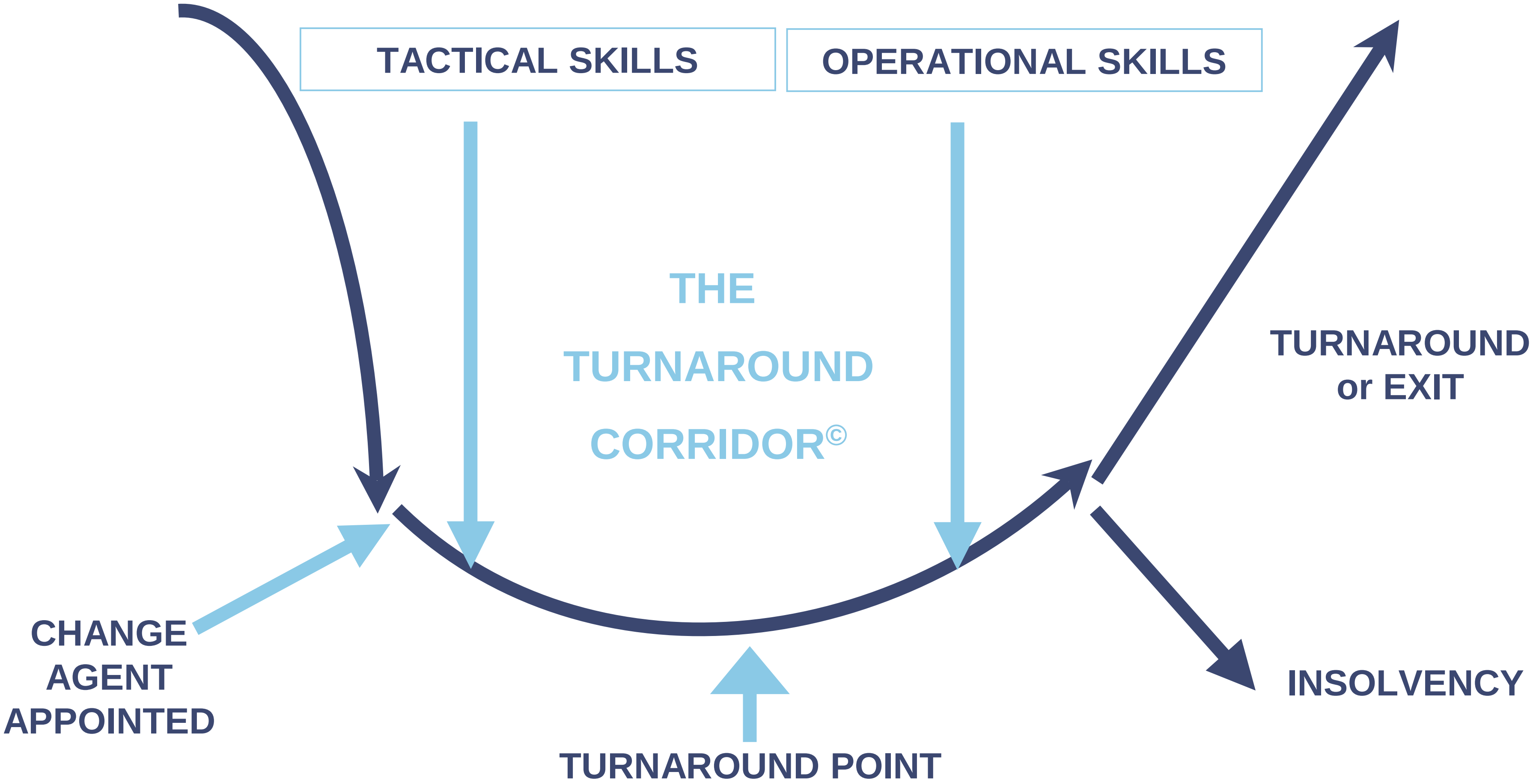
Time is of the essence. If there is delay in diagnosing the problem, the options available diminish accordingly.

What does this review entail?

Focus of Independent review



So how do you get out of this space-options?



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**, **re-organisation** 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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