

**KWAME NKRUMAH UNIVERSITY OF SCIENCE  
AND TECHNOLOGY, KUMASI**

**L-BRARY**  
KWAME NKRUMAH UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
KUMASI-GHANA

**BUSINESS FAILURE IN GHANA: THE CASE OF GHANA  
AIRWAYS LIMITED.**

**KNUST**

**BY**

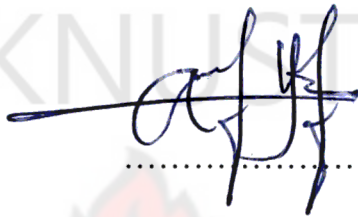
**ALBERT YEBOAH (*B.COM HONS*)**

**A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE  
LEARNING, KWAME NKRUMAH UNIVERSITY OF SCIENCE  
AND TECHNOLOGY, IN PARTIAL FULFILMENT OF THE  
REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION**

**MAY 2009**

## DECLARATION

I hereby declare that this submission is my own work towards the award of Commonwealth Executive Masters of Business Administration (CEMBA) conducted between October 2008 and May 2009, and that the work does not contain any material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.



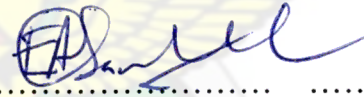
ALBERT YEBOAH

SIGNATURE

6/15/09

DATE

CERTIFIED BY:



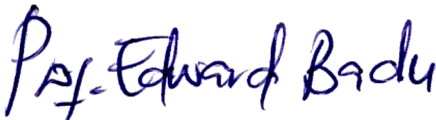
EMMANUEL SARPONG KUMANKUMA

SIGNATURE


6/10/09

DATE

CERTIFIED BY:



HEAD OF DEPARTMENT



SIGNATURE

15/10/09

DATE

## **DEDICATION**

I dedicate this work to my family for the love, concern and encouraged given me to successfully complete this course.



## **ACKNOWLEDGEMENT**

I wish to acknowledge the contribution of all who have contributed in diverse ways to make this work a success. My first thanks goes to the Almighty God who has guided me through all the changing scenes of life.

I am indebted to Mr. Emmanuel Sarpong Kumankuma, a lecturer of the University of Ghana Business School who patiently supervised this work.

I also thank all the colleagues I met during the programme. I am indebted to all of them.

If I am to mention names the book cannot contain them so I wish to say thank you to all colleagues.

I further thank the ex-staff of Ghana Airways Company Limited who despite their busy schedules in their current employments gave me the audience for interviews. I would be ungrateful if I fail to mention some staff of Registrar General's Department and Pricewaterhouse Coopers who also helped me with a lot of information.

I thank my company Ghana Cocoa Board, the management and the entire staff especially those at Cocoa Clinic for their support and help in diverse ways to make this work success.

I finally thank my family especially my wife; Miss Eva Amo, who patiently has supported me in everything I do. I wish to say big thank you.

I wish to state that I sincerely accept responsibility for any errors or shortcomings of this study.



## ABSTRACT

Business Failure refers to the cessation of a company's operations following its inability to make profit or enough revenue to cover its operational costs. Ghana Airways Limited was a Ghana government airline established to be the national carrier in 1958. It was established as a business entity with the aim of making profit.

The world over, companies contribute to national development and the well being of the citizens of the country. Ghana Airways as business entity went through so many changes just to stand on its feet. However, all efforts made could not provide the necessary results that the company needed to survive. The company finally folded up on 22<sup>nd</sup> June 2005.

The research sought to ascertain the factors that caused the failure of the company. The researcher used personal interview for the data gathering. The entire workforce of the defunct company could not be contacted (this was of course impossible due to the scattered nature of the staff after the company had gone on liquidation). Therefore twenty ex-employees of the company and the official liquidator – Registrar General's Department and Pricewaterhouse Coopers were interviewed for information.

The research proved that the main factor that brought Ghana Airways to its knees was government interference. Other factors such as poor management practices; lack of working capital, and the use of obsolete equipment also contributed to Ghana Airways failure.

It was therefore concluded that the government should not interfere in organizations and give the management free hand to operate to make government companies achieve their goals. In private companies, good management practices, use of modern equipment and

supply of adequate working capital were recommended to let the companies stay in business.

<b>TABLE OF CONTENTS</b>	<b>Page</b>
Declaration.....	i
Dedication.....	ii
Acknowledgement .....	iii
Abstract .....	iv

**CHAPTER ONE**

Introduction.....	1
1.1 Background of the Study.....	1
1.2 The Research Problem.....	5
1.3 Objectives of the Study .....	5
1.4 The Relevance of the Study .....	6
1.5 Limitations.....	8
1.6 Structure Of Study Report.....	9

**CHAPTER TWO**

Literature Review .....	10
2.1 Introduction.....	10
2.2 Causes of Business Failure.....	11
2.2.1 Poor Management.....	11
2.2.2 Lack of Planning.....	13
2.2.3 Political Interference.....	15

2.2.4 Lack of Working Capital.....	21
2.3 Other Factors.....	24
2.3.1 Operation Cost.....	24
2.3.2 Economic Downturn.....	24
2.3.3 Poor Marketing.....	25
2.3.4 Failure to Embrace New Technological Developments.....	26
2.3.5 Unreliable Suppliers.....	26
2.3.6 Staffing Imbalances.....	26
2.3.7 Poor Choice of Location.....	26
2.3.8 Other Economic Factors.....	27
2.4 Ways to Prevent Business Failure.....	27

### **CHAPTER THREE**

Methodology .....	29
3.1 Introduction .....	29
3.2 Research Design.....	30
3.3 Population.....	30
3.4 Sampling and Sampling Technique.....	31
3.5 Data and its Sources.....	31
3.6 Data Collection Technique.....	32
3.7 Data Processing.....	33
3.8 Data Analysis and Presentation.....	34
3.9 Data Analysis Procedure.....	34
3.10 Predictive Models and Indicators to Forecast Corporate Failure.....	35

3.11 Primary Data Collection Tools.....	36
3.12 Secondary Data Collection Tools.....	37

## CHAPTER FOUR

Presentation and Analysis of Findings.....	38
4.1 Introduction.....	38
4.2 Presentation and Analysis of Responses Obtained From the Ex-Employees of Ghana Airways.....	38
4.3 Why Ghana Airways Failed: From Ex-Employees Stand Point.....	40
4.4 The Failure of Ghana Airways Limited: The Stand Point of the Official Liquidator..	47

## CHAPTER FIVE

Summary, Conclusion and Recommendations.....	52
5.1 Summary and Conclusion.....	52
5.2 Recommendations.....	53
References.....	55
Appendix 1.....	57
Appendix 2.....	59

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Business Failure, simply known as going out of business, refers to a company ceasing its operations following its inability to make profit or enough revenue to cover its operational costs (Jimmy, 2009). Business failure occurs when a business ceases to exist due to liquidation, closure, bankruptcy, sale or transfer of ownership or merger between the company and another. This can occur as a result of poor management, non-availability of market, and inability to compete with other similar businesses, inadequate working capital, or a lack of interest from the public in the business' offerings. Other types of business failure are that some firms are sold to another owner, or merged with another firm. (Jimmy, 2009)

Some businesses fail as soon as they are established whilst others operate for quite a long time before they fail. Some businesses choose to shut down prior to an expected failure. When the owners of the organization see that there is an eminent bankruptcy of the business they choose to fold up before they are taken by surprise. Others may continue to operate until the very last day before they are forced out of the business by a court order. Thus the owners of a company may decide to close down the business. The courts too can force the owners of a company to fold up due to inability on the part of the company to meet its financial obligation.



Business failure occurs when one's business reaches a point (commonly known as insolvent) where it can no longer continue trading without encountering further problems. These problems may offer no feasible solutions and by continuing to trade, the business puts itself in deeper trouble. At this point, it is important that owners accept business failure early to avoid the increased financial and legal problems that will arise in an effort to save the business or put it to rest. It is estimated that one out of two small businesses fails to survive within one year of establishment. ([www.ashley-business-finance.co.uk](http://www.ashley-business-finance.co.uk))

Business failure is a worldwide phenomenon which dates back to the 14<sup>th</sup> century. An example of a company that failed in the 14<sup>th</sup> century was Perruzzi, a bank established by a family in Florence – Italy in 1313. Just recently, to be precise, on 28th August 2008, Zoom Airlines (a Canadian Company) announced that it has filed for administration under the Canadian Companies Creditors Arrangement Act and that it was ceasing operations. Other examples are Plant Pool Limited, a subsidiary of Social Security and National Insurance Trust, Bank for Housing and Construction, Nova Fishing Complex, State Construction Corporation, and Ghana Airways Limited – all Ghanaian companies. It should be emphasized that both state owned and privately owned companies face the problem of business failure. It can be ascertained that business failure is a world wide phenomena of which Ghana Airways is no exception.

Ghana Airways was established on 4<sup>th</sup> July 1958 by the Government of Ghana as a national flag carrier to take over part of operations of West African Airways Corporation. Ghana Airways, a state owned enterprise started operation on 1<sup>st</sup> October 1958 plying the intercontinental routes to Europe. It also operated on the West and East coasts of Africa.



Later Ghana Airways became the sole operator of the domestic routes – Accra, Kumasi, Sunyani and Tamale.

LIBRARY  
KWAME NINSINAH UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
KUMASI-GHANA

The corporation had the following as its nature of businesses:

- a. To establish, operate and maintain airlines or regular services of aircraft of all kinds whether in Ghana or outside Ghana.
- b. To carry on in Ghana and outside Ghana the business of transporting passengers, mails, and goods by the company's own aircraft and conveyances or by aircraft conveyances of others.
- c. To carry on business of warehousing goods, wares, and merchandise.
- d. To buy, sell, lease, erect, construct, and acquire hangers, aerodromes, seaplane bases, landing fields and beacons.
- e. To enter into contract with any person, airline or company for interchange of traffic.
- f. To provide ground handling services in respect of passengers, baggage and cargo at any airport in Ghana.
- g. To provide catering services generally for airlines both in and outside Ghana, and to acquire, manage and operate restaurants.

Ghana Airways grew quickly and by 1963 it had twenty aircrafts. The corporation's operations started nose-diving and by 1988 its aircrafts had reduced to only four – one DC10, one DC9 and two F-28s.

The corporation's activities continued to dwindle until 1993 when the corporation among other State Owned Enterprises were put on divestiture by an act of parliament, Act 461 entitled The Statutory Corporations (Conversion to Companies) Act, 1993.

Ghana Airways was incorporated on 1<sup>st</sup> June 1995 (with certificate number 61,938) and registered as a limited liability company under the Companies Code, 1963 (Act 179). The company was issued with the certificate to commence business on 31<sup>st</sup> July, 1995 under the company name – Ghana Airways Limited.

The company was registered with one hundred million authorized shares of no par value of which all were issued at one cedi per share to the Government of Ghana represented by the Ministry of Finance and paid for.

After incorporation, the company's regulation stated among other things the following:

The name of the company is Ghana Airways Limited

The nature of businesses which the company is authorized to carry on was:

- a) To purchase, take-over or otherwise acquire the undertaking and business previously carried on by the Ghana Airways Corporation, as well as its goodwill, assets, properties, rights, debts, in cash or in shares or partly in cash and partly in shares.
- b) All the other activities specified in the businesses of Ghana Airways Corporation were taken over by Ghana Airways Limited.

## **1.2 THE RESEARCH PROBLEM**

The world over, companies contribute to nation's employment which in turn make the citizens earn a living. Therefore many individuals earn their living through the companies in which they work. These companies also contribute to national development by way of tax payment (Pay as you earn – PAYE, and corporate tax). However, despite these roles, companies continue to fold up, creating unemployment with its associated social problems like armed robbery, poverty and social disintegration. If these contributions are made by companies, why do they then fold up? therefore why did Ghana Airways Limited, the national airline fold up?. The research will solicit answers to these problems.

## **1.3 OBJECTIVES OF THE STUDY**

The main objective is to determine the major factors that contributed to the failure of Ghana Airways.

The other research objectives are:

- i. To find out how poor management practices contributed to Ghana Airways' failure
- ii. To investigate the role of wrong staff placement in the failure of Ghana Airways
- iii. To investigate how lack of planning contributed to Ghana Airways' failure
- iv. To find out how political interferences contributed to the failure of Ghana Airways
- v. To ascertain how inadequate working capital affected Ghana Airways' operations negatively, leading to its failure.

## 1.4 THE RELEVANCE OF THE STUDY

The research may provide answers to the question 'why businesses fail in Ghana using Ghana Airways Limited as a study. The findings from the research will help businesses overcome practices which lead to failure. It will also help them to embark on appropriate strategies that will protect their businesses from failing.

The research will benefit employees as well, because the findings will point out what employees do or do not do well that lead to business failure. This will help the employees to behave well in businesses to avoid the failure of their companies.

Policy makers like the government will benefit from the research in that the findings will point out the role they play in business failure. With this, the government and the policy makers will sit up and will not interfere in businesses to avoid failure. Politicians will also benefit from this. They will be enlightened on how their behaviour or interferences promote business failure.

The study will be beneficial to business students who would like to probe further into the subject matter. This will serve as a stepping stone for further research.

The research will be limited to the factors that contribute to business failure in Ghana due to time constraints. Further research can thus focus on the impact of business failure on society, precisely the negative effect of business failure on society. That is, when businesses fail, how is the society affected negatively. This will include what ex-employees of the failed businesses do to contribute to societal building? The negative



effect of those who lose their jobs on the society, such as they turning into all sorts of miscreants (armed robbers, petty thieves and drunkards) to make ends meet.

A business which was socially responsible, contributing to societal building by providing some amenities to their areas of operation will stop providing those amenities when the business fails. The effect on the communities which were receiving those amenities.

There could be another research into the effect of business failure on the employees of the failed business. The employees' contribution to family upkeep may be hindered as a result of they losing their jobs due to the failure of their businesses. The ripple effect on their family upkeep, education of their children, and their contribution in general to societal building.

One can also research into the impact of business failure on the economy as a whole. That is, how business failure can affect the gross domestic product and national development.

The research will also leave room for further research into factors that may be adopted by companies to prevent failure.

The research outcome will suggest recommendations that will help forestall future failure of businesses.

## 1.5 LIMITATIONS

The study of a defunct company – Ghana Airways Limited was prone to a number of limitations which include the following:

The management who could assist with the right data were not available to answer questionnaires. Only two directors and three management staff were interviewed. It was difficult to interview and administer questionnaires to employees too but effort was made to get at least fifteen other ex-employees of Ghana Airways Limited to interview. Thus in all, twenty ex-employees were interviewed or answered questionnaires.

The researcher tried to get past financial reports of Ghana Airways for Z-score analysis to predict the company's failure. However, all efforts made proved futile. The auditors of Ghana Airways (Ernst and Young) declined to give the researcher some report for the analysis. Registrar General's Department also could not give the researcher copies of Ghana Airways' financial statements with the reason that the company failed to file their returns.

The researcher is in full time employment and undertaking the studies, therefore he was constrained with time during the study. Every study requires the use funds. Funding was also a constraint on the research, but there was enough effort to solicit funds for the project.



## 1.6 STRUCTURE OF STUDY REPORT

The study was structured as follows:

Chapter one looked at the background of the study, the research problem, objectives of the study, relevance of the study and limitations. Chapter two looked at the literature review. Chapter three was on the methodology of the study. Chapter four looked at the presentation and analysis of the research findings. Chapter five summarised the study, gave conclusions and recommendations.

KNUST



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Business failure has been a problem the world over. Many people have tried to write on this subject especially in developed economies. This chapter reviewed literature by various authors. The chapter looked at the factors that have caused businesses to fail in the world. It also looked at preventive measures that were put in place to salvage the businesses.

Business failure occurs almost everyday and everywhere in the world. There are a lot of companies which have failed.

Examples of businesses which have failed in Ghana include Bank for Housing and Construction, Great African Insurance Company Limited, Ghana Co-operative Bank, Juapong Textiles Limited, Ghana Airways Limited, Plant Pool Limited (Pricewaterhouse Coopers, 2006).

Other examples of businesses which have failed in other parts of the world include Lehman Brothers Incorporation, Excel Airline, Adams Childrenswear, A. J. Purdy, Aloha Airlines, and Amtrak Express Parcels AP Hydraulics and a whole host of others. (Jimmy, 2009)

## **2.2 CAUSES OF BUSINESS FAILURE**

Business failures are caused by many factors. Some of the major factors leading to business failure are discussed below.

### **2.2.1 POOR MANAGEMENT**

Management is defined as “the activity of getting people to transform resources so that the results add value to the organisation in terms of reaching its goals”. ( Smith, 2007). Management is a process of planning, organising, staffing and making decisions. Therefore an organisation which does not have management who can perform these functions well cannot survive.

DuBrin (2006), mentioned that management is the force behind all business activities, and helps firms of all sizes run more smoothly. Management pulls together resources to accomplish important objectives. Many a report on business failures cites poor management as the number one reason for failure. According to DuBrin (2006), “poor management (and leadership) is one of the reasons that many businesses of various sizes fail”.

New business owners frequently lack relevant business and management expertise in areas such as finance, purchasing, selling, production, hiring and managing employees. Unless they recognize what they don't do well, and seek help, business owners may soon face disaster. They must also be educated and alert to fraud, and put into place measures to avoid it. Neglect of a business can also be its downfall. Care must be taken to regularly study, organize, plan and control all activities of its

operations. This includes the continuing study of market research and customer data, an area which may be more prone to disregard once a business has been established.

A successful manager is also a good leader who creates a work climate that encourages productivity. The person has a skill at hiring competent people, training them and is able to delegate. A good leader is also skilled at strategic thinking, able to make a vision a reality, and able to confront change, make transitions, and envision new possibilities for the future. For example one of the factors that led to the failure of Lehman Brothers is poor management practice, (Wikipedia, 2009). “Glucksman introduced a number of changes that increased tension in the organization, coupled with his management style resulted in a power struggle that ousted Peterson which left Glucksman as the sole chief executive officer (CEO) and bankers which became displeased as a result of the power struggle left the company” (Jimmy, 2009).

According to Pricewaterhouse Coopers (2006), lack of competent management who are able to think strategically lead to corporate failure. The management have little or no knowledge and skill to execute duties effectively. Unbalanced Board of Directors with unbalanced business acumen contributes to business failure. For example in an organisation where all the board members are of the same background (e.g. all engineers or accountants), they may not be able to take very pertinent decisions that may have balanced impact on the business of the organisation. This may lead to inappropriate decisions being made and thereby affecting the company's performance.



## **2.2.2 LACK OF PLANNING**

A plan is a scheme which specifies the future resources and actions that an organisation needs in order to achieve its goals in an efficient and orderly way (Smith, 2007). It involves anticipating future requirements and challenges. It also involves sequencing future resources and actions to minimise the delay and waste which could arise if events were allowed to take their natural pace and chronological order.

Planning is the process of deciding on a course of action, ensuring that the resources required to implement the action will be available and scheduling and prioritising the work required to achieving a defined end-result (Amstrong, 2008).

Planning involves setting goals and figuring out ways of reaching them. Planning, considered the central function of management, pervades everything a manager does. In planning, a manager looks to the future, saying, "Here is what we want to achieve, and here is how we are going to do it". Decision making is usually a component of planning, because choices have to be made in the process of finalising the plans. The importance of planning expands as it contributes heavily to performing the other management functions. (DuBrin, 2006 ).

Successful businesses do not just happen. They are the result of intentional and well-executed business plans. Many entrepreneurs are so eager to get started that they neglect business planning and jump in headfirst with little more than a dream and an idea. After running the business for sometime they realize that things do not turn in the direction

they expected. For lack of proper business plan the company is run any how and therefore starts to nosedive leading to the closure of the company. (UK Insolvency Helpline, 2008)

Anyone who has ever been in charge of a successful major event knows that were it not for their careful, methodical, strategic planning and hard work, success would have eluded the person. The same could be said of most business successes. It is critical for all businesses to have a business plan. Many small businesses fail because of fundamental shortcomings in their business planning.

The plan must be realistic and based on accurate, current information and educated projections for the future.

Components may include:

- ❖ Description of the business, vision, goals, and keys to success
- ❖ Work force needs
- ❖ Potential problems and solutions
- ❖ Financial: capital equipment and supply list, balance sheet, income statement and cash flow analysis, sales and expense forecast
- ❖ Analysis of competition
- ❖ Marketing, advertising and promotional activities, budgeting and managing company growth

**ETS Europe** was the European arm of Educational Testing Service, an American company, involved in scholastic assessment in Europe failed due to lack of planning. In England and Wales ETS Europe was contracted to operate the National Curriculum assessments on behalf of the government. ETS took over this role from Edexcel in 2008.



The first year of their operation was struck by a number of problems, including the late arrival of scripts to examiners, a database of student entries being unavailable and countrywide reports of problems with the marking of the papers. The opposition Conservative party criticized the awarding of the contracts to ETS, and produced a dossier listing previous problems with ETS' service. Their contract with the QCA was terminated in August 2008: ETS was to pay back £19.5m and cancel invoices worth £4.6m. (ETS Europe, 2008)

The UK government asked Lord Sutherland to conduct an inquiry into the failure of the 2008 tests. The report included in its main findings ETS' capacity to deliver the contract proved to be insufficient. A lack of comprehensive planning and testing by ETS of its systems and processes was a key factor in the delivery failure" (ETS Europe, 2008)

### **2.2.3 POLITICAL INTERFERENCE**

Governmental interference most often does not allow state owned institutions to perform well. The government dictates to the organization as to whom to employ, the price to charge for the goods or services and the level of profit to be made from the business.

No private enterprise will ever fall prey to bureaucratic methods of management if it is operated with the sole aim of making profit. Under the profit motive every industrial aggregate, no matter how big it may be, is in a position to organize its whole business and each part of it in such a way that the spirit of capitalist acquisitiveness permeates it from top to bottom. Political parties and governments are anxious to remove it and to put in its

place what they call the “service” point of view and what is in fact bureaucratic management.

In governmental organisations, entrepreneurs are reduced to the status of shop managers. They are not free in their operation; they are bound to obey unconditionally the orders issued by the Central Government. The government not only determines the prices and interest rates to be paid and to be asked, the height of wages and salaries, the amount to be produced and the methods to be applied in production; it allots a definite income to every shop manager, thus virtually transforming him into a salaried civil servant. (Bettina, 2007)

Governmental interference can be grouped into:

#### **Interference with the height of profit**

The government may apply various methods to restrict the profit the enterprise may make. The frequently used methods are:

- a) The profits that a special class of undertakings is free to make are limited. A surplus is either handed over to the authorities or distributed to the staff as bonus. The profit may be totally eliminated through price reduction. Thus price or rate charged to consumers is reduced thereby entirely eliminating profit. Therefore the company does not make any profit from the activities it undertakes.
- b) The government may intentionally introduce taxes that would erode all the profit to be earned by the organization. Taxes are introduced to absorb as much of the organization's profit as possible. (Bettina, 2007)

## **Interference with the Choice of Personnel**

Every kind of government meddling with the business of private enterprise results in the same disastrous consequences. It paralyzes initiative and breeds bureaucratism. Here the government decides on whom to employ without reference to competency. The most frequent procedure is to yield to the government's wishes concerning the composition of the board of directors. Even in Great Britain a board of directors which did not include several peers was considered not quite respectable. In continental Europe and especially in Eastern and Southern Europe the boards were full of former cabinet ministers and generals, of politicians and of cousins, brothers-in-law, schoolmates, and other friends of such dignitaries. With these directors no commercial ability or business experience was required.

The presence of such ignoramuses on the board of directors was by and large innocuous. All they did was to collect their fees and share in the profits. However, there were other relatives and friends of those in power who were not eligible for directorships, yet they were put on salaried positions on the staff. These men were much more a liability than an asset.

With increasing government interference with business it became necessary to appoint executives whose main duty was to smooth away difficulties with the authorities. First it was only one vice-president in charge of "affairs referring to government administration." Later the main requirement for the president and for all vice-presidents was to be in good standing with the government and the political parties.

Finally no corporation could afford the “luxury” of an executive unpopular with the administration, the labour unions, and the great political parties. Former government officials, assistant secretaries, and councillors of the various ministries were considered the most appropriate choice for executive positions.

Such executives did not care a whit for the company’s prosperity. They were accustomed to bureaucratic management and they accordingly altered the conduct of the corporation’s business. Why bother about bringing out better and cheaper products if one can rely on support on the part of the government? For them government contracts, more effective tariff protection, and other government favours were the main concern. And they paid for such privileges by contributing to party funds and government propaganda funds and by appointing people sympathetic to the authorities.

It is long since the staffs of the big German corporations were selected from the viewpoint of commercial and technological ability. Ex-members of smart and politically reliable students’ clubs often had a better chance of employment and advancement than efficient experts.

American conditions are very different. As in every sphere of bureaucracy, America is “backward” in the field of bureaucratization of private enterprise also. It is an open question whether Secretary Ickes was right in saying: “Every big business is a bureaucracy.” But if the Secretary of the Interior is right, or as far as he is right, this is not an outcome of the evolution of private business but of the growing government interference with business. (Bettina, 2007)



## **Unlimited Dependence on the Discretion of Government Bureaus**

Every American businessman who has had the opportunity to become acquainted with economic conditions in Southern and Eastern Europe condenses his observations into two points: The entrepreneurs of these countries do not bother about production efficiency, and the governments are in the hands of corrupt cliques. This characterization is by and large correct. But it fails to mention that both industrial inefficiency and corruption are the consequences of methods of government interference with business as applied in these countries. (Bettina, 2007)

Under this system the government has unlimited power to ruin every enterprise or to lavish favours upon it. The success or failure of every business depends entirely upon the free discretion of those in office. If the businessman does not happen to be a citizen of a powerful foreign nation whose diplomatic and consular agents grant him protection, he is at the mercy of the administration and the ruling party. They can take away all his property and imprison him. On the other hand, they can make him rich.

The government determines the height of tariffs and freight rates. It grants or denies import and export licenses. Every citizen or resident is bound to sell all his proceeds in foreign exchange to the government at a price fixed by the government. On the other hand, the government is the only seller of foreign exchange; it is free to refuse applications for foreign exchange. In Europe where almost every kind of production depends upon the importation of equipment, machinery, raw materials, and half-finished goods from abroad, such a refusal is tantamount to a closing of the factory. The final determination of taxes due is practically left to the unlimited discretion of the authorities.

The government can use any pretext for the seizure of any plant or shop. Parliament is a puppet in the hands of the rulers; the courts are packed. In such an environment the entrepreneur must resort to two means: diplomacy or bribery. He must use these methods not only with regard to the ruling party, but no less with regard to the outlawed and persecuted opposition groups which one day may seize the reins. It is a dangerous kind of double-dealing; only men devoid of fear and inhibitions can last in this rotten milieu. Businessmen who have grown up under the conditions of a more liberal age have to leave and be replaced by adventurers. West European and American entrepreneurs, used to an environment of legality and correctness, are lost unless they secure the services of native agents. (Bettina, 2007)

This system, of course, does not offer much incentive for technological improvement. The entrepreneur considers additional investment only if he can buy the machinery on credit from a foreign firm. Being a debtor of a corporation of one of the Western countries is deemed an advantage because one expects that the diplomats concerned will interfere for the protection of the creditor and thus help the debtor too. New branches of production are inaugurated only if the government grants such a premium that huge profits are to be hoped for. (Bettina, 2007)

It would be a mistake to place the blame for this corruption on the system of government interference with business and bureaucratism as such. It is bureaucratism degenerated into racketeering in the hands of depraved politicians. Yet we must realize that these countries would have avoided the evil if they had not abandoned the system of free



enterprise. Economic post-war reconstruction must start in these countries with a radical change in their policies. (Bettina, 2007)

#### **2.2.4 LACK OF WORKING CAPITAL**

Working capital is the capital available for conducting the day to day operations of an organization, represented by its net current assets. (ACCA, 2002). Net current assets (CIMA, 1995) refer to stock, debtors, cash less creditors.

Garbutt (1979) also defines working capital as the amount that remains for the working or running of a business after the purchase price of the fixed assets has been paid for.

Working capital is a financial metric which represents operating liquidity available to a business. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. It is calculated as current assets minus current liabilities. If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit.

A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable and cash. (Ray, 2009)

A common fatal mistake for many failed businesses is having insufficient working capital. Another common reason for business failure is a lack of adequate funding, especially during the critical start-up period. Inadequate funding severely limits the company's capacity and threatens its ability to grow beyond the initial stage of life. If the promoters do their home work well by putting in the best effort to plan well, they would know how much they would need to start the company with and therefore not be caught in the middle of the road with cash trap. (The UK Insolvency Helpline, 2008)

Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales. It is imperative to ascertain how much money your business will require; not only the costs of starting, but the costs of staying in business. Where there is little working capital, the company may not be able to pay its recurrent expenditure and creditors. This may erode creditors' confidence in the organisation which lead to cut of credit facility to the firm.

Again the inadequate working capital will mean that the company cannot pay the staff when salaries fall due and this leads to staff absenteeism and lack of commitment towards work which affects the company's operations negatively leading to failure. "Nationwide's cash-flow became critical and as a result they decided to voluntarily cease all flight operations until further notice". (The UK Insolvency Helpline, 2008)

Poor working capital management; paying creditors too early, buying too much stock or giving customers payment terms that are too long, late payments and bad debts can all

lead to a lack of working capital and cash flow problems.

(The UK Insolvency Helpline, 2008)

A flow of cash is essential to enable an undertaking to carry out its business activity. Some cash payments (e.g. to small creditors) can be delayed without endangering the company's prospects but others must be paid on time. For example, if debenture interest is not paid, the trust deed may allow the debenture holders to appoint a receiver to sell sufficient assets to pay for the debenture. Employees must be paid their wages and salaries on time, otherwise they leave and the business will suffer. If insufficient cash is available, the company will suffer from illiquidity, and the extreme the company may be forced into failure due to illiquidity position.

Some warning indicators have been developed to suggest that a company might be going to fail through illiquidity. One of such indicators is Z-score developed by Professor Altman. (CIMA, 1995).

Other indicators are the working capital ratios. There are two important ratios here, which are current ratio (current assets divided by current liabilities), and quick ratio (current assets less stock divided by current liabilities).

## **2.3 OTHER FACTORS THAT LEAD TO BUSINESS FAILURE;**

### **2.3.1 OPERATION COST**

High cost of operations is a factor that leads to business failure. XL Airways (British low-cost charter and scheduled airline) ceased operations when it went into administration on 12 September 2008 as a result of high cost of fuel (the major resource for operations) (Wikipedia, 2009). “The Company entered into administration having suffered as a result of volatile fuel prices”. XL Airways was a British low-cost charter and scheduled airline, which was established in 1994 and started operations on 17 December 1994. The airline continued operation until 12th September 2008 when it ceased operation due to high operational cost. The high operational cost resulted from volatile prices of aviation fuel. (XL Airways, 2009)

Nationwide Airlines (based in Lanseria, South Africa) also ceased operation as a result of increased fuel cost (Nationwide Airlines, 2009). The airline was founded in 1995 by Chief Executive Vernon Bricknell and began operating charter services within Africa for the United Nations and the World Food Programme, as well as ad hoc passenger and cargo charters. Nationwide’s operation was affected by increased fuel cost which brought hardship on the company’s operations.

### **2.3.2 ECONOMIC DOWNTURN**

Another factor that contributes to business failure is economic downturn. XL Airline went into liquidation as a result of economic downturn. This same factor affected the



operation of Nationwide Airline (based in Lanseria, South Africa) ceased operation in 2008. Thus economic downturn or recession affects business operations leading to failures. Furthermore, lack of funding also affects business operations negatively. XL Airline's ceased operation as a result of lack of funding. "Nationwide's cash-flow became critical and as a result they decided to voluntarily cease all flight operations until further notice" (Wikipedia, 2009)

### **2.3.3 POOR MARKETING**

Marketing is defined as "a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others" (Kotler et al, 2001). Successful modern businesses are ones that understand and meet the requirements of their customers. Detailed market planning and market research is therefore an essential for new businesses, to find out details such as the potential size of the market, the extent of competition, as well as consumer preferences and tastes.

It is possible to create a business that sells the best product at the best price and still fail because no one knows it exists. Getting the word out about the company's product is critical if the business is going to have any chance of becoming a thriving venture. Lack of good marketing research and proper marketing of the company and its products may drive the organization into failure.

### **2.3.4 FAILURE TO EMBRACE NEW TECHNOLOGIES AND NEW DEVELOPMENTS**

In a fast changing world leading businesses are ones that make best use of advanced modern technologies in an appropriate way. Firms that operate with outdated technologies and methods frequently find themselves at a cost disadvantage over more dynamic rivals. (<http://www.insolvencyhelpline.co.uk>)

### **2.3.5 UNRELIABLE SUPPLIERS**

It is argued that one cannot sell what he/she has not got. A company's ability to maintain proper levels of inventory is directly proportional to the quality of its relationships with reliable suppliers. Developing effective supply channels can take a little time, but if the company is having problems with its supplier the earlier management looks for one the better. The company has to take action by seeking new suppliers as quickly as possible. (<http://www.insolvencyhelpline.co.uk>)

### **2.3.6 STAFFING IMBALANCES**

Labour is the biggest expense for most businesses. Therefore, it only makes sense that the company makes sure that it employs the right amount of people with the right qualification and experience. (<http://www.insolvencyhelpline.co.uk>)

### **2.3.7 POOR CHOICE OF LOCATION**

Location is a very important business decision. A good location is one that appeals to large number of customers, while at the same time minimising costs. For example in

retailing it is often a mistake to choose a low cost location that is not visible to customers. However, conversely there are considerable costs advantages to out-of-town retailers that customers are prepared to travel to visit. (<http://www.insolvencyhelpline.co.uk>)

### **2.3.8 OTHER ECONOMIC FACTORS**

Other economic factors like competition, inflation and interest rates could affect company's operations, according to Pricewaterhouse Cooper (2006). During inflationary period, prices of goods and services go up which translate into cost of operations of organizations thereby affecting the prices charged by the organizations. When the prices become prohibitive, customers shy away from the product or service and therefore fall on substitute product or service to the detriment of the organization and this may lead to the organization's downturn. (<http://www.insolvencyhelpline.co.uk>)

### **2.4 WAYS TO PREVENT BUSINESS FAILURE**

One of the most important elements to starting a successful business is being mentally prepared. Of course, skills, actions and good old-fashioned luck are also important factors, but it all begins with the right frame of mind. To that end, stay away from people who are negative and may try to bring the business down. People can be negative simply because jealousy, their lack of courage, confidence and also their inability to follow their dreams.

Although there will be many ups and downs, a light does exist at the end of the tunnel and it is brighter. By visualizing success, your actions will become more confident. And

increased confidence breeds success. A business consultant - Anderson advises entrepreneurs to think about why they started a business in the first place. Perhaps going back to work for someone else is not an option. In that case, just reminding yourself of the alternatives: being at the mercy of others controlling your life, playing corporate politics or reporting to incompetent bosses should be sufficient motivation to keep your mind right.

A big component of the "failure is not an option" mindset is knowing that certain personal or financial sacrifices will need to be made along the way in order to achieve your dream. Entrepreneurs who have made sacrifices and prospered did so because they realized early on that starting and building a great company comes with a price.

Risk taking is another factor which when well focused can lead to the prevention of business failure. Keep in mind that success comes to those who recognize risk, are unafraid of it, and will execute on their ideas. If you are risk-averse, your chances of business survival will probably be slim.

- i. A good business plan which is well executed will help prevent business failure. A roadmap will lead you to success. A business plan, which is a written description of what is to be done, how it is to be done, is the entrepreneur's roadmap. It forces the owner to think about the entire operation and come to terms with the businesses strengths and weaknesses. Entrepreneurs who do their homework increase their chances for business success.

(BizHelp24, 2009)



## CHAPTER 3

### METHODOLOGY

#### 3.1 INTRODUCTION

Business failure is a global phenomenon which affects many economies. Businesses fail as a result of certain factors which this research sought to look at. In order to achieve the research objectives, data were collected from ex-employees of Ghana Airways and Registrar Generals' Department (the official liquidator).

The methodology is the tool that was used to collect the data to achieve the research objectives such as:

- a) Major factors that militate against businesses, leading to their failure which may include
  - i) Poor management practices
  - ii) Lack of working capital
  - iii) Lack of planning
  - iv) Governmental interference
- b) Other factors that bring about business failure which the research may come out with.

The methodology is an instrument that was used to investigate the main reasons why Ghana Airways collapsed. This chapter gives details as to how the research was

carried on. The chapter also declared the research design, population and sample, sampling technique, data collection methods.

### **3.2 RESEARCH DESIGN**

The researcher used descriptive methodology. This tool tried to infer from the sample to generalize the characteristics of the population. Thus the research was concluded from the sampling of the population, since the entire population for the research could not be used for the study.

The study could not use any probability sampling to select the sample size because the population was scattered all over the country and abroad. Therefore non-probability technique was used to select the sample size. It should be noted that Ghana Airways is defunct now; therefore it was difficult to get the ex-employees who were the main focus of the interview. Thus the employment of convenience sampling to select the respondents.

### **3.3 POPULATION**

The main population to this study was the entire workforce of Ghana Airways and the official liquidator. The ex-staff of the company were scattered and not easily accessible. The official liquidator which was the Registrar General in collaboration with Pricewaterhouse Coopers was easily approached for information. Therefore the

entire population could not be used for the study. The research was conducted based on sampling of the population.

### **3.4 SAMPLING AND SAMPLING TECHNIQUE**

Sampling is the process of choosing some units from the entire population with the view of obtaining information about the population. As already mentioned, the research used non-probability sampling to select the sample size for the study. Convenience sampling which selected samples at the convenience of the researcher was employed to select the sample. This was due to the fact that the research was conducted within a shorter time constraint, and the population being sampled from were not easily accessible.

In all twenty ex-employees of Ghana Airways were interviewed by the researcher. The interview was conducted face to face. Other staff that could not be reached for face to face interviews were contacted on the telephone. Thus telephone interview was also employed to solicit answers to questions posed in the questionnaire. The official liquidator – The Registrar General and Pricewaterhouse Coopers were asked to answer questionnaires that solicited information as to the factors that caused Ghana Airways' failure.

### **3.5 DATA AND ITS SOURCE**

Data being the raw information for the study was collected from both primary and secondary sources.

The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. Such data are published by authorities which themselves are responsible for their collection. The primary source was the actual questionnaire that was administered to solicit answers to questions posed by the research to achieve the objectives of the study.

The primary data was collected from the ex-employees of Ghana Airways. Other data was collected from the Registrar General's Department and Pricewaterhouse Coopers (the official liquidators).

Secondary data on the other hand are those which have already been collected by some other agency and processed already. Generally speaking secondary data are information which have previously been collected by some organization to satisfy its need but it is being used by another person or body for an entirely different reason. (CEMBA/CEMPA 570, 2008)

Very limited secondary data was used for the study, because not much work has been conducted in this area. However, all efforts were made to get other works for some secondary data.

### **3.6 DATA COLLECTION TECHNIQUE**

Data collection technique is the activity that would be undertaken to solicit answers to the questions posed. The researcher wrote to the Registrar General's Department to obtain the consent of the head of the organization to allow interview to be conducted



with the official liquidator. Ex-employees of Ghana Airways were also contacted from their homes and new work places to help answer some questions. Officials of Pricewaterhouse Coopers were also interviewed.

In effect, the major tools that were used to solicit information for the work were personal interviews, telephone interviews and questionnaires. These tools were chosen because they were convenient to use in this type of research. They were also easy to be administered.

In all twenty ex-employees of Ghana Airways were interviewed personally or through the telephone. Some of them that could not be met were asked to answer prepared questionnaires. The Registrar General or his representative and officials of Pricewaterhouse Coopers were also interviewed.

### **3.7 DATA PROCESSING**

Data processing refers to a class of programs that organize and manipulate data, usually large amounts of numeric data (<http://www.webopedia.com>). It looks at the editing, coding, classification and tabulation of the data which would be suitable for analysis.

For efficient and comprehensive analysis, the data collected were edited to find out the unanswered questions, wrong spellings and choice of inappropriate words for corrections.

The researcher assigned numerical values to some of the data gathered which were tabulated using Microsoft Excel. Some of the tables were used to draw graph for pictorial presentations. This made the understanding of the study easier.

### **3.8 DATA ANALYSIS AND PRESENTATION**

The purpose of putting results of experiments into graphs, charts and tables is two-fold. First, it is a visual way to look at the data and see what happened and make interpretations. Second, it is usually the best way to show the data to others. Therefore pictorial presentation such as tables and graph were used to present the data.

### **3.9 DATA ANALYSIS PROCEDURE**

The data gathered were edited to correct mistakes and inconsistencies which might contradict the findings. The main method of analysis used was quantitative, especially for the ex-employees of Ghana Airways. Twenty ex-employees of Ghana Airways were either interviewed or asked to answer questionnaires which formed the basis of analysis. The official liquidator was Registrar General's Department supported by Pricewaterhouse Coopers. Therefore the official liquidator was asked to answer only one set of questionnaire which was intended to solicit confirmation to the findings from the responses of the ex-employees of Ghana Airways.

Tables and graphs were used to explain some of the findings. Percentages were assigned to the responses from the respondents on some of the issues raised in the questionnaires.

### **3.10 PREDICTIVE MODELS AND INDICATORS TO FORECAST CORPORATE FAILURE**

In recent years a number of models have been developed to use key ratios to determine whether a company has prospective financial difficulties and may be in danger of going bust. Most models calculate a 'score' for the company, which is then compared to a 'pass mark'. If the score is above the pass mark the company is considered safe (CIMA 1996). Therefore ratios and Z-score were to be computed from past records of Ghana Airways to ascertain whether the company failed the pass mark.

However, all effort made to get past financial records proved futile. The auditors of Ghana Airways refused to give the researcher some past financial records. Registrar General's Department could not help with any past financial statement neither with the reason that Ghana Airways did not file returns.

Computation of Z-Score:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Where:  $X_1 = \frac{\text{Working Capital}}{\text{Total Assets}}$

$X_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}}$

$X_3 = \frac{\text{Profit before Interest and Tax}}{\text{Total Assets}}$

$X_4 = \frac{\text{Market Capitalisation}}{\text{Total Assets}}$

$X_5 = \frac{\text{Sales}}{\text{Total Assets}}$

According to Professor Altman, the pass mark for the Z-score is 3.0. He suggests that a company with Z-score above 3.0 is considered to be safe. A score below 1.8 indicates a potential problem (CIMA 1996).

### 3.11 PRIMARY DATA COLLECTION TOOLS

To ensure objectivity of the study, both primary and secondary data were used. The primary data were collected using the following means:

- i. I personally interviewed the officials of Registrar General Department for information. Questionnaires were also prepared for the Registrar General to solicit answers to why Ghana Airways failed.



- ii. Pricewaterhouse Coopers who collaborated with Registrar General's Department for the liquidation of Ghana Airways was also interviewed.
- iii. I also resorted to written documents for other information.
- iv. Former staff of Ghana Airways were interviewed for more information.
- v. In all I interviewed the Registrar General and Pricewaterhouse Coopers (the official liquidators), twenty ex-staff of Ghana Airways made up of two directors, three management staff, seven senior officers and eight junior officers.

### **3.12 SECONDARY DATA COLLECTION TOOLS**

Most of the data were primarily collected. However, where there was the need to support certain facts, secondary data was used. The secondary data were gathered from articles written and published in books, newspapers and magazines. The web sites were also relied upon for more secondary data.

## **CHAPTER FOUR**

### **PRESENTATION AND ANALYSIS OF FINDINGS**

#### **4.1 INTRODUCTION**

This chapter deals with the analysis and presentation of the research findings. The data that offered the basis for analysis were gathered from questionnaires and interviews conducted to the ex-employees of Ghana Airways and the official liquidators – Registrar General's Department and Pricewaterhouse Coopers. The chapter therefore describes and analyses:

- a) Responses obtained from the ex-employees of Ghana Airways.
- b) The official liquidator

#### **4.2 PRESENTATION AND ANALYSIS OF RESPONSES OBTAINED FROM THE EX-EMPLOYEES OF GHANA AIRWAYS**

In all twenty ex-employees of Ghana Airways Company Limited were interviewed or asked to answer questionnaires. The interview took the form of face to face administration of questionnaires. Some of the ex-staff were also interviewed on the telephone. Questionnaires were also given to some of the ex-staff to answer.

The ex-staff interviewed cut across the various departments of the company. The departments included Administration, Finance, Airport Operations, Engineering,

Flight Operations and Marketing. Respondents were drawn from the various levels of the organizational structure. In all two directors, three managers, seven officers and eight clerical staff were interviewed or were asked to answer questionnaires. The respondents worked with Ghana Airways for a period ranging from three years to forty-two years before the company's liquidation. Of the twenty respondents, only one of them was on retirement when the company collapsed. The rest were in employment when the company folded up.

All the respondents confirmed that the salaries paid them were low. As to why they were still working in the company despite the low salaries paid them, they answered that they still worked with the company due to the opportunities some of them got to travel abroad during leave vacations. Others also intimated that they had no other job options so they had to stick to what they had despite the fact that the company was not paying them well. For these reasons all the respondents liked working with the company.

As to whether the ex-staff were allowed to do overtime to supplement their salaries, twenty-five percent of the interviewees responded yes. The rest responded no, with the reason that only clerical staff were allowed to do overtime. Even with the clerical staff, overtime was allowed based on work schedule, therefore not all the clerical staff were allowed to do overtime. The table below shows the responses:

Were you allowed to do overtime?

Responses	Number	Percentage
Yes	5	25
No	15	75
<b>Total</b>	<b>20</b>	<b>100</b>

Those who did overtime were allowed a maximum of eight hours a day, be it working day, weekend or holiday.

### **4.3 WHY GHANA AIRWAYS FAILED: FROM EX-EMPLOYEES STAND POINT**

From the interview, it was gathered that ninety percent of the interviewees were in employment when Ghana Airways folded up. This meant that most of the respondents saw how the company really ended.

Questions to solicit for factors that led to Ghana Airways' failure are presented in the tables set out below:



Out of the twenty respondents interviewed, fourteen agreed to the fact that Ghana Airways failed as result of poor management practices. This constituted seventy percent of the respondents. However, thirty percent of the respondents disagreed that Ghana Airways collapsed as a result of poor management. This is depicted in the table below.

Poor management practices contributed to Ghana Airways failure;

Responses	Number	Percentage
Agreed	14	70
Disagreed	6	30
<b>Total</b>	<b>20</b>	<b>100</b>

As to lack of planning as a factor leading to the company's demise, only eight respondents, constituting forty percent of the responses agreed to that assertion.

The rest disagreed as shown in the table.

Responses	Number	Percentage
Agreed	8	40
Disagreed	12	60
<b>Total</b>	<b>20</b>	<b>100</b>

Again seventy percent of the respondents agreed to an assertion that Ghana Airways failed as a result of inadequate working capital. The thirty percent, made up of six respondents disagreed to this assertion.

The table gives the details:

Responses	Number	Percentage
Agreed	14	70
Disagreed	6	30
<b>Total</b>	<b>20</b>	<b>100</b>

There was a question which suggested that Ghana Airways folded up as a result of lack of competent staff, only five respondents agreed whilst the rest disagreed as shown in the table below:

Responses	Number	Percentage
Agreed	5	25
Disagreed	15	75
<i>Total</i>	<i>20</i>	<i>100</i>

Those who agreed to lack of competent staff contributing to the company's failure constituted twenty-five percent of the respondents whilst those who disagreed constituted seventy-five percent.

From the respondents, government interference is the number one contributor to Ghana Airways failure. All the twenty respondents interviewed agreed to the assertion that government interference brought the company down. According to the staff the government interfered in the operations of the company through so many ways. One way the government interfered was the imposition of staff on the company especially the top management. For example the government changed about four chief executives within the last three years of the company.

They also responded that government officials controlled the airline unnecessarily. Sometimes an air plane which was ready to take off could be delayed due to the failure of a government official to get to the airport on time.

Furthermore, government officials could pack their personal belongings into the plane whilst clients' luggage were left behind. These activities made some of the customers lose goodwill for the company. The delays on the part of the government officials sometimes made the company to cancel flights and hire hotel accommodation for the passengers, therefore increasing cost of operations.

The table below shows that:

Responses	Number	Percentage
Agreed	20	100
Disagreed	0	0
<b>Total</b>	<b>20</b>	<b>100</b>

The above analysis showed that the major factors that led to Ghana Airways' failure were government interference, poor management practices and lack of working capital. Lack of competent staff and planning were the least contributors to Ghana



Airways' failure. However there were other factors (from the ex-employees' opinion) that contributed to the failure of the company. These factors are also analyzed below.

Sixty percent of the interviewees suggested that obsolete equipment played a role in the failure of the company. When all airlines were changing from outdated aircraft to modern and more efficiently performing aircrafts, Ghana Airways stuck to the old ones which were fuel consuming and expensive to maintain.

The table below gives the responses given by the respondents:

Responses	Number	Percentage
Agreed	12	60
Disagreed	8	40
<b>Total</b>	<b>20</b>	<b>100</b>

Most of the respondents disagreed to the fact that poor attitude of staff contributed to the company's failure. However, as much as nine respondents, constituting forty-five percent agreed that poor attitude of staff towards clients affected the company negatively. This is shown in the table below.

Responses	Number	Percentage
Agreed	9	45
Disagreed	11	55
<b>Total</b>	<b>20</b>	<b>100</b>

On wrong placement of staff as a factor that contributed to Ghana Airways' ruin, only thirty-five percent of respondents agreed to that. The table below shows how the respondents disagreed to the factor of wrong placement of staff contributing to the company's failure:

Responses	Number	Percentage
Agreed	7	35
Disagreed	13	65
<b>Total</b>	<b>20</b>	<b>100</b>

#### **4.4 THE FAILURE OF GHANA AIRWAYS LIMITED: THE STAND POINT OF THE OFFICIAL LIQUIDATOR.**

Ghana Airways was established on 4<sup>th</sup> July 1958, according to the official liquidator as a profit making state owned enterprise. Thus the corporation was established solely by the Ghana Government to do business and make profit for the government. The official liquidator intimated that the corporation was changed to limited liability company registered under the company's code, Act 179 of 1963. This transformation took place on 31<sup>st</sup> July 1995 and the Ghana Government still owned all the shares of the company.

According to the official liquidator the corporation was changed to company as a result of the implementation of government policy of divestiture of state owned enterprises. Another reason for the change was that the corporation was not making profit. Again the government wanted its liabilities to be limited. The official liquidator answered that the company could not make profit despite the change over from corporation to limited liability company. Ghana Airways therefore continued to make losses after its status was changed from corporation to limited liability company.

As to whether Ghana Airways had operational difficulties (financial and otherwise), the official liquidator answered in affirmative. When asked what the government did to rescue Ghana Airways during its difficulties, the official liquidator answered that the government tried to bail the company by injecting more funds into it. The

government again continued to change management to augment the management base. Other interventions the government embarked on was to guarantee the company's purchases from its creditors. The official liquidator answered that Ghana Airways could not survive on all the government interventions granted it and went on liquidation on 22<sup>nd</sup> June 2005.

The respondent was asked to rank the factors that contributed to Ghana Airways' failure; the table below shows the ranking:





Factor	Ranking
Government interference	1
Poor management practices	2
Improper staff placement	3
Poor staffing	4
Pilfering by employees	5
Misappropriation of company funds by management	6
Not following proper planning process	7
Laziness on the part of employees	8
Inappropriate working capital management	9
Poor attitude of staff towards clients	10

The official liquidator ranked the factors contributing to Ghana Airways' failure from one to ten, number one being the highest contributor to the failure and number ten the least contributor. The rankings indicated that the number one factor that contributed to Ghana Airways' failure is government interference. This was followed by poor management practices. Improper staffing (i.e. putting square pegs in round holes) and poor staffing were the next contributors to the company's demise.

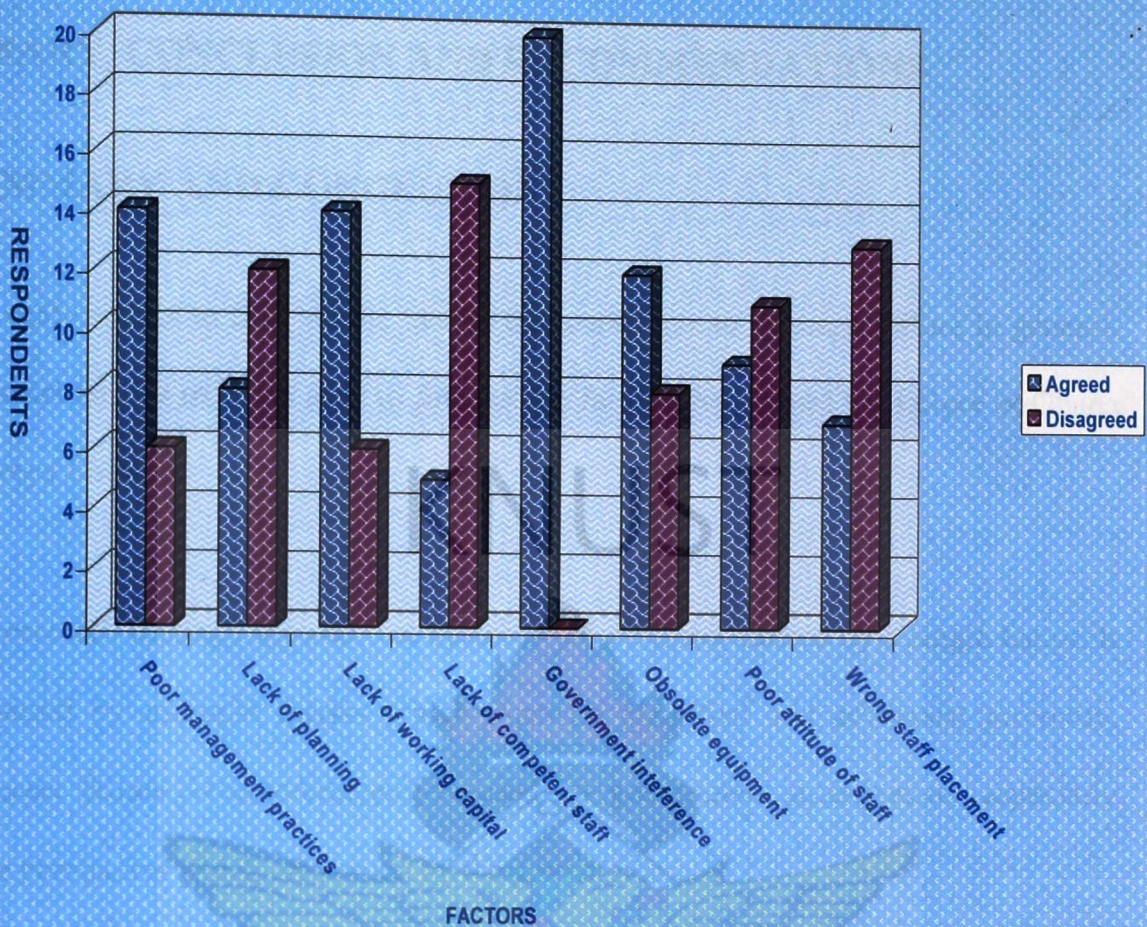
Pilfering by employees was the other factor after poor staffing that brought the company down. The sixth factor that forced the company out of business was misappropriation of company's funds by management, followed by management not following proper planning process.

According to the official liquidator's responses, the least factor that contributed to Ghana Airways' failure was poor attitude of staff towards clients, followed by inappropriate working capital management, and laziness on the part of employees.

This could be seen from the graph presented below:



**BAR CHART SHOWING FACTORS THAT CONTRIBUTED TO GHANA AIRWAYS' FAILURE**



The graph shows that government interference is the highest contributor to the company's failure. This is followed by poor management practices. Lack of working capital is the next factor that contributed to Ghana Airways' failure. Obsolete equipment was the next factor after lack of working capital that contributed to the company's failure. Though the other factors also contributed to the failure of Ghana Airways, their contribution was not quite significant.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 SUMMARY AND CONCLUSION**

The study sought to find out the factors that contribute to business failure in general. In particular this research tried to find out the factors that caused the failure of Ghana Airways Limited.

The research findings showed that business failure is not caused by a single factor. It is caused by multiple factors which must be identified and addressed promptly. Business failure is predominantly caused by government interference (especially those companies which are owned by the government).

In the case of limited liability companies like Ghana Airways Limited, other factors that cause business failure include poor management practices; lack of working capital and the use of obsolete equipment. From the research findings and analyses, the above mentioned factors were the major contributing factors that caused the failure of Ghana Airways Limited. There were other factors that also contributed to the demise of the company. These may be classified as minor since some of the staff agreed to the fact that they also contributed to Ghana Airways Limited's failure.

Those factors include poor attitude of staff, lack of planning, wrong staff placement, and lack of competent staff.



## 5.2 RECOMMENDATIONS

Based on the research findings, the following recommendations are made:

1. The government should not interfere in the operations of companies that are established by the state for profit making. The reason being that when the government interferes, the companies do not perform profitably well.
2. In every organization, the leadership is more important. Thus an organization with incompetent leaders who steer the affairs of the organization is bound for doom. Therefore it is recommended that the management of every organization should be up and doing, and manage the organization well to avoid failure.
3. Finance is said to be the life blood of every organization. Lack of it can spell the company's doom. Therefore it is important for organizations to have enough funds for their operations. The organizations should be adequately resourced with working capital to help the company stand on sound footing.
4. There is an African proverb which says that "a bad workman always quarrels with his tools". Obsolete equipment does not allow workers to perform their duties efficiently leading to poor results. Therefore companies should endeavour to provide modern equipment to staff. The equipment should also be changed periodically with modern ones. This will ensure that no worker would complain of tools being the contributory factor to non-performance.
5. Attitude of staff should be boosted through training for good relationship towards clients. This is because a company's success depends on its clients. Loyal and dedicated customers make companies, and attitude of staff towards

them would make them stay with the company or run away. Therefore it is recommended that company staff should be well trained to adopt good attitudes towards clients which will go a long way to affect the company's operations positively.

6. As gathered from the research findings, lack of planning can force companies into liquidation. Therefore companies have to plan their operations and execute the plan that will help the organization to achieve the objective for which it established.
7. Wrong staff placement also contributed to the failure of Ghana Airways Limited, though minimally, it is important for management to place the right candidates with the requisite qualification and experience at the right job position. The staff should be placed in the position where his competency would be best utilized.
8. It is also recommended that companies should employ competent staff to fill vacant positions. The competent staff may be selected by qualification, experience and job performance. The recruitment should not be based on relationships even if the person is not qualified. Once competency can be ascertained through proper interview and aptitude test. This will help reduce the recruitment of incompetent staff.
9. It should be noted that due to time constraints, the research purely focused on the factors that contribute to business failure. It is recommended that a further research be conducted to find antidotes that could be put in place to prevent failure of businesses.

## 6. REFERENCES

1. ACCA Paper 2.4, (2002), Financial Management and Control, Foulks Lynch Ltd.
2. Amstrong. M, et al. (2008), Management and Leadership, Kogan Page
3. Bettina, B. (2007) "How Government Interference and the Impairment of the Profit Motive Drive Business toward Bureaucratization", Indianapolis [www.oll.libertyfund.org/?option=com\\_staticxt&staticfile=show.php%3Ftitle=1891&chapter=110119&layout=html](http://www.oll.libertyfund.org/?option=com_staticxt&staticfile=show.php%3Ftitle=1891&chapter=110119&layout=html) [1st May 2009]
4. Birks, R. (2009), "Working capital" [www.wikipedia.org/wiki/Working\\_capital](http://www.wikipedia.org/wiki/Working_capital), html [22<sup>nd</sup> May 2009]
5. BizHelp 24 (2009), "Business Failure" [www.bizhelp24.com/small-business-portal/business-failure-16.html](http://www.bizhelp24.com/small-business-portal/business-failure-16.html) [26th April 2009]
6. CIMA, (1996), Strategic Financial Management, Foulks Lynch Ltd
7. De Roover, et al (1966), The rise and decline of the Medici Bank, Harvard University Press
8. Dickler, J. (2007), "Six ways to keep your business alive" [www.money.cnn.com/2007/01/09/smbusiness/tips\\_avoid\\_failure/index.htm](http://www.money.cnn.com/2007/01/09/smbusiness/tips_avoid_failure/index.htm) [26th April 2009]
9. DuBrin, J. A. (2006), Essentials of Management (7<sup>th</sup> edition) Thomson Higher Education, U.S.A
10. ETS Europe (2008) [www.wikipedia.org/wiki/ETS\\_Europe](http://www.wikipedia.org/wiki/ETS_Europe)
11. Garbutt, G. (1979), Carter's Advanced Accounts, Pitman Publishing Limited.
12. Ghana Airways Limited Regulation

13. Jimmy, W. et al (March 2009), "Business Failure",  
[www.en.wikipedia.org/wiki/Business\\_failure.html](http://www.en.wikipedia.org/wiki/Business_failure.html) [24<sup>th</sup> April 2009]
14. Lehman Brothers (2009), "Lehman Brothers Death"  
[www.wikipedia.org/wiki/Lehman\\_Brothers.html](http://www.wikipedia.org/wiki/Lehman_Brothers.html) [26th April 2009]
15. Lehman Brothers (2009), "Lehman folds with record \$613 billion debt".  
[www.wikipedia.org/wiki/Lehman\\_Brothers.html](http://www.wikipedia.org/wiki/Lehman_Brothers.html) [26th April 2009]
16. Nathan, R. et al (1988), Technical Proposal for Ghana Airways Study and  
Action Plan
17. Pricewaterhouse Coopers, (2006), Corporate Failures & Bankruptcies in  
Ghana
18. Republic of Ghana, (1993), The Statutory Corporations (Conversion to  
Company) Act, 1993, Act 461
19. Smith, M. (2007) Fundamentals of Management, McGraw-Hill Education
20. [www.businessknowhow.com/startup/business-failure.html](http://www.businessknowhow.com/startup/business-failure.html)
21. XL Airways UK (2009), "Cessation of operations"  
[www.en.wikipedia.org/wiki/XL\\_Airways\\_UK.html](http://www.en.wikipedia.org/wiki/XL_Airways_UK.html) [26th April 2009]
22. [www.marketwatch.com/news/story/story.aspx](http://www.marketwatch.com/news/story/story.aspx).



## **Appendix 1**

### **KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

### **FACULTY OF DISTANCE LEARNING - EXECUTIVE MASTERS IN BUSINESS**

### **ADMINISTRATION**

Questionnaire on Business Failure in Ghana: The Case of Ghana Airways Limited.

### **QUESTIONNAIRE TO EX-EMPLOYEES OF GHANA AIRWAYS**

This survey is being conducted to solicit information on why businesses fail in Ghana. The research is purely for academic exercise. The researcher is only using Ghana Airways as a case study, so any information provided will be strictly treated as confidential as possible. No part of the outcome will be published in any newspaper or book. It would be appreciated if you could spare some few minutes to answer the questions. Thank you.

1. When did you join Ghana Airways? .....
2. For how long did you work with the company?.....
3. In which department were you?.....
4. What was your position in the company? (a) Director (b) Managerial (c) Officer  
(d) Clerical
5. Who were you reporting to? (a) The Chief Executive (b) Board of Directors (c)  
Directors (d) Management (e) Supervisor
6. Did you enjoy your work? Yes [ ] No [ ]
7. If yes, give reason

.....

8. If no, give reasons

.....

9. Was your salary enough to suffice your financial obligations? Yes [ ] No [ ]

10. If no, how were you getting extra income to meet your obligations? (a) Part-time work (b) Lottery (c) Soliciting help from others

11. Were you allowed to do overtime? Yes [ ] No [ ]

12. If yes, how many hours were you allowed a day?

13. How many hours were you allowed during weekends?

14. How many hours were you allowed during public holidays?

15. If you answered no to question 12, give reasons

.....

16. Were you in employment when Ghana Airways was liquidated? Yes [ ] No [ ]

17. In your opinion, what caused the company to collapse? (tick as many as possible)

(a) Poor management practices

(b) Lack of planning

(c) Lack of working capital

(d) Lack of competent staff

(e) Governmental interference

(f) Others

## **Appendix 2**

### **KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

#### **FACULTY OF DISTANCE LEARNING - EXECUTIVE MASTERS IN BUSINESS**

#### **ADMINISTRATION**

Questionnaire on Business Failure in Ghana: The Case of Ghana Airways Limited.

#### **QUESTIONANIRE TO OFFICIAL LIQUIDATOR**

This survey is being conducted to solicit information on why businesses fail in Ghana. The research is purely for academic exercise. The researcher is only using Ghana Airways as a case study, so any information provided will be strictly treated as confidential as possible. No part of the outcome will be published in any newspaper or book. It would be appreciated if you could spare some few minutes to answer the questions. Thank you.

1. When was Ghana Airways established?
2. Who established it?
  - (a) Ghana government
  - (b) Private individuals
  - (c) Partnership between Ghana Government and Foreign Government
  - (d) Partnership between Ghana Government and private entrepreneurs
3. What was the company's status at the time it was established?
  - (a) Public limited liability company
  - (b) Private limited liability company

(c) Partnership

(d) State owned enterprise

4. During the life of the company, was its status changed? Yes [ ] No [ ]

5. If yes, the company's status was changed from ..... to  
.....

6. When was the status changed?

7. Why was the status changed?

.....

8. Was Ghana Airways making profit before its status was changed? Yes [ ] No [ ]

9. Did it make profit after the status was changed? Yes [ ] No [ ]

10. Did Ghana Airways have operational difficulties? Yes [ ] No [ ]

11. If yes, give the kind of difficulties the company had.....  
.....

12. If you answered yes to question 10, please state when the company started having  
difficulties.....

13. In your opinion, what caused those difficulties?

.....

14. When Ghana Airways started having difficulties, did the government intervene?

Yes [ ] No [ ]

15. If yes, state the kind of intervention the government embarked

on.....  
.....



16. If you answered yes to question 14, state other interventional strategies the company itself put in place.....  
.....

17. When was Ghana Airways liquidated?

18. The company was liquidated as a result of (please rank the responses in order of highest contributor from 1 to 10 with 1 being the highest contributor and 10 lowest contributor)

- (a) Pilfering by the employees [ ]
- (b) Laziness on the part of employees [ ]
- (c) Misappropriation of the company's funds by the management [ ]
- (d) Poor management practices [ ]
- (e) Improper staff placement [ ]
- (f) Poor attitude of staff towards clients [ ]
- (g) Poor staffing (i.e. inappropriate staffing) [ ]
- (h) Governmental interference [ ]
- (i) Not following proper planning process [ ]
- (j) Inappropriate working capital management [ ]

19. What could have been done to avoid failure