Neopatrimonialism and the Failure of Control & Accountability Systems in State Institutions in Less Developed Countries: The Case of Ghana and Nigerian Airlines

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Abstract

This paper draws on the concept of neopatrimonialism (Eisenstadt, 1973: *Traditional Patrimonialism and Modern Neopatrimonialism, Sage Publications*) to explain the failure of the national airlines of Ghana and Nigeria. Both airlines had a similar trajectory – they formed the West African regional airline set up by the British colonial administration. They became separated after independence but both suffered from high political interference, poor accountability and mismanagement, excessive debt and eventual liquidation. Drawing on the notion of neopatrimonialism the paper argues that the demise of both airlines could be explained by their direct connection to domestic political machinery which made rational-legal bureaucratic relations that characterize modern organizations subservient to patrimonial relations, with politicians and people in power treating these organizations as personal fiefdom. In effect there was a clear failure of control and accountability systems in both organizations. The paper offers alternative explanations of corporate failure from a socio-political perspective.

Key Words: State-Owned Enterprises; Ghana; Nigeria; Control & Accountability; NeoPatrimonialism
1. Introduction

A significant number of Less Developed Countries (LDCs), especially those in Sub-Saharan Africa embarked on massive industrialization immediately after independence (Killick, 1978). This resulted in immense state involvement in business activities in these countries. The high failure rate of these state-owned enterprises (SOEs) has however been widely documented (Uddin and Hopper, 2001, 2003; Rahaman & Lawrence, 2001a, 2001b; Wickramasinghe et al., 2004; Uddin and Tsamenyi, 2005; Wickramasinghe and Hopper, 2005). Two of such failed SOEs in recent times are Ghana Airways (GA) and Nigerian Airways (NA). The two airlines were part of the West African Airways Corporation (WAAC) which was set up under the British colonial rule. The airline was split after independence but their post independence trajectory is similar. Both companies have been subject to high political interference, poor accountability and mismanagement, inefficiency, saddled with excessive debt and eventual liquidation. GA was liquidated in 2004 while NA was liquidated in 2003. The objective of this paper is to explore and understand why and how these airlines failed.

Our analysis is guided by ideas from neopatrimonialism (Eisenstadt, 1973; Clapham, 1985). The concept of neopatrimonialism which has been prominent in development studies and political science since the 1970s has been used by several authors to explain the underdevelopment and political instability that has characterized several LDCs, especially those in Africa (see for instance, Roth, 1968; Clapham, 1985). Neo-patrimonial systems contain elements of both of Weber’s rational-legal bureaucratic and patrimonial systems (Erdmann and Engel, 2007). On the one hand there are rational-legal bureaucratic structures that define formal authority and relationships. On the other hand however, decisions are highly politicized with the domination of personal relations and political connections. Thus despite the existence of rational-legal bureaucratic structures, neopatrimonial societies are characterized by the dominance of personalism with people in power or positions of authority appropriating state or public resources for personal gain (Le Vine, 1980). A consequence of this is the privatization of public affairs (Médard, 1982), thus the lack of clear dissection between what constitutes public and private agenda. Appointments to positions of authority for instance are made on the basis of connections to the political machinery.
Our concern in this paper is to examine: *How pervasive neopatrimonial relations were in both Ghana and Nigerian Airways and the extent to which these have contributed to the demise of both firms.* We believe such an analysis will broaden our understanding of the performance and failure of SOEs in LDCs than the predominantly neoclassical approach that has dominated the literature (see for instance, Prizzia, 2001). Our research is important for several reasons. First, though a significant number of SOEs have been privatized in LDCs, a large number of them still operate in these countries. Some of these SOEs are inefficient and continue to drain on the scarce national resources of these countries. Our study will contribute to understanding the performance and operations of these enterprises. Second, privatization has been promoted by the World Bank and the international financial community as a panacea to economic development in LDCs. However, the recent nationalization of financial institutions in some western countries as a result of the credit crunch is likely to rejuvenate the SOE/privatization debate.

The remainder of the paper is organized as follows. The next section presents our theoretical framework based on the ideas of neopatrimonialism. This is followed by our research methods. Following this, the history and the origin of neopatrimonial relations in both firms are presented. This is followed by a discussion of the reforms and privatization attempts in the two organizations. The liquidation of both firms is then discussed followed by a final section on conclusions.

2. Theoretical framework – NeoPatrimonialism

The term neopatrimonialism can be traced to the work of Eisenstadt (1973) and later developed by writers such as Médard (1982) and Clapham (1995). It has been widely adopted in the development and political studies literature to explain the political problems and underdevelopment in developing countries (Roth, 1968; Le Vine, 1980; Clapham, 1985). One of the most comprehensive definitions of the concept has been provided by Clapham (1985). He defines neopatrimonialism as:

>a form of organization in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines. Officials hold positions in bureaucratic organizations
Neopatrimonial systems are hybrid in that they share the features of both of Weber’s (Weber, 1964&1978) rational-legal bureaucratic systems and patrimonial systems (Theobald, 1982; Bratton and van de Walle, 1994; van de Walle, 2001). Erdmann and Engel (2007:104) reiterate this argument as: “The term clearly is a post-Weberian invention and, as such, creative mix of two Weberian types of domination: a traditional subtype, patrimonial domination, and rational-legal bureaucratic domination”. The authors went further to state that “under neopatrimonialism the distinction between the private and the public, at least formally, exists and is accepted, and public reference can be made to this distinction” (Erdmann and Engel, 2007:104). Thus the distinction between what constitutes a public sphere and a private sphere exists in theory. However this distinction is blurred in practice hence the argument that neopatrimonial systems are characterized by the privatization of public affairs (Médard, 1982) with corruption and patron client relationships being endemic in these societies.

It is widely acknowledged that the concept encapsulates the nature of political and administrative behavior in Africa (Médard’s 1982; Bratton and van de Walle, 1994; Englebert, 2000; van de Walle, 2001) and has become a widely accepted concept in the African studies literature (Erdmann and Engel, 2007). Writers such as Englebert (2000) and van de Walle (2001) have drawn on the concept to explain why Africa has been saddled with economic and political crises with Le Vine (1980) even suggesting that there is a distinct neopatrimonial system in Africa called ‘Africa patrimonialism’. Boas (2001) attributed conflicts in Africa especially the civil wars in Liberia and Sierra Leone to the persistency of neopatrimonial systems. Taylor and Williams (2008:137) argue that in Sub-Saharan Africa “…the dominant political culture can be characterized as neopatrimonial, that is, systems based on personalized structures of authority where patron-client relationships operate behind a façade of ostensibly rational state bureaucracy”.

*with powers which are formally defined, but exercise those powers, so far as they can, as a form not of public service but of private property (p.48).*
Our theoretical framework is based on the notion of the co-existence of rational-legal bureaucratic systems and patrimonial systems. We recognize the possible existence of rational-legal bureaucratic structures in the two airlines but at the same time we also recognize the existence of patrimonial relations in these organizations. As suggested by Erdmann and Engel (2007:104) “It is a daily experience that not all political and administrative decisions are taken according to informal rules determined by private or personal interests”. Rational-legal bureaucratic relations based on the existence of formal rules that define authority and responsibilities are likely to provide the framework for the legitimacy of these organizations. Neopatrimonial relations characterized by patronage, clientelism, corruption, nepotism, and ethnicity (Zolberg, 1969; Scott, 1969; Lemarchand and Legg, 1972) are likely to function within these rational-legal bureaucratic structures such that to some extent decisions such as “jobs, promotions, credits and licenses are distributed according to private discretion” (Erdmann and Engel, 2007:104).

Figure one below depicts our proposed theoretical framework based on neopatrimonial system whereby informal relations permeate formal structures. Thus, “informality and formality are intimately linked to each other in various ways and by varying degrees; and this mix becomes institutionalized” (Erdmann and Engel, 2007:105). There is thus the recognition that formal and informal structures reinforce each other. Thus, while formal bureaucratic state institutions exist, they are penetrated by informal networks (Snyder, 1992; Boas, 2001).

Figure 1: Structure of neopatrimonial relations and control systems
As we have mentioned before the informal structure is characterized by among other things patronage, clientelism, and corruption. Erdmann and Engel (2007) argue that clientelism which involves the transfer of public goods and services by the ‘big man’ (patron) to the ‘small man’ (client) for political favors is based on personal relations. Patronage on the other hand is “the politically motivated distribution of favors not to individuals but essentially to groups, which in the African context will be mainly ethnic or sub-ethnic groups” (Erdmann and Engel, 2007:107). In figure 1 we argue that the formal bureaucratic structure is likely to be undermined by the dominance of the informal structure as those in positions of power see their interests being served better by the informal structure, which in turn results in the inability of state institutions to perform their public welfare roles (Erdmann and Engel, 2007). We consider these welfare roles in terms of the extent to which these organizations are able to maintain proper control and accountability. The inability to maintain proper control and accountability results in corporate failure.

3. Research methods

The data for the analysis were gathered using a triangulation approach. The main sources of data were semi-structured interviews, informal discussions, and analysis of relevant internal and external documents (including the examination of newspaper reports). The first phase of the study was conducted in 1996 with Ghana Airways (GA). At the time we were interested in understanding the role of accounting information in the internal decision making of the company. We conducted semi-structured interviews with 12 managers. We took notes during the interviews, as tape recording was not permitted. In addition to the formal interviews, 7 employees were engaged in informal discussions over lunch hours. We also consulted various documents including the organizational charts, budget statements, budget manuals, budget review and control reports, annual performance reports and annual financial reports.

The results of this initial analysis clearly suggest that the company’s operations have been highly politicized. This prompted us to revisit the company in 2003 to explore
further some of the issues that emerged during our 1996 study. We conducted interviews with 8 managers during this second visit in 2003. We had informal chats with 6 managers and employees. We also consulted various documents and newspaper publications. The company was at the time going through liquidation so the employees were very candid with us and were bitter about the whole process.

The story of GA motivated us to study the Nigerian Airways (NA) case as we saw some parallel. In 2008, we conducted formal interviews with 10 ex-managers of NA. We also had informal chats with 4 other ex-managers. In addition we had access to various documents including annual and management reports and a judiciary panel inquiry report on the company. In addition we consulted publications in various newspapers. An interview was also conducted with a top official of the ministry responsible for the airline.

4. The History and Origin of the Neopatrimonial Systems in GA and NA

The history of GA and NA dates back to the British colonial period. The airlines were part of West African Airways Corporation (WAAC) set up by the British colonial administration. The management of WAAC was predominantly British and the airline served the British interests within the West African sub-region as it facilitated travel between the colonies. In effect it represented a symbol of British imperialism and when Ghana obtained independence in 1957, Dr. Kwame Nkrumah the first president of the country was swift in cutting ties with WAAC. This was not surprising given that Nkrumah situated his ideology around socialism and had strong political ties with the Communist Soviet Union (Thompson, 1993; Petchenkine, 1993).

Nkrumah’s government was very nationalistic and embarked on massive state control of all industries (Killick, 1978). This period witnessed enormous industrialization and development projects by Nkrumah with the intent of reducing Ghana’s reliance on the British colonial authorities. Nkrumah felt the need to create a new company completely detached from British colonialism hence the establishment of GA as a national airline in 1958. GA became one of
the major investments of the government at the time and epitomizes Nkrumah’s ideology of creating a self sufficient economy based on state planning and control (Thompson, 1993; Petchenkine, 1993).

Around the same time Nigerian activists were agitating for independence from the British colonial authorities. Even though Nigeria did not obtain full independence until 1960, the British authorities saw the need for a national airline for the country hence NA was set up in 1958 as a joint venture between the Nigerian Government (51%), British Overseas Airways Corporation (BOAC) (16.7%) and Elder Dempster Lines Limited (32.3%). In 1963 the government of the now independent Nigeria acquired all the assets of NA thereby making it a wholly state-owned company.

The setting up of the two airlines had both economic and political motives. Economically, GA and NA like many other SOEs were set up with the intention of generating revenues for these newly independent states (Killick, 1978). They had formal bureaucratic structures. For example, they were both established by acts of parliament with clear mandates and they had board of directors and management. They had reporting structures and were required to prepare regular accounts to the sector ministry. In both countries, these accounts were to be audited by the Auditor Generals Department. In effect they had formal hierarchical structures like any modern organization. On the surface therefore both organizations appear to have rational-legal bureaucratic structures (Weber, 1964 & 1978; Roth, 1968; Theobald, 1982; Clapham, 1985). In practice however, the operations of both airlines were dominated by social and political relations (Bratton and van de Walle, 1994; van de Walle, 2001; Erdmann and Engel, 2007). First, there was a political motive behind establishing these airlines. Many Sub-Saharan African countries obtained their independence around the late 1950s and the early 1960s and began setting up their own national airlines to symbolize their sovereignty. As a result, having a national airline was a common theme in post independence Africa in those days. With this political agenda, the operations of the airlines became intertwined with domestic politics.
Both airlines were shielded by their respective governments through the tight regulation of the airline industry with the operations of foreign airlines tightly monitored and controlled. GA and NA were both heavily subsidized and financed by their respective governments. Inefficiencies and mismanagement were overlooked as the airlines’ political and strategic roles were never questioned. One of our interviewees at NA commented that: “The airline’s problems are man-made. From the very beginning, it was difficult to separate the activities of the airline from politics. There are people in power with vested interests for example who want to set up their own airlines. They did everything possible for NA not to succeed as a national carrier”.

Our analysis of NA showed that its problems became much more severe from the early 1980s as a result of frequent military coups in Nigeria. One of our interviewees noted that: “Though our performance was not that good in the early years it was relatively stable. Our problem became worse after 1982/83 with too much political instability and interference. The various governments were supposed to buy us new planes, but they did not do this. Instead politicians and people in power were only interested in what they can get from the airline”.

In both airlines, management changes while occurred frequently were driven by political rather than economic agenda with political changes often resulting in changes in the company’s board and key management. It was also uncommon to find executives being removed from office for failure to pursue the interests of politicians. Thus political interference was rife in both GA and NA’s day-to-day life. GA has had over 30 Chief executives during its 45 years history and this instability was explained by an interviewee in 2003 as: “If you look at the records, Ghana airways has suffered the most political interference and management changes among all government owned companies in Ghana. This is partly to blame for the problems of the airline”. The managers we interviewed believed that GA’s problems were systemic and that various governments have appointed people with political connections to run the company. Others have argued that GA’s problems also lie in the heart of the Ghanaian culture as very often people who are appointed to investigate the company’s operations are perceived as
undermining the company\textsuperscript{1}. The strategic nature of the company created the false sense of security among management that the government cannot see the company collapse. In particular it has been argued that there was really no incentive for the management to perform. The consequence of the mismanagement was the poor performance of the company and huge financial debt it had accumulated over the years. Some had argued that a resultant consequence of the politicization of managerial appointments was the appointment of managers who lack efficiency, the ability to plan and properly execute plans\textsuperscript{2}. There were daily reports of customer frustrations over inefficiencies. Some of the common complains were poor customer service with telephone calls unanswered, poor quality of service and insensitivity of employees towards customers. There were frequent overbookings and cancellations of flights. In effect it was argued in the media that GA had no concept of customer service.

In NA interviewees and the media have been vociferous in their attribution of the failure of the company to political interference. One interviewee noted that: “To me the lack of politicians’ patriotism is the main reason for the failure of the airline”. Though NA had the mandate to be commercially viable, the interviewees indicated that the airline was not run as a profit making organization. Similar to GA, decisions in NA were made without any profit justification and top managements/boards appointments were made based on political patronage rather than expertise (Médard’s 1982; Bratton and van de Walle, 1994; Englebert, 2000; van de Walle, 2001). The interviewees at NA suggested to us that from the outset airline was not structured to survive. An interviewee explained how each State Governor wanted an airport built in his state and NA to fly there. He explained further that NA was directed by the government to go along unprofitable routes for political reasons: “For example, we were directed by the government to fly to Niger but there was no economic rationale behind this. We bought fuel to fly there only to pick up a handful of passengers. This was a political decision”. Another interviewee reiterated the problem as:

During pilgrimage if there is any problem with the airline contracted by the government to carry out the Hajj operation we are called in to take over the

\textsuperscript{1}http://www.dailyguide.com
\textsuperscript{2}http://www.africast.com/article.php?newsID=31261&strRegion=West
operation. We are asked to go to Jeddah and bring the pilgrims back and we have no option than to do so.

Neopatrimonial systems are characterized by the transfer of public goods and services by those in authority for personal gain (Médard’s 1982; Bratton and van de Walle, 1994; Englebert, 2000; van de Walle, 2001; Erdmann and Engel, 2007). We illustrate one such example with the issue free tickets. This practice was so endemic in both airlines that some interviewees believed it became an acceptable behavior. In NA one interviewee noted that: “Politicians issued notes for released of tickets and you can’t say no to it”. A former accounts manager interviewed noted that: “All you see is warrant after warrant for tickets and there is nothing you can do about it”. It was even reported in one newspaper that some Nigerians fly NA for free to attend weekend parties in Europe and USA\(^3\). NA acquired so much debt that its planes were impounded at Heathrow and several other airports. There was an incident in 2002 where a Nigerian passenger had to buy fuel for an NA plane that was already loaded and ready for takeoff because its fuel suppliers could not grant them any further debt\(^4\).

The story of free ticketing in GA was similar to that of NA. Evidence gathered shows that it was a common practice for politicians and those connected to the political machinery to call the company to demand free tickets (and mostly business and first class) thereby placing government officials directly at the heart of the company’s problems. It has been argued by some in the Ghanaian media that by so doing it provided GA’s management the alibi to continue with their luckless management practices. A manager we interviewed commented: “Anytime the plane loads from Accra to London or to New York, a significant number of the passengers on the flight are non-fare paying. These are mostly politicians or families of these politicians who are traveling on private business”. The interviewees noted how such a practice became so endemic that it was rarely questioned. In both cases however the interviewees also blamed the management of these airlines for being involved in this practice. Very often they too request for free tickets for families and friends. An interviewee at GA commented that: “We have lost a lot of money from these free

\(^3\) Nigerian Daily, July 2003

\(^4\) Nigerian Daily Star, December 2002
riders. Request for tickets usually come from people in power, both inside (and I mean our own management) and outside so it is difficult to say no”.

5. Reforming and Privatizing the Impossible

Various attempts were made over the years to reform and privatize both airlines but these had failed. Interviewees in both firms were of the view that the political nature of these organizations made it impossible to reform and privatize them.

5.1 Reforms and attempt to privatize GA

In 1983 the Ghana government implemented IMF/World Bank led economic reforms. As part of this reform, the airline industry in Ghana was de-regulated. During the initial study in 1996, various management reports and interviewees cited this deregulation as contributing to GA’s mounting problems. A senior manager we interviewed in 1996 conceded that: "For the airline to be economically viable, it has to be able to cope with foreign competition. Unfortunately we are unable to do so. We don’t have the capacity to achieve this".

By the time the industry was deregulated in the early 1980s, GA had reported operating profit only once since it was established in 1958. An analysis of the company’s financial records however disclosed that GA's losses increased substantially since the industry was de-regulated. During the era of the reforms, the Ghana government came under increasing pressure to improve the performance of SOEs and to privatize the majority of these enterprises. Nearly all the SOEs in Ghana (including GA) were making losses and draining the scarce national resources (Uddin and Tsamenyi, 2005). This pressure resulted in an independent assessment carried out in the late 1980s, to identify the causes of the poor performance of the SOEs. Several factors including mismanagement, and lack of incentives for management were noted as contributing to the SOEs’ poor performance. A quest for a solution to the poor performance of the SOEs resulted in the promulgation of the State Enterprises Commission Act 1987 and the subsequent divestiture of the majority of the SOEs either through outright sale,
sale of shares, amalgamation, joint ventures or complete liquidation. The State Enterprises Commission Act established an independent body known as the State Enterprises Commission (SEC) to monitor all aspects of operations and performance of the SOEs. During the initial stages of the economic reforms the SEC was delegated the responsibility of restructuring public enterprises as well as overseeing the divestiture program (IMF, 2000). However the lack of progress in terms of privatization activities led to the creation of the Divestiture Implementation Committee (DIC) to take over the responsibilities of the divestiture from the SEC. The SEC was then left with the role of monitoring the performance of SOEs and advising the government on their restructuring, rehabilitation, and divestiture. GA became one of the companies under the SEC’s monitoring. Clearly, the SEC’s monitoring of GA’s performance did not improve the company’s accountability and performance as it failed to prepare accounts on time. The net profit margin of the company for the years 1993, 1994, 1995 and 1996 for instance were -5%, -2%, -2 and -17% respectively. Thus GA continued to accumulate massive losses and drain on the national economy.

In the mid 1990s, under further international pressure to improve the performance of GA and privatize it, the Ghana government engaged a firm from the UK affiliated to British Airways to manage and restructure the company. A senior manager at GA noted during the interview in 1996 that: “The restructuring is an attempt to reduce the company’s losses and make it viable and attractive to foreign investors as part of the government’s privatization program”. The management contracting firm had in the past successfully restructured Kenyan Airways so the government was optimistic that they can turn GA into a viable organization.

The senior management team was restructured with the management contracting firm playing a significant role in the general management of the company. Key positions such as CEO and commercial manager were taken by the management contracting firm. The finance department was also strengthened to ensure that more adequate, timely and relevant accounting information is provided for
operational decisions. The new management team undertook market expansions by opening new routes and offices, a decision it perceived as necessary for GA to become internationally competitive. A member of the senior management team we interviewed in 1996 noted that: "We are opening more routes so that we can enter the 21st century as a reputable economic entity. We hope by the end of the century our poor performance will be reversed". To facilitate the expansion, the company entered into an arrangement with other overseas airlines to lease aircrafts. Another manager interviewed in 1996 emphasized the importance of this decision as: "These aircrafts are needed boldly to boost exploitation of existing routes. We were fortunate to have very strong untapped markers in Africa. We had to increase our service levels to take advantage of these new markets".

To attract more passengers, a decision was taken to reduce fares to levels significantly below that of major competitors such as British Airways (BA) and KLM. For example when a return airfare from London to Accra on BA was about £700 GA was charging under £400. GA also offered customers a luggage allowance of 40KG instead of the 20KG offered by BA and the other international airlines. Unfortunately this fare reduction did not result in a proportionate increase in passenger numbers. Some of the managers we interviewed and the Ghanaian media have attributed this failure to the poor quality of services we identified earlier. A manager we interviewed in 1996 noted that: "Our prices are low to enable us compete. But unfortunately all the price reductions we have undertaken have not been compensated by a proportionate increase in the number of passengers". The quality of GA’s services has consistently been criticized in the national media. Passengers were prepared to pay higher prices to fly with airlines such as BA. A manager we interviewed in 1996 emphasized during the interview that: "Where there is competition, customers take several factors into consideration. Customer satisfaction is key indicator in this case but we have ignored this over the years. Reducing prices alone is not a sufficient decision".

Few of the managers we interviewed in 1996 also identified the general economic condition of Ghana at the time of contributing to the inability to attract more passengers despite the fare reduction. A manager we interviewed noted that: "Our operations are greatly affected by the depreciation in the local currency, the level
of inflation, the low income levels and the high unemployment levels. People do not have sufficient income to buy tickets to fly. The monthly income of a manager is less than USD100. Our fares are sometimes too expensive for the average Ghanaian to afford. How many people do you think can afford to buy air tickets to travel to London?"

Did the management contract improve the airline’s performance? We investigated this and found some improvement though this was not the whole story. The management contract was signed in 1996. The analysis in tables 1 and 2 above shows that GA made an average loss of approximately 27 billion cedis over the four years prior to the management contract. It managed to record an average profit of approximately 14 billion Cedis between 1997 and 1999. These were periods of the management contract. Equally the net profit margins for the three years during the management contract period were 0.4%, 0.1% and 4%. At the time we conducted the first interviews in 1996 some employees were very optimistic about the airline’s future. A manager we interviewed then commented that: "GA has been making losses all over the years. We are hoping that our performance will improve as a result of the current restructuring we are going through. We are forecasting a profit for the future. If the company’s reform program remains on track, we could become a reputable organization in the next few years".

The profit improvement between 1997 and 1999 was not the whole story. This profit improvement was achieved with aggressive expansion under the management contract period. A manager we interviewed in 2003 noted that “The management spent excessively in an attempt to aggressively expand new routes. For example they entered into expensive lease agreements. This created massive debts for the company”. For example the company was left with debts of over US$30 million after the management contract ended in 1999. These figures were not reflected in the financial results we picked from the IMF website.

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5 See IMF Statistical appendix on Ghana (www.imf.org)
The management contractors left the company in 1999 and were replaced by a local management team. The minister for the sector in an address in early 2000 warned the employees against apathy which he claimed had characterized the company since its formation.\(^6\) GA recorded huge losses post 1999. For example it made an average loss of about 295 billion cedis between 2000 and 2001. The company's net profit margins in 2000 and 2001 were thus -51% and -28% respectively. Its estimated debt in 2001 of about US$150 million was about three times the value of its assets. The government at the time ordered a number of restructurings and between the end of 1999 and 2002 GA had four restructurings all resulting in significant changes in the company’s management. Despite this the company languished in debt, and was at the time threatened by creditors to either sue or seize its assets. Attempts to privatize GA also failed due to the lack of potential buyers. In June 2000 for example, the then Minister for Finance wrote a letter to the Managing Director of the IMF calling for the waiver of the appointment of the sales advisors for the divestiture of GA.\(^7\)

5.2 Reforms and attempt to privatize NA

In 1979 there was a lot of public outcry that NA was not working up to standard, its services were poor and its management was accused of inefficiency and corruption. This prompted the military government at the time to engage the services of KLM in a technical partnership to manage NA for two years. KLM staffs were put in key management positions. It was explained by the interviewees that during the period of KLM’s management, certain aspects of the company’s performance had improved. One interviewee noted that: “I will give you one example. During the time of KLM, schedule time was diligently maintained and if a plane is expected to arrive at 10.00am it will do so”. However, the interviewees explained that KLM’s management of NA was not without controversy. They argued that KLM’s management was not beneficial to NA; rather it led NA into financial recklessness and mismanagement. Some interviewees noted that the invitation of KLM to manage NA was wrong in the first place as explained by an interviewee as: “KLM and NA were competitors so it was wrong in the first place to invite them to manage NA. How do you expect them to

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\(^6\) See Daily Graphic, June 2000.

\(^7\) See GA’s management report July 2000.
improve the performance of one of their competitors?” The employees were of the view that KLM wanted to make money so they committed NA to unnecessary expenses. It was reported in the local media that chairs, bedding sets, cutlery, cooking utensils, fridges, drinking water, etc were imported in large quantities from Holland at the expense of the airline. At the end of the technical agreement with KLM, NA’s overdraft was said to have risen from ngn6million to ngn40million. According to the interviewees the technical partnership with KLM failed to improve the technical skills of NA employees. This was summed up by an interviewee as: “To be honest with you, the technical partnership made NA worse than it was before”.

In the 1980s the oil shock affected Nigeria greatly. It was against this backdrop that the then Head of State General Ibrahim Babangida adopted the IMF/World Bank structural adjustment Program (SAP) in 1986. Public sector reforms were one of the SAP policies adopted. A Technical Committee on Privatization and Commercialization (TCPC) was created and NA was first listed for privatization. TCPC however recommended that instead of privatization, NA should be retained as a wholly state-owned company but should be fully commercialized. TCPC also recommended that NA should continue to operate the domestic route and the international routes should be operated by a newly to be formed airline called Air Nigeria Plc. The proposal was that Air Nigeria Plc would be substantially owned by International reputable airlines who would act as a technical partner as shareholders/managers and help in building a reliable, strong and efficient international carrier. The Nigerian government’s ownership was to be limited to 20%, 40% equity was to be sold to the general public and the remaining 40% to be taken up by these international airlines (TCPC 1993). However, Air Nigeria failed to materialize because the international airlines that were approached to buy a stake were not interested in it. One interviewee observed that: “This was clearly another unnecessary expenditure. A lot of money was spent and at the end, there was nothing out of it. This has always been the sad story of Nigerian Airways”.

In 1993 the military leader General Sani Abacha came to power, and all privatization and commercialization of SOEs in the country, including NA were suspended by a military decree. Abacha was very tough on spending and no money was to be released to any public institution without presidential approval.
An interviewee observed that: “Under Abacha, NA was literally held by its throat. The government refused to release any money for the airline to carry out its routine maintenances and other operational activities”. It was pointed to us during the interview that at the time NA had several bilateral agreements with other countries, but all money coming to NA from these arrangements were seized by the Abacha government and immediately converted into foreign currency. One interviewee noted that: “What Abacha did was to promote private airlines of his friends, which many people believed he held substantial interest in”. Such was the political interference in the affairs of NA that in 1995 senior air-force officers were deployed by the military government to manage the airline. However as suggested by the interviewees, this had disastrous consequences as these air-force officers had no sense of managing commercial organizations. The interviewees also identified that some of the debts attributed to NA were actually incurred by private airlines connected to the ruling junta that used NA’s flying code (NA-WT) to fly to other countries.

Obasanjo, a former military ruler in the late 1970s returned to power as a civilian elected president in 1999 and immediately revived Nigeria’s commercialization and privatization program. Obasanjo found NA in a very poor state. When he handed over power to the civilian government in 1979 NA had 32 aircrafts in its fleet; however on his return in 1999 it had only 2 operating aircrafts. Its hangers were filled with many unserviceable planes. One interviewee noted that: “Several questions were asked by the government such as the whereabouts of most of the planes but nobody could provide answers to these questions. In fact nobody could account for what happened”.

The NA privatization program was brought forward to generate revenue. The World Bank offered debt relief in exchange for privatization of key state enterprises such as NEPA (Nigerian electricity), NITEL (Nigerian Telecom) and NA. NA was slated for privatization in 2000 but its privatization was postponed because of the effect of September 11 terrorist attacks. IFC was appointed as consultants, and they recommended that Nigeria create a new flag carrier. However, IFC later withdrew saying that their advice was not followed. NA was in a poor state, caused by mismanagement, depleted fleet of aircrafts and low
safety standard. Among its saleable assets were the international routes which are covered through international bilateral agreement.

The plan to revive the airline before it can be privatized was announced by the senate chairman on aviation in the Nigerian dailies on 12 May 2001. He noted that the airline was to undergo a turnaround regime for at least 18 months. There was also an attempt to form a Joint Venture with South African Airline, but the joint venture arrangement failed. The joint venture was abandoned in March 2002 with political reasons cited by both the local media and our interviewees as the cause of this. An interviewee explained this as: “The joint venture did not occur because top government officials were interested in buying the assets of the airline when it is liquidated, so their interest is on liquidation not the joint venture and in the end these assets were sold to these officials”.

The attempt to privatize NA was not without controversies. At one time, the BPE was ordered by the office of the President to take its hands off the privatization. NA’s 49% shares were then sold by the Nigerian aviation minister to UK based Airwing Aerospace. The deal was done without parliamentary approval and BPE was not involved in the sales. The director general of BPE was barred by the government from talking about the Airwing Aerospace Limited deal. Various airline agencies were sidelined when the deal was arranged, but later were asked to join the arrangement and were warned not to make any critical public statement regarding the deal. The Aviation minister claimed that the deal was first approved by President Obasanjo before she signed it. Unfortunately the deal later failed. The lack of transparency in that sale led the senate committee on aviation to call for an inquiry into the unilateral sales of the shares by the minister. It was reported in the newspapers that there was an attempt by the Nigerian Vice President to buy the Airline but this was thwarted by the aviation Minister. So in the end, the various reforms were not successful and the privatization of the airline never occurred.
6. The Final Chapter - the Liquidation

Both airlines were eventually liquidated, GA in 2004 and NA in 2003. Here we present the final chapter in the tumultuous journey of both airlines.

6.1. The final chapter and liquidation of GA

At the time we conducted our second study in 2003, GA's performance had continued to worsen with the accumulation of massive debts. Controls were ignored and several expenditures were made without proper consideration. The government was desperate to privatize the company but was not been able to attract any investors due to its poor performance and the massive debt. In a state of nation address in 2002 the then President of Ghana, John Kuffuor made reference to the precarious position of GA. He attributed GA's problems mainly to years of reckless mismanagement and pledged the government's commitment to come to the aid of the company due to its strategic nature.

In the same year the government appointed one of the big four accounting firms to prepare the company's accounts and undertake a forensic audit of the company. It was alleged that the company’s financial statements since 1999 have not been audited. This decision was however perceived by some of the employees we spoke to as unnecessary since they have their own expertise in-house to prepare the company’s accounts. An accounting manager we interviewed in 2003 stated that: “We have our own accounting department with qualified accountants. We do not understand why the government will pay huge amount of money to an outside accounting firm to prepare our accounts. This is hard to understand”. Despite these complains the government and some people outside the company have justified this decision on the grounds that the management and the employees of the company have lost the trust of the Ghanaian public at large.

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9 See Ghanaian chronicle, July 2003
In 2003 a deal for a joint venture with a foreign airline fell through after the foreign airline withdrew due to GA's mounting debts. As a result, the workers of GA called on the government to save the company from financial collapse\(^\text{10}\). There were debates in the Ghanaian media around this time as to whether the airline should be liquidated or not. Some people argued that the status of the airline should be preserved given that it is strategic to the country. A manager we interviewed in 2003 noted that: “Most countries in the world have national airlines. It will be pathetic for Ghana not to have a national airline”. Arguments for liquidation on the other hand were made on the grounds that keeping the airline would only continue to drain on the scarce national resources. It was further argued that the view that GA is strategic to the country was only relevant immediately after independence as governments needed to cut ties with their colonial masters. With globalization and competition, it is ironic to pursue such a ‘strategic role’ argument especially given the inefficiency and GA’s lack of competitiveness. The airline industry has been deregulated with several efficient foreign airlines such as BA, KLM and Virgin flying to Ghana hence there was no justification for keeping an inefficient national carrier. In an article in the media at the time, one observer argued that if the government cannot rescue GA from its financial difficulties exacerbated by the chronic mismanagement and corruption then the company should be sold to the highest bidder in the private sector since there is no political, social nor economic gain accruing from the continuous support for such a beleaguered airline\(^\text{11}\).

In a statement published in the Ghanaian media in 2003, the sector minister accused GA’s management of taking a loan with a foreign individual at an exorbitant interest rate. The minister alleged that while the interest rate at the time was 6%, GA inappropriately took the loan at an interest rate of 24%. As a result, the company had channeled a lot of national resources into the payment of the interest on the loan. The situation at the time was so precarious that it was alleged that the company could not pay its membership subscription to the Air Transport Association (IATA) which is the body that regulates airlines. GA was threatened with expulsion from IATA and the government had to step in to pay the overdue subscriptions. The sector minister commenting on the payment reported in the Ghanaian media noted that he agreed to

\(^{10}\) see www.mclglobal.com/history/May2003/05e2003/05e3r.html

\(^{11}\) See Ghanaian Chronicle, August, 11 2003
pay the subscription on the condition that the airline pledges their ticket sales in London to cover the payment but was informed that this amount had already been pledged to cover another debt. He then asked the company to pledge their sales in New York but was again told that this amount had also been pledged to cover another debt. The minister was then informed that even the sales in the final market Ghana had also been pledged to cover a debt. The minister argued that at this stage there was nothing he could have done since he did not want to see the airline out of business so he decided to pay the subscription. Few months after this incident, GA was embroiled in another financial dispute for failing to pay for the maintenance of its aircrafts of about US$600,000. The maintenance work was undertaken by a firm in Italy. The firm threatened to seize GA’s aircrafts, leaving the government with no choice but to pay the maintenance bill. The minister also noted that the company’s financial problems are as a result of mismanagement and not that of bankruptcy.

Such was the problem that there was a complete breakdown in the relationship between the management of GA and the sector ministry. For example, during the time we were conducting our study in 2003 the sector minister had arranged for a meeting between the ministry officials and the Maintenance firm from Italy. GA’s management was never informed about this meeting. We were in the office of one of the senior executives of GA when a colleague walked in and informed him that he spoke to a friend at the ministry who informally told him that representatives of the maintenance firm had arrived from Italy for a meeting with the sector minister to discuss the payments of the debt. The executive we were interviewing then commented: “You see this is the problem I have been telling you. They are having such a meeting tomorrow and we have not been informed. We are not even aware these people have been invited to come to Ghana”.

In an address to the senior staff association of the company in May 2003, the Chairman of the Senior Staff Association of the company argued that the company would soon collapse if no drastic action is taken by the government. He noted that the financial situation of the company was so serious that management has to resort to paying staff salaries with overdrafts. In June 2003, another restructuring was ordered and a new management team was appointed. Some employees at the time were pessimistic of the appointment of this management team. In an interview reported in
one of the local newspapers, a representative of the employees union expressed the fear that the new management team had no experience in the airline’s industry, a major problem with the majority of the past management of the company.

The problems of GA were so insurmountable that one of the first things the new management did was to organize a prayer to seek God’s intervention. Another decision taken was to reduce staff wages by 30%. The new management implemented a policy of a 30% salary reduction over a six-month period. This decision, management noted was necessary to avert a possible bankruptcy. In a report, the management noted the policy had the backings of the employees as the only other alternative would have been a cut of 30% in the workforce. The new Chairman of the Board noted at the time that the company was overstaffed given its capacity. He indicated that the employee/aircraft ratio of the company was one of the highest in the world, even far above major Western airlines.

The results of the forensic were published in 2003. The report revealed gross mismanagement and irregularities by the management of the company. The former Board Chairman, the executive team and the Internal Audit Department of the company were found liable for the mismanagement and recommended by the auditors to be sanctioned for failing in their responsibilities. Some of the improprieties identified by the audit include inappropriate decisions in terms of acquisition and leasing of equipment; loan disbursements; internal audit failures; and executive remunerations. It also emerged that GA had over 90 accounts. In another development, the audit report alleged that an overseas-based supplier of the company took advantage of the lax internal control system of GA to manipulate the payment system. There were wrong invoicing and wrong exchange rates were used for payments. A request by the auditors for a copy of the contract between GA and the supplier could not be met as the management of GA couldn’t produce a copy of such a contract. The auditors recommended that GA’s manager in charge of managing the contract with the supplier should be surcharged with the interest lost to the company.

In 2004, the government decided to liquidate GA. Employees have not been paid for several months. GA’s assets were to sold to pay some of its liabilities.
6.2 The final chapter and liquidation of NA

In 2001 president Obasanjo set up a judicial committee to investigate the management of NA between the periods 1983-1999. The committee worked for twelve months and came out with four volume reports which were submitted to the government on 8th May 2002. A white paper drafting committee was set up immediately, and they upheld most of the recommendations made by the panel. However, releasing the white paper became a problem due to political interest. Some of those indicted in the report went to court and got an injunction stopping the release of the white paper. Various calls were made by Nigerians to the government to issue the white paper and prosecute those indicted. However, the government claimed that they could not release the report due to the court injunction. It was argued by some of the interviewees and the media that the report was not released because it indicted many people that were connected to the political machinery, most of these people were said to have made a huge donation to the party's campaign. Moreover, it was claimed in the media that the government’s resolution to liquidate NA was in connection with the report to cover up for those indicted.

President Obasanjo’s Information and National Orientation Minister was quoted in the newspapers as saying that “it would be unwise to release the report since some of those indicted are "role models"”\textsuperscript{12}. The report was eventually published after a lot of pressure from the public. The report indicted many past aviation ministers, former Directors and many top officials of the company. In addition some insurance companies, government top officials and some travel agencies were named as culprits. Some of the people were recommended to be banned from taking any public office for ten years, some for life. The panel found many questionable payments, frequent over-invoicing, fake debit notes, aircraft paid for but never delivered, NA assets sold without remitting the proceed into NA’s accounts and unsound and unilateral unprofitable executive decisions. A total of $400million and ngn300million was looted or misapplied in NA during that period. The panel recommended that the government recover the sum from those

\textsuperscript{12} Daily Guide, July 2005
indicted. For example, it was reported that a former NA managing director (MD) paid a Brazilian for a D-check the sum of US$3.5million that was actually done in Nigeria by NA engineers; a building belonging to NA was sold for half of its street value in London by a former Aviation Minister; a former NA MD approved the sum of ngn2.0 million as impress; a contract was terminated unilaterally causing NA a lot of money; Aviation Minster in collaboration with an NA MD sold two aircrafts and did not credit NA’s accounts with the proceeds, and the same people also bought a plane for US$35.52million which was never delivered. In addition, it was found that travel agencies and insurance companies had defrauded NA. One interviewee who was bitter about the mismanagement noted during the interview that: “If the looted money was recovered it could have brought NA back in to operation”. Instead of implementing the recommendations of the report, the government took the decision to liquidate NA. At the time the chairman of the Nigerian labor union called for a halt to the liquidation but this was to no avail. There are still calls from the Nigerian public for the government to recover the stolen properties, look into NA’s liquidation and to revive the airline.

Many people or groups connected to NA felt aggrieved by the mismanagement and the politics of the company. One such group was the pensioners who have on numerous occasions taken the laws into their own hands by disrupting the activities of the airline. One interviewee commented that: “All that these pensioners were asking for was the payment of their benefits. They are entitled to these benefits and have the right to demand them if they are not being paid”. Another group that felt aggrieved was passengers. There were incidences reported in the newspapers where passengers who flew with NA arrived in Nigeria only to be told that their luggage will arrive in some days’ time. An interviewee observed that: “This was a usual occurrence and in some cases it took over a week before passengers get their luggage back”. There was even an incident where NA passengers sued the airline, demanding US$1.3million in damages regarding their luggage (See Thisday Tuesday 17 December 2002).

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13 See Punch 26 and 27 November 2003 for details of the report.
Several interviewees explained that in the end NA had accumulated so much debt which made it impossible for them to go to many countries. In some countries their planes were seized by their creditors, demanding payment of their debt. This left many passengers stranded at home and abroad. There was a time when their last plane was seized in London by its creditors and NA had to cancel its flights to London and US leaving many passengers stranded in the domestic and international airports. One of the interviewees recalled that:

_I remember one day we left Jeddah Airport (Saudi Arabia) loaded with passengers and we were in the sky when our plane was called back. We were asked to come back to the airport as the airline owed the Jeddah authorities some money, and we needed to pay it before we can fly back to Nigeria._

In the end the exact amount owed by the airline could not be ascertained. This was recounted by one of the interviewees as: “It was so bad that NA’s debts could not be determined with certainty. The policy advisory committee appointed by Obasanjo estimated the debt at US$50 million. The president set up a committee to investigate the affairs of the airline and that committee came up with a debt of US$70 million. The BPE came up with a debt of US$430 million”.

In 2003 some creditors took NA to court in London. The Aviation Minister reiterated at the time that NA will be liquidated as a preventive measure if there is any indication that the court in London will order the liquidation of the airline. The minister explained that if the UK court were allowed to wind up NA, it would lose its assets. The NA management later filed for voluntary liquidation that year. On 21 May 2003 the Federal Executive Council (FEC) after a meeting which lasted about six hours announced the liquidation of NA. In a statement by a former Information Minister:

_Nigeria Airways is hereby liquidated due to the very serious problem regarding the debt profile, liquidation threats, depletion of its fleet and assets,.... bad management, lack of accountability, fraud, excessive impress and the CES travel agreement and manipulation of excess baggage among others. NA liquidation is now in the hand of BPE and the appointed liquidators._
7. Concluding Comments

This paper was motivated by the need to understand why so many SOEs failed in LDCs, in particular in Sub-Saharan Africa. The World Bank and the international financial community had blamed some of the problems of underdevelopment in LDCs on the inefficiency of these SOEs and recommended the privatization of these enterprises. Though privatization had been promoted as a panacea to economic development in LDCs, the recent nationalization of financial institutions in some western countries as a result of the credit crunch is likely to rejuvenate the SOE/privatization debate.

Our analysis focused on two national airlines in Sub-Saharan Africa – Ghana and Nigerian Airways. Both airlines had a similar trajectory being part of the WAAC and becoming national airlines after independence. But their post independence journey was turbulent - highly politicized, mismanaged and eventually liquidated bringing to an end the initial dreams of both countries to have national carriers. Perhaps the decision by these countries to operate national airlines need to be questioned as it appeared politics rather than economic rationality dominated such a decision. Drawing on the concept of neopatrimonialism (Eisenstadt, 1973; Médard, 1982; Clapham, 1995) we argue that these airlines failed because of the pervasiveness of neopatrimonial relations. Neopatrimonialism recognizes that while rational-legal bureaucratic systems may exist, in practice these systems are permeated by patrimonial relations characterized by patronage, clientelism and corruption.

We argue that the pervasiveness of neopatrimonial relations in these firms rendered the distinction between what constitutes public and private sphere blurred in practice (Erdmann and Engel, 2007). A consequence of this is the privatization of public affairs (Médard, 1982) where people in power used public resources for their personal gain. We have illustrated how in the case of GA and NA people with connections to the political machinery and managers have abused the services and properties of these organizations. For example, we identified people travelling on free tickets as a chronic problem in both airlines. Planes were sold or bought that were not accounted for, expenses were incurred that were not
authorized and loans were taken without going through the appropriate procedures. In the end it appeared that the problems of both airlines were insurmountable and embedded in a complex set of political and social factors. For example we have illustrated how attempts in both countries to reform and privatize these airlines under World Bank/IMF structural adjustment programs failed because among other things, the process was highly politicized.

Our paper provides a broader understanding of the failure of state institutions than the limited neoclassical economic analysis that has often been adopted by the World Bank and other policy makers.
References


### Tables

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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>41,000</td>
<td>65,206</td>
<td>101,408</td>
<td>133,346</td>
<td>214,076</td>
<td>261,244</td>
<td>308,301</td>
<td>687,838</td>
<td>870,052</td>
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<td></td>
<td></td>
<td></td>
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<td>Wages/salaries</td>
<td>3,946</td>
<td>4,675</td>
<td>6,080</td>
<td>12,959</td>
<td>16,090</td>
<td>18,813</td>
<td>21,857</td>
<td>36,614</td>
<td>43,279</td>
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<td>39,186</td>
<td>61,727</td>
<td>96,907</td>
<td>143,210</td>
<td>197,206</td>
<td>242,127</td>
<td>273,546</td>
<td>1,000,624</td>
<td>1,068,730</td>
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<td>Total cost</td>
<td>43,132</td>
<td>66,402</td>
<td>102,987</td>
<td>156,169</td>
<td>213,296</td>
<td>260,940</td>
<td>295,403</td>
<td>1,037,238</td>
<td>1,112,009</td>
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<td>Profit/Loss</td>
<td>-2,132</td>
<td>-1,196</td>
<td>-1,579</td>
<td>-22,823</td>
<td>780</td>
<td>304</td>
<td>12,898</td>
<td>-349,399</td>
<td>-241,956</td>
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<tr>
<td>Tax</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Net profit %</td>
<td>-5%</td>
<td>-2%</td>
<td>-2%</td>
<td>-17%</td>
<td>0.4%</td>
<td>0.1%</td>
<td>4%</td>
<td>-51%</td>
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<td>Total cost as % of sales</td>
<td>105.2%</td>
<td>101.8%</td>
<td>101.5%</td>
<td>117.1%</td>
<td>99.6%</td>
<td>99.9%</td>
<td>95.8%</td>
<td>150.8%</td>
<td>127.8%</td>
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Table 1: Analysis of the Financial Performance of GA
Note: Amounts are in millions of Old Ghana Cedi. The exchange rate as at the January 2009 was about £1 = 20,000 Cedis.
<table>
<thead>
<tr>
<th>Year</th>
<th>GP%</th>
<th>NP%</th>
<th>Exp-sales</th>
<th>ROA</th>
<th>ROE</th>
<th>Gearing</th>
<th>Cash ratio</th>
<th>Acid test</th>
<th>Current ratio (days)</th>
<th>Debtors collection (days)</th>
<th>Creditors payment (days)</th>
</tr>
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<tbody>
<tr>
<td>1989</td>
<td>12%</td>
<td>0%</td>
<td>9%</td>
<td>-1%</td>
<td>-6%</td>
<td>755%</td>
<td>0.28</td>
<td>0.71</td>
<td>0.79</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1990</td>
<td>10%</td>
<td>0%</td>
<td>8%</td>
<td>0%</td>
<td>-12%</td>
<td>3430%</td>
<td>0.24</td>
<td>0.66</td>
<td>0.73</td>
<td>61</td>
<td>121</td>
</tr>
<tr>
<td>1991</td>
<td>7%</td>
<td>0%</td>
<td>8%</td>
<td>-1%</td>
<td>-38%</td>
<td>5173%</td>
<td>0.20</td>
<td>0.58</td>
<td>0.64</td>
<td>55</td>
<td>111</td>
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<tr>
<td>1992</td>
<td>28%</td>
<td>1%</td>
<td>28%</td>
<td>2%</td>
<td>53%</td>
<td>2908%</td>
<td>0.18</td>
<td>0.66</td>
<td>0.74</td>
<td>64</td>
<td>122</td>
</tr>
<tr>
<td>1993</td>
<td>33%</td>
<td>-5%</td>
<td>41%</td>
<td>-15%</td>
<td>74%</td>
<td>-693%</td>
<td>0.13</td>
<td>0.49</td>
<td>0.55</td>
<td>59</td>
<td>119</td>
</tr>
<tr>
<td>1994</td>
<td>30%</td>
<td>-2%</td>
<td>34%</td>
<td>-6%</td>
<td>29%</td>
<td>-681%</td>
<td>0.36</td>
<td>0.63</td>
<td>0.67</td>
<td>40</td>
<td>105</td>
</tr>
<tr>
<td>1995</td>
<td>34%</td>
<td>-2%</td>
<td>38%</td>
<td>-2%</td>
<td>-4%</td>
<td>76%</td>
<td>0.18</td>
<td>0.71</td>
<td>0.78</td>
<td>48</td>
<td>95</td>
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<tr>
<td>1996</td>
<td>10%</td>
<td>-18%</td>
<td>34%</td>
<td>-26%</td>
<td>-89%</td>
<td>251%</td>
<td>0.13</td>
<td>0.55</td>
<td>0.59</td>
<td>66</td>
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<td>1997</td>
<td>25%</td>
<td>0%</td>
<td>34%</td>
<td>1%</td>
<td>4%</td>
<td>462%</td>
<td>0.25</td>
<td>0.29</td>
<td>0.75</td>
<td>56</td>
<td>84</td>
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<td>1998</td>
<td>25%</td>
<td>0%</td>
<td>26%</td>
<td>0%</td>
<td>1%</td>
<td>614%</td>
<td>0.30</td>
<td>0.76</td>
<td>0.78</td>
<td>56</td>
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<td>1999</td>
<td>-20%</td>
<td>-36%</td>
<td>20%</td>
<td>-37%</td>
<td>267%</td>
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<td>0.23</td>
<td>0.77</td>
<td>0.79</td>
<td>114</td>
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<td>2000</td>
<td>-31%</td>
<td>-100%</td>
<td>34%</td>
<td>-156%</td>
<td>94%</td>
<td>-170%</td>
<td>0.04</td>
<td>0.22</td>
<td>0.23</td>
<td>98</td>
<td>70</td>
</tr>
</tbody>
</table>

Table 2: Further Analysis of the Financial Performance of GA
Financial Ratios Formula

1. Gross profit margin = Gross profit/sales x 100%
2. Net profit margin = net profit before tax/sales x 100%
3. Expenses-to-sales ratio = expenses/sales x 100%
4. Net profit/total assets x 100%
5. Return on equity (ROE) = net profit/share capital and reserves x 100%
6. Gearing = debt/owners’ equity x 100%
7. Cash ratio = cash plus marketable securities/current liabilities
8. Acid test (quick assets) ratio = current assets less inventory/current liabilities
9. Current (working capital) ratio = current assets/current liabilities
10. Debtor collection = trade debtors/sales × 365
11. Creditor payment = trade creditors/cost of sales × 365