

Aprobe, Ltd.¹

Accra, Ghana

Main Characters

Kwadjoe Mensah: A Ghanaian with an MBA from an American university, who is also a prominent and well-connected member of the elite Accra society. Kwadjoe was popular with the American expatriates working at USAID. His knowledge of the world outside of Ghana and his memories of student life in America helped him get along well with the American community. He was a member of several professional organizations and had contacts in many industries as well as government.

J.D. Tyler: A British citizen with Ghanaian residency. J.D. was trained as a mechanic and had experience running his own garage prior to his employment in the auto industry. He was transferred to Ghana from the United Kingdom to manage the sales and distribution for a Japanese auto company. With the loss of his job, he invested \$10,000 with a Ghanaian partner to start a business. This business never materialized and J.D. suspected his partner expropriated the capital. Subsequently, he chose to remain in Ghana to seek employment, where he felt his savings would go further than in England. He also had a strong belief there was money to be made in Ghana; it was only a matter of connecting with the right people.

The Pineapple Farm Aprobe²

Kwadjoe and J.D. arrived at the pineapple farm and pulled themselves out from Kwadjoe's Pathfinder. They were stiff from the long ride down the bumpy, unpaved road. At mid-afternoon, the sun in the tropics was at its

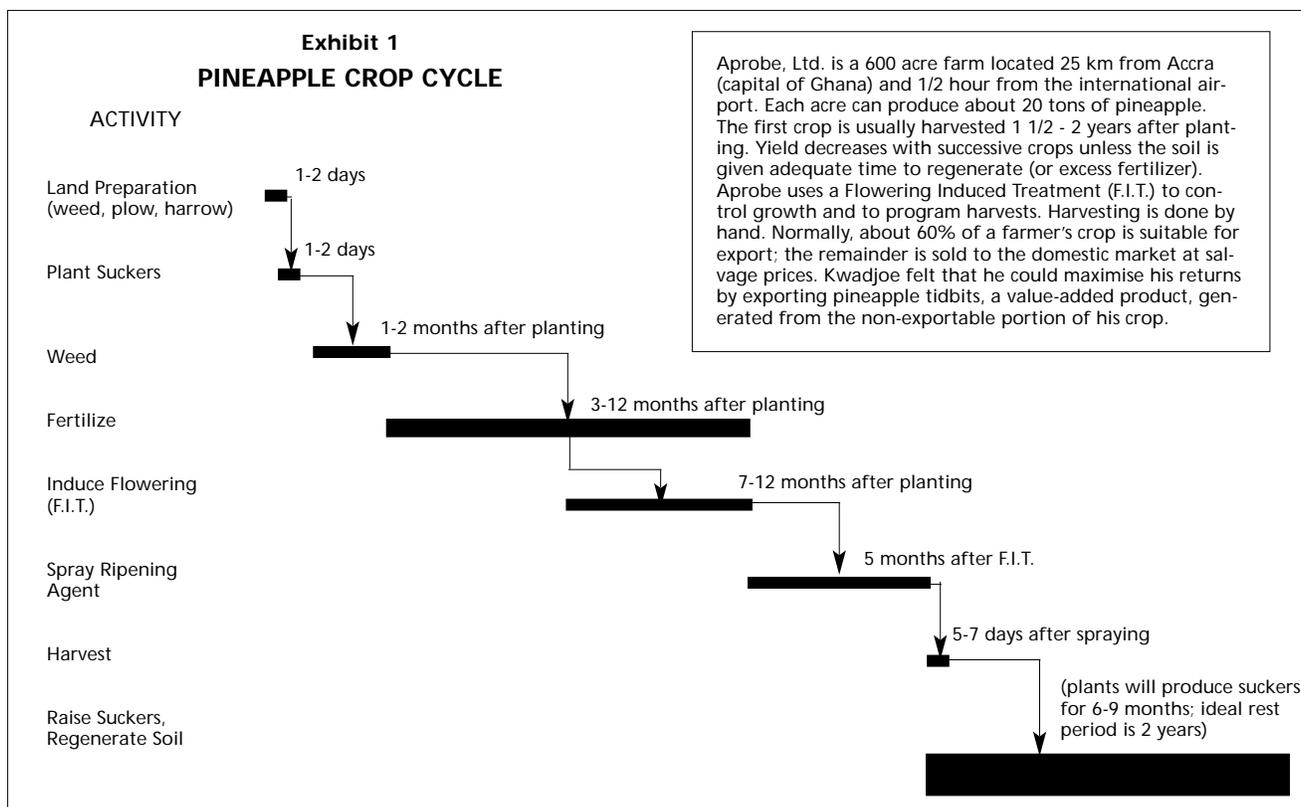
brightest, and it was blazing hot. Bugs hovered in the thick, humid air, unable to escape the heat.

"Look," Kwadjoe exclaimed. "This field is spoiled! Ruined! All of it is ruined! The whole thing, all the fruits. See? None of them is exportable. All of them will have to go to Astro³ unless we can get that dehydration contract from To Your Health."⁴ He realized that the disappointing crop was destined to become either juice or dehydrated fruit in health food cereal.

J.D., struggling to keep up with Kwadjoe, asked, "What happened here? Is this the only field you have to harvest? And where are all the workers, the field hands? I haven't seen anybody since we turned off the main road from Amasaman."⁵

The lack of field workers did not surprise Kwadjoe, since he had released most of his staff in January anticipating crop failure in May and June.⁶ So for the moment he ignored his friend's questions about crops and workers and tried to think out how to deal with the situation. Kwadjoe knew he had taken a gamble over rainfall when he planted these fields. But now he was seeing up close the devastated crops and shriveled fruits, and knew they would not cover the season's operating costs. He responded to J.D.'s questions finally by explaining the dynamics of the pineapple crop cycle.

"It's like this," he continued. "When you plant pineapples, you have to balance the time between the different activities. You have to watch out for the rains and apply fertilizer after each rain. This time, we got no rain. Usually we get rain, even in the dry season. Maybe it rains once each month. This year, we didn't get



anything. We gambled on the rains when we planted. Now all that we have are small fruits. The only thing to do is to sell them to Astro." Astro is a juice manufacturer in Accra.

Kwadjoe took J.D. to the shed to show him the farm equipment and to find the farm supervisor to make a brief introduction. Kwadjoe wanted to give his visitor a good impression of his operation, and he thought a full tour of the farm might help restore confidence. J.D. expressed his interest in the farm when they discussed the order from To Your Health, a U.K. health food store, to purchase dehydrated pineapple. They had discussed that deal when they met just a week ago. Exporting dehydrated pineapple, Kwadjoe reasoned, would introduce new food processing technology into Ghana as well as enable him to earn some hard currency. J.D. saw an opportunity for himself to get in on the ground floor of a big, international business venture.

There was more work that needed to be done on the farm than J.D. had anticipated, judging by the rusting harrowing attachment for a nonexistent tractor⁷ and the soggy cardboard boxes leftover from a former customer. He considered the possibilities of a fully functioning pineapple farm and the profitable potential of being the first to export dehydrated pineapples from Ghana. As he considered these prospects, he mentally listed the improvements necessary to bring the farm up to speed with respect to harvest capabilities in fulfilling orders from the prospective client. Standing in a small

piece of shade next to the shed, he gazed at the distant hills and his thoughts roamed from irrigation equipment and local labor costs to the high prices of organic produce in Europe. He speculated on the high profit of dehydrated pineapple as well as the possibility of controlling the supply of dehydrated West African pineapples to Europe. He felt the interest from To Your Health was ample opportunity to begin a profitable business. Kwadjoe and J.D. went back to the office to escape the intense heat.

Pineapple Farming and Dehydrating

Kwadjoe began a pineapple farm in the Ivory Coast in 1987 with the proceeds of his earlier success operating an international trading company. He started pineapple farming in neighboring Ivory Coast rather than Ghana because the Ivory Coast government strongly supported agriculture and assisted farmers in finding international markets for their produce. In 1989, Kwadjoe moved his pineapple-farming operation to Ghana. Kofi, the Ivorian farm manager, transferred to Ghana to start up and run the new farm. Kwadjoe negotiated two 50-year leases for a 600-acre farm, paying one of the leases in full and agreeing to make ten-year payments on the remainder.⁸ By 1992 he had become the fourth largest pineapple exporter in Ghana, a fact that made him quite proud, and he received commendations from the Ghana Export Promotion Council, the government of Ghana and even from the international aid division of

the United Kingdom. The following year, however, Aprobe faced bankruptcy, due to a default in payment by his largest customer (an illegitimate European fruit importer who took the produce but sent no payment), the inadequacy of international flights with the eruption of the Gulf War⁹ and the beginning of a drought. Kwadjoe, with no money to invest in his farm or new equipment, repatriated his Ivory Coast farm manager, who noted that despite the geographical proximity of the two countries, rainfall in Ghana is significantly less than in the Ivory Coast. Kofi's last comment reminded Kwadjoe that even in the Ivory Coast, farmers can get their crops through the dry season without irrigation.¹⁰

In February 1994, Kwadjoe hired an English consultant through the sponsorship of the United Kingdom's international development program, working in conjunction with Ghana's trade and investment program. The consultant investigated the possibility of setting up a dehydration plant. Kwadjoe envisioned the plant as an easy way for him to earn foreign exchange by exporting dehydrated pineapple. Nonexportable fresh pineapples (about 40% of the crop) were typically sold to the local juice manufacturer or sold at salvage prices in the local market.

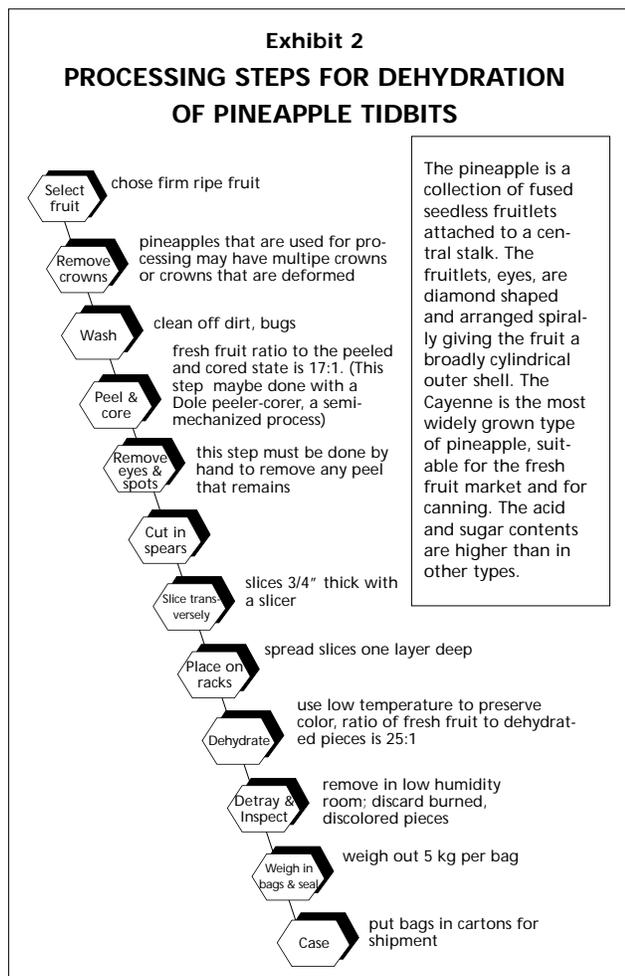
The consultant pointed out that the major source of pineapple in Britain was Central America. The fruits were slightly green at harvest, prior to a lengthy journey by sea to England. By the time they were sold in the market they had lost considerable flavor and appearance. Ghanaian pineapple growers and exporters had a competitive advantage by being able to harvest sun-ripened fruits and air freight them to Europe at a cost comparable to the Central American products. This competitive advantage was contingent upon an airline schedule with regular flights and stable rates between Accra and London.

The European market for pineapple products was relatively new, but had good growth potential. The health food market was a niche market that was projecting growth, especially for organic produce and for products prepared without preservatives. While Kwadjoe did not have an organic farm, the dehydrated pineapples were prepared without additives or preservatives. The dehydrated pineapple tidbits were tasty and appealed to a health-conscious crowd.

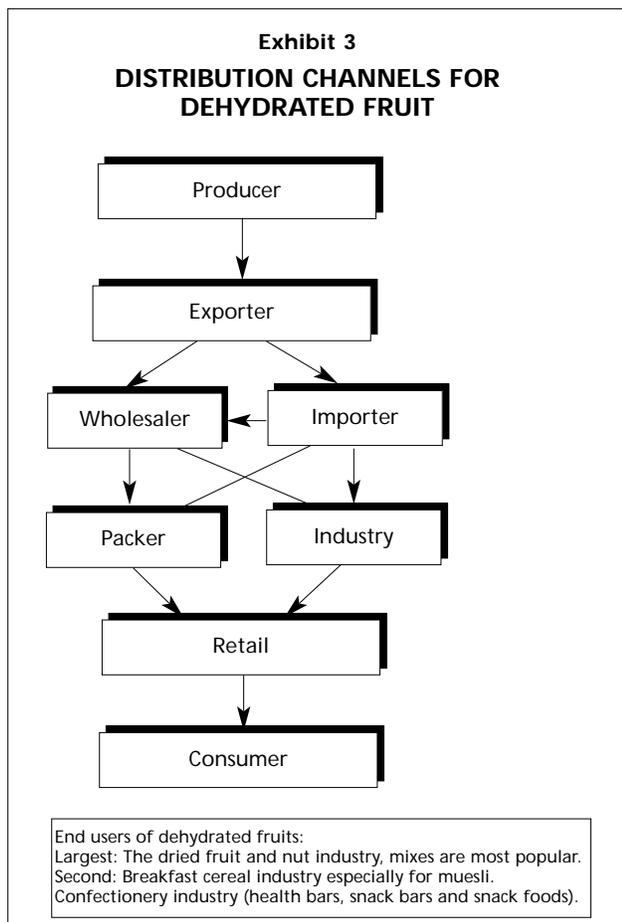
The consultant generated a volume of work during his six-month stay. Along the way, the project was enthusiastically encouraged by several potential customers, a finance officer and a food science research professor at the university. Based on this response, Kwadjoe ordered a pilot dehydrator from America (with financial help from USAID) to produce commercial samples and to supply small orders. Unfortunately, the dehydrator arrived the week after the consultant left, so installation proceeded without his guidance. Kwadjoe relied on local technicians to install the unit in the back room of his office space. The dehydrator operated with limited success.

In July 1994 Kwadjoe hired a food technician to operate the dehydrator, supply the requests for samples and begin developing the dehydration project. The technician, a recent university graduate, had no practical experience and had only studied some courses in food science. He ran two tests in the dehydrator to determine the optimum production conditions. He sent dehydrated samples to some of the contacts the consultant had named and then spent most of his time reading or napping at his desk.¹¹

The following October, Kwadjoe decided to follow up on the consultant's suggestions by commissioning a market survey from the American volunteer organization, IESC.¹² He hoped the survey would generate information about how to attract customers in the United States. Concurrently, he approached the development fund APDF¹³ to obtain financing to build a dehydration plant, anticipating that the market survey report would attract attention and generate big orders. The APDF replied that Aprobe needed to have a letter of intent from a customer in order to apply for financing.



The market survey report concluded in January 1995 that dehydrated pineapple prices here were going to be too high to sell into the American market. Furthermore, U.S. buyers were likely to be importers, wholesalers or distributors, rather than retailers. Thus Kwadjoe's figures, based on quotes for consumer-packaged and consumer-priced dehydrated pineapple tidbits, were clearly inappropriate for planning his sales in the U.S. market.



Concurrently, one of the British retail contacts that had received the dehydrated pineapple sample expressed a strong interest in obtaining large orders of the product for distribution in their health food stores. They received a packet of sample dehydrated pineapple and were enthusiastic about the prospect of using dehydrated pineapple tidbits in their private label cereal and trail mix.

Pineapple Prospects

Back in the air-conditioned office in Accra, Kwadjoe and J.D. continued discussing their plans for growing, dehydrating and exporting pineapple tidbits to England for To Your Health. J.D. wanted to get some figures down on paper. He used a dehydration ration of 25:1 and a cost of fresh pineapple of ₵120 per kilo. A

yield of 30 kilos of dehydrated pineapple required 750 kilos of fresh pineapple, which would cost ₵90,000.

J.D. then questioned Kwadjoe about the farm and wanted to know the yield per acre. He learned that Kwadjoe had had only 10 to 20 of the 600 acres under cultivation this past year. He also learned that Kwadjoe did not have recent financial statements; the last completed audit was 1992. J.D. felt that Kwadjoe needed a

Exhibit 4
APROBE, LTD. FINANCIAL STATEMENTS

<i>all costs in Cedis</i>	1988	1989	1990	1991	1992
Balance Sheet as at Dec 31					
Fixed Assets	9061848	14362458	15131097	37346217	32914221
Development Expenditure	14348913	14365096	11894399	45278120	42476725
Current Assets					
Stocks	6400000	1000000	600000	10852658	8827921
Debtors	1049314	10405075	18653548	30410024	32508248
Bank & Cash Balance	148792	181145	5136467	67088	885434
	7598106	11586220	24390015	41329770	42221603
Current Liabilities					
Creditors	2514139	7107730	23544566	59018709	64894615
Bank Overdraft		1428952	1531557	2574838	755317
Taxation			-150500	-350500	-450500
		8536682	24925623	61243047	65199432
Net Current Assets	5083967	3049538	-535608	-19913277	-22977829
Total Assets—Current Liabilities	28494729	31777092	26489888	62711060	52413117
Creditors falling due after 1 yr	21400000	24142302	0	-46227383	33288000
Net Assets	7094729	7634790	26489888	16483677	19125117
Representing:					
Stated Capital	100000	100000	5000000	2000000	2000000
Income Surplus	-3005271	-2465210	16489888	-3516323	-874883
	-29005271	-2365210	21489888	16483677	19125117
Members Loan	10000000	10000000	5000000	0	0
	7094729	7634790	26489888	16483677	19125117
all costs in Cedis	1988	1989	1990	1991	1992
Income Statement					
Balance Beg of Yr		-3005271	-2465210	16489888	-3516323
Net Profit/Loss for the year	-3005271	540061	18955098	-10006211	2641440
Transfer to Stated Capital				-10000000	
Balance End of Yr	-3005271	-2465210	16489888	-3516323	-874883
all costs in Cedis	1988	1989	1990	1991	1992
Profit & Loss Account					
Sales	16393620	44487766	69773997	99255825	67611371
Less Cost of Sales	12780233	24929627	27395955	82124987	35755005
Gross Profit	3613387	19558139	42378942	17130838	31856366
Other Income				5759052	440000
	3613387	19558139	42378942	22889890	32296366
Less Selling & Admin Expenses	6618658	13632424	22073842	23784239	25461374
Net Operating Profit/Loss	-3005271	5925715	20305100	-894349	68349992
Interest Charges		5385654	1350002	9111862	4193552
Net Profit (Loss) before Tax	-3005271	540061	18955098	-10006211	2641440
Taxation					
Net Profit/Loss transferred to Income Surplus Account	-3005271	540061	18955098	-10006211	2641440
Source: audited statements Odoro-Adlyiah, Osal & Co. Chartered Accountants					

manager, and he reasoned to himself that Kwadjoe's multiple problems stemmed from a lack of organization and planning.

In January 1995, To Your Health requested quotes for large orders of dehydrated pineapple. Kwadjoe sent another small sample of dehydrated pineapple tidbits and indicated he was looking for an opportunity to begin production with a business partner who could contribute capital. To Your Health promptly responded via facsimile expressing an interest in an exclusive contract. However, they needed to begin receiving their supply of the product over the summer. They were

willing to pay for part of their order up-front. Kwadjoe went back to APDF with this letter hoping to begin the application process for financing a dehydration plant.

Kwadjoe learned that he needed to supply them with two years worth of financial statements and a business plan with projections for the next year. He did not have these documents. He had financial statements prior to 1993 which he thought were sufficient. His accountant got sick and died in the middle of the 1993 audit and so his work remained unfinished. Kwadjoe had not yet gotten around to hiring another accountant to finish the audit. The 1994 records consisted of a book of ledger entries, while the 1995 records consisted of a pile of receipts and entries awaiting recording as soon as Kwadjoe got around to purchasing a new ledger. As for a business plan, he operated under the belief that each sale produced revenue, and therefore earned a profit.

With the interest from To Your Health, Kwadjoe hired an accountant in February to finish the 1993 audit and undertake the 1994 audit. This accountant demanded 50% payment up front, a normal contract practice in Ghana. In March, barely scratching the surface of his work, he disappeared to Kumasi for a funeral and was gone for three weeks. By May, he completed the 1993 audit. Meanwhile, the English buyer was growing increasingly impatient with Aprobe. To Your Health offered a contact name at their bank to facilitate a loan agreement. It was now five months since they expressed any interest, and they were still waiting for the financial statements and business plan. This demand for reports frustrated Kwadjoe. He understood that the reference from To Your Health to their bank was a sign that all was well and that merely presenting his documents would move things along. But he did not understand their impatience. He simply could not send them the information they wanted because he had no 1994 audited results.

J.D. summarized his advice as follows: "What you need, Kwadjoe, is to have someone who will run this project, someone who knows something about the machinery in order to keep the pilot dehydrator in working order, and also to create enough product so you can make some sales. You will need to increase activity at the farm in order to provide ample fruits to dehydrate. Let's face it, not much is going well for you right now."

Now, in May, Kwadjoe was more than ready to quit pineapple farming and revive his international trading business. He did not want to abandon the idea of getting rich by exporting Ghanaian dehydrated pineapples, and To Your Health's interest in doing sizeable business was too good to be true. But Kwadjoe knew that it better fit his plans to go back into trading. His only problem with the pineapple business was getting a dehydration plant up and running. His recent introduc-

tion to J.D. and J.D.'s enthusiasm for the venture might relieve Kwadjoe of operating responsibilities for the farm and dehydrator, and he could then go back to trading, a business he knew well and had pursued successfully in the past. But how was he to meet the order from To Your Health before the season ended?

Appendix

Background Information on Ghana

Location

Ghana is a developing country in West Africa with its capital, Accra, located on the coast. The climate is tropical with high humidity and temperatures of 90° F or more, year round. From December to February, a dry wind blows from the Sahara, called the *harmattan*, which reduces both the humidity and visibility, filling the air with a fine, dusty silt. A slightly cooler, rainy season lasts from May through September. Annual rainfall can exceed 200 centimeters along the coast but is considerably less inland.

Ghana's population is concentrated along the coast and in the principle cities of Accra (population 1.5 million) and Chamois (500,000). The total population is over 16 million and growing at three percent annually. Approximately 45% of the population is under 15 years of age. There are over 50 ethnic groups or tribes (and languages!) in Ghana, the largest of which is the Akan. English is the official language of the country. The major religions are Christianity and Islam but a good part of the population follows traditional animist beliefs and practices.

Brief History

The name Ghana is derived from an empire that flourished during medieval times and covered what is today part of Mali, Mauritania and Senegal. In 1482 the Portuguese began trading gold in this territory. Britain later administered this area, called the "Gold Coast," as a colony from 1901 to independence in 1957. At the time of independence, the country had a substantial physical and social infrastructure, including \$481 million in foreign reserves. The founder of the modern nation, Kwame Nkrumah, was devoted to Pan-Africanism and sought to further develop the infrastructure and the industrial sector. Nkrumah was overthrown in a bloodless military coup in the late 1960s. Subsequent governments have been corrupt and/or incompetent, depleting the foreign reserves and allowing the infrastructure to disintegrate.

Present Environment

Flight Lieutenant John Jerry Rawlings heads the present government, Provisional National Defense Council

(PNDC), which came to power in 1981 with a bloody coup d'état, executing former government officials and members of the business community. At the time, business owners were dragged through the streets as exploiters. The economy subsequently stagnated, generating over \$1 billion in foreign debt. In an effort to instill radical reforms, the PNDC banned political activities, confiscated property, nationalized industry, imposed a two-year curfew and imprisoned/executed citizens for political or "economic" crimes. Conditions got worse. In 1983, with the country near total economic collapse, the PNDC began to follow the IMF prescribed reforms in order to receive desperately needed foreign aid. Economic growth has since averaged five to six percent per year.

In 1992, the PNDC turned from military rule to "democracy" and reelected Rawlings. This change in government, with the blessings of the international community, buoyed foreign interest and investment in Ghana. The government was verbally committed to a market economy and continued to put state-owned enterprises up for sale, as well as its share of other ventures, according to the IMF schedule. The government reported that this program had been successful in attracting foreign investors.¹⁵

While Rawlings seemed to promote private enterprise, members of the business community adopted a low profile as they were unsure about the government's changing attitude toward personal wealth. The GDP per capita was approximately \$500 per year. Inflation and commercial lending rates were estimated at 35% per year. The value of the Ghanaian cedi fell from ₵400 = \$1 in 1992 to ₵1,000 = \$1 at the end of 1994. By March of 1995, the exchange rate was ₵1,500 = \$1, approximately a devaluation of 75%, or three percent per month. Business owners remained very reluctant to take out bank loans for financing.

The physical infrastructure in Ghana was difficult at best. Many minor roads were impassable during the rainy season, and the major roads which served the capital were in various stages of disrepair. There was a waiting list for telephone service which, when installed, functioned about half of the time. Cellular phone service was in high demand, but current service had been oversold and calls during peak hours were rarely completed. Customers had heard for a year that Motorola would begin offering service in the near future. Ghana had ample electrical power (from the Akosombo Dam) but the present low water levels threatened this supply. A government program was underway to carry electricity throughout the country and into villages. These plans were based on a grid system. But long delays in installing the poles and power lines left many areas of the country still without power.

Most of the villages were without running water as well.

NOTES

1. This case was written by Nita Eckert of the University of Illinois-Chicago. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
2. Aprobe (pronounced ah-pro-BAY) means pineapple in the Twi language, the most common tribal language in the region around Accra.
3. Astro is a juice company that purchases nonexport quality pineapples from farmers at ₵800/kilo.
4. To Your Health is a supermarket chain for health food and organic food in England.
5. Amasaman is a town about 20 kilometers north of Accra.
6. According to Ghana labor laws, an employer is required to pay three months of an employee's salary upon termination: labor is approximately \$2/day.
7. The farm machinery was sold since the idle workers would cannibalize the equipment for spare parts to use or sell. This was a common practice for workers and a constant headache for management.
8. It is common practice in Ghana for landlords to receive full payment for a lease in advance. This puts a burden on the lessee, but it guarantees a firm price in a country where inflation and currency devaluation can be measured daily.
9. An international crisis, such as the Gulf War, devastates Third World economics. Kwadjoe noted that it took until 1995 for international carriers to reestablish air service to Ghana. These nascent services had had high profit potential before the Gulf War.
10. In 1995, rainfalls were at their lowest levels in years. In some parts of Ghana, drought-like conditions persisted.
11. A sign of underemployment, yet Kwadjoe had three full-time office employees.
12. IESC is an American volunteer organization that helps perform market studies for overseas firms.
13. Africa Project Development Facility (APDF) is a multinationally funded institution that promotes foreign investment and joint ventures. It also provides technical assistance for business plan development and project evaluation. It receives funding from many international development agencies and assistance programs that promote Third World Development.