AN ANALYSIS OF THE FINANCIAL PERFORMANCE OF STATE OWNED ENTERPRISES: A CASE STUDY OF TRANSNAMIB

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ABSTRACT

The study sought to analyse the financial performance of state owned enterprises in Namibia, using TransNamib as a case study. A sample of twenty-five respondents was selected using the convenience sampling technique. This technique was used to ensure that data was collected from the right respondents at TransNamib and the Ministry of Works and Transport as the main shareholder. A mixed research method, involving the administration of questionnaires containing both open and closed-ended questions and an analysis of financial statements for the period 2009 to 2013 was used to collect the data. The study found out that the poor financial performance of TransNamib was caused by numerous factors, including lack of stakeholder foresight. While TransNamib has not been performing well enough financially, sixty-four percent of the respondents were still of the opinion that the organisation can contribute to the nation's development. Results from the rating of the financial performance of the company shows that seventy percent of the respondents rated the performance as poor. This was confirmed by the analysis of financial statements showing a downward trend since 2011. Furthermore, the study found that there is a positive relationship between financing provision and the financial performance of SOEs. Finally, the study recommends the setting up of a financing mechanism by government through the newly established Ministry of Public Enterprises to ease access to funds by the SOEs for better performance. The study also recommends that Government should facilitate regular auditing of SOEs and managers should be held accountable for poor performance. This will lead to good financial management and improved financial performance by SOEs.

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LIST OF ABBREVIATIONS

ADB – Asian Development Bank

CV – Coefficients of Variation

COBIT – Control Objectives for Information and Related Technology

CoCo – Criteria of Control

COSO – Committees of Sponsoring Organizations of Tread Way Commission

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

GAAP – Generally Accepted Accounting Principles

IFRS – International Financial Reporting Standards

MWT – Ministry of Works and Transport

ROA – Return on Asset

ROCE – Return on Capital Employed

ROE – Return on Equity

ROI – Return on Investment

SAC – Systems Auditability and Control

SOE – State Owned Enterprise

SOEGC – State Owned Enterprises Governance Council

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Lastly, I want to express my gratitude and deepest appreciation to my lovely husband, Oscar my sweet daughters Nandesora, Mbitjita and Ovaua and my humble son Rijaruka for their support and encouragement in the thesis writing period.

DEDICATION

I want to dedicate this thesis to my late parents Ussiel and Erika Tjijenda, who taught me that even the largest task can be accomplished if it is done one step at a time.

DECLARATIONS

I hereby declare that this thesis is my own original work and that all the sources that I have used or quoted are indicated and acknowledged by means of complete referencing. This work has not been submitted before for any degree at this or any other institution of higher learning.

…….. …….

Marilyn Maurihungirire Date

CHAPTER ONE INTRODUCTION

1.1 Orientation of the study

In line with the Namibian Constitution, which provides for a mixed economy, the Namibian government has a very significant direct involvement in the economy, not only through the budget, but also through its stakeholders, be it complete or partial, in over fifty State Owned Enterprises, (SOEs), (Schlettwein, 2010). According to Keyter (2006), at independence in 1990, Namibia had only twelve SOEs. By the end of 2005, there were more than fifty SOEs. According to Kuugongelwa-Amadhila, (2012), the primary reason for the existence of SOEs was to serve as an extension or instrument of Government's development policy by either supplying specialised public goods or services or by playing a specialised regulatory role. Upon the creation of SOEs, it was further considered that their operations will be sustainable, that they will be directly aligned to the development strategy of Government, hence bringing about an economic benefit to the country, and to act in accordance with well-defined governance principles.

However, the performance of the State Owned Enterprises is affecting the nation's economy because positive economic growth requires investment in the productive sectors of the economy. On the other hand, the inefficient SOEs absorb a significant amount of capital stock, while providing returns below the true cost of capital. SOEs also create opportunity costs by absorbing government funds that could otherwise be spent on vital sectors such as health and education. This is in accordance with the analysis made by the Asian Development Bank, (ADB, 2009).

Whilst the number of SOEs is rising, sound financial performance remains elusive for most states, (Keyter, 2006). According to Shipanga & Strompen, (2010), most of the SOEs lack sound financial performance despite the government's financial injections. They further stated the SOEs faced difficulties to fill key positions with qualified staff. However, the allegation of resource misappropriation was reported in some instances. Furthermore, the aforesaid weaknesses were a result of lack of timely reporting, monitoring and inconsistent enforcement of the basic corporate governance principles by the Ministry/State Owned Enterprises Governance Council (SOEGC).

In addition, to promote good corporate governance of SOEs in Namibia, the State-Owned Enterprises Governance Act, Act No. 2 of 2006 was promulgated. The entity previously known as the Corporate Governance Agency was also revived as the SOEGC. However, the Act makes provision for the efficient governance of SOEs and the monitoring of their performance; to provide for the efficient governance of SOEs by stipulating the general principles of corporate governance and to develop common policy frameworks for the operations of SOEs such as to make provision for the restructuring of SOEs including policies on issues relating to human resources, assets and finances.

Although the Act was promulgated in 2006, TransNamib Holding Limited, a parastatal wholly owned by the Government of the Republic of Namibia, was established in terms of the National Transport Services Holding Company Act 28 of 1998, with the mission of being the leader in the provision of transport solutions in

rail and road through a passion for excellence, striving for integration within Southern Africa and offering fair returns to our shareholders by reducing operational costs, whilst increasing revenue. As a state-owned company; it has a corporate social responsibility towards the communities it serves and initiated many projects aimed at employment creation through donations, sponsorship, bursaries for students and by creating a viable platform and making a sustainable and measurable contribution towards the uplifting the Namibian community.

The Board of Directors, appointed by the Minister of Works and Transport, is responsible for charting the direction of the Company through established objectives, strategies and key policies and to enhance the existing governance framework and to monitor risk management and the control environment by providing independent assurance. Furthermore, the Board is tasked to be committed to the implementation of initiatives to improve corporate governance to the benefit of all stakeholders. The Chief Executive Officer, (CEO), is appointed by the Board as the Accounting officer and is financially accountable for funds within the company. As the Accounting Officer, the CEO appoints the General Managers who assist in the management of the company's operations and they form part of the company's senior management. In order to reduce the financial burden and to contribute to the State coffers TransNamib through its Board of Directors and the Chief executive Officer are to ensure that funds allocated from the State and internal revenue generated are allocated to functional structures within the company.

This study focuses on the financial performance of TransNamib, covering the period 2009 to 2013. The TransNamib annual reports, as illustrated in the table 1.1 below,

show the Company's poor financial performance. The number of locomotives decreased while revenue went up, this means that should the company have maintained the same number of locomotives, their profit could have increased.

Table 1.1: TransNamib's Financial Performance: 2009-2013

Description	**2009**	**2010**	**2011**	**2012**	**2013**
Loco avalability in %	80%	80%	77%	78%	73%
Tonnages	2 547	2 450	2 396	2 345	2 101
Number of Locos	48	47	41	42	38
Revenue per Tonne	224	238	230	241	251
Revenue	570 475	582 713	551 550	565 318	527 113
Cost of Sales	-211 111	-162 465	-179 880	-211 204	-215 764
Gross Profit	**359 364**	**420 248**	**371 670**	**354 114**	**311 349**
Operating Expenses	-249 805	-193 107	-203 623	-193 779	-197 458
Employee Cost	-241 717	-215 489	-231 779	-279 331	-295 357
Net Income	**-132 158**	**11 652**	**-63 732**	**-118 996**	**-181 466**
EBIDTA	**-72 351**	**43 112**	**-14 544**	**-83 231**	**-140 124**

Source: TransNamib (2009-2013)

1.2 Background to the problem

State-owned enterprises, (SOEs), are corporate bodies governed by boards appointed by Ministers and managed by chief executives appointed by the boards. These enterprises have always been an important component of many economies, including

the most developing ones. There are authentic economic and non-economic reasons for state ownership and views on the role of government in the economy, although these may differ across countries and political systems. The SOEs can act based on commercial considerations, or they may have non-commercial priorities, (Capobianco & Christiansen, 2011). In certain circumstances SOEs are accorded preferential treatment which affects market access in the import or export business. These advantages can take the form of direct subsidization, concessionary financing, state-backed guarantees, preferential regulatory treatment, exemptions from antitrust enforcement or bankruptcy rules, and others, (Hertog, 2010).

Soon after Namibia's Independence, in March 1990, the Government embarked on a program of nationalizing some identified companies in key areas such as fishing, tourism, mining and farming, thus creating SOEs. The purpose was for the state to strengthen regulatory powers in these sectors as well as to generate revenue from these industries, (Keyter, 2006). These would be used in the development of the socio-economic programs of the country. Additional aspects were to transform the country into a place where national wealth would be equitably distributed. In other words, the new Government sought to lead in an era of equity, equality, and justice in distributing the national wealth so as to bring about reduction in poverty.

The Namibian Government established the following SOEs by Act of Parliament, to contribute to the economic growth of the country: Namibia Airports Company, Namibia Broadcasting Corporation, Air Namibia, Namibia Wildlife Resorts, TransNamib, Namwater, National Housing Enterprise, and Nampost Holdings. This was done to reduce a bloated public service, create more new jobs, provide

affordable and quality service delivery to the Namibian people, expand the economy and create new investment opportunities for the new state. Also, the state believed that the noble task of nationalizing enterprises could only be effective if the strategic industries mentioned above were rationalized by Government control. These companies are controlled and directed by the Government of Namibia as the main shareholder.

TransNamib was established in the terms of the National Transportation Service Holding Company Act, 28 of 1998, and is the successor of the former TransNamib Ltd. All shares in TransNamib are owned by the Government of the Republic of Namibia, who also exercise non-regulatory control through the appointment of the Company's directors. The mission of TransNamib is to provide the country with total logistic solutions in rail and road transport through a passion for excellence. Their vison is to be the preferred transport logistics partner in Namibia and beyond. Among the sectors that the TransNamib is actively servicing are the bulk and containerized products in the fuel and mining industries, agricultural sector, manufacturers, wholesalers and retailers.

1.3 **Statement of the problem**

TransNamib experienced a loss-making period until 2010 when there was some unsustainable improvement (TransNamib.Limited, 2013). Compared to Botswana Railways, (BR), with similar problems of defective wagons and locomotives, BR maintained a healthy financial position despite their recorded losses during 2009 (Office of the Auditor General, 2011). However, the Ministry of Works and

Transport, under which TransNamib operates, tried to improve the financial situation throughout the period by subsidising the maintenance expenses, acquisition of equipment for the company as the ministry responsible for the construction, upgrading and rehabilitation of the railway line, however the company's financial performance remained negative.

The company is financially struggling to meet its operational obligations despite the capital injection received from Government. There are arguments that TransNamib contributes to the development strategy of Government and should therefore be supported while challenges are going to be addressed. This study focuses on the financial performance of TransNamib, by investigating the factors that influence the financial performance of this SOE. In this study, performance was taken to mean the accomplishment of given objectives measured against present standards.

1.4 **Objectives of the study**

The primary objective of this study is to analyze the financial performance of TransNamib.

The specific objectives of the study are:

- To analyse the financial performance of TransNamib by means of studying its financial reports.
- To highlight the factors contributing to the poor financial performance of TransNamib.

- To provide policy recommendations for improvement of the operations of this SOE.

1.5 Significance of the study

This study is significant to TransNamib and Government at large as it identifies factors that influence poor financial performance by scrutinising the utilization of Government funds to address the recurring losses of TransNamib. The findings of the study can assist the Government in implementing procedures that control the optimisation of cost and enhancing revenue; revise its funding formula that will assist this SOE to recover financially and assist Government to keep the senior managers accountable for the company to achieve its objectives. Finally, the study contributes to the body of knowledge on the financial performance of SOEs in general with TransNamib as the case study.

1.6 Limitations of the study

At the time this research was carried out, TransNamib had a problem in retaining its Chief Executive Officers. During the period under review none of the company's top managers completed their terms of office, which was a constraint with regards to unavailability of data such as financial and annual reports. Some of the participants did not return the questionnaires given to them as some in the targeted population were not yet appointed during the period under review.

1.7 Delimitation

Although there are many SOEs in Namibia that do experience poor financial performance, it was not possible for the study to include all the SOEs in the study due to the researcher's other commitments. Furthermore, the study was limited to TransNamib (Pty) Ltd headquarters in Windhoek for the purpose of gathering the necessary information in order to attain the objectives of the study.

1.8 Structure of the study

This study consists of five chapters:

Chapter One is about the general introduction and focuses on the background of the study, the problem statement, objectives of the study, limitations and delimitation of the study, and the significance of the study. Chapter Two is the literature review where earlier work that is relevant to the study has been reviewed in line with to the objectives of the study. Chapter Three is the research methodology where the research design, population, sample, sample procedures used in this study were discussed. It also explained the issue of validity and reliability, data analysis, and research ethics. Chapter Four presented the research findings, data interpretation and analysis. Finally, Chapter Five presented the concluding remarks, recommendations of the study, and the future research suggestions.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

The aim of literature review is to provide a framework for the research as well as to familiarize the researcher with the current issues and contemporary knowledge on the topic (Dawidowicz, 2010). In this chapter the researcher discusses, evaluates and analyses available literature on the financial performance of state owned enterprises. Furthermore, the chapter presents the views and conclusions of various scholars on corporate governance issues, financial management, and analysis of the financial performance of SOEs as well as how the performance of SOEs affects the economy.

Ebstudies, (2012), explained financial performance analysis as the process of identifying the financial strength and weaknesses of state owned enterprises by properly establishing the relationship between the items of the Balance Sheet and the Trading Profit and Loss Account. This analysis also helps to forecast short-term and long-term growth. The financial management of the SOEs encompasses the whole processes of formulating and implementing decisions made on their services, expenditures, revenue and debt. The financial performance of the SOEs is thus one of the most important aspects of their operations and management since money is the hub of the wheel of every organisational activity. The formulation and execution of financial decisions would revolve around the fiscal measures that can be put in place to ensure a high standard of performance in order to meet the needs of the people and the stakeholders (Hertog, 2010). For the purpose of this study, performance was analyzed in terms of the financial strength of the TransNamib, a Namibian state owned enterprise.

2.2 Challenges facing SOEs

The basis for creating SOEs was to assist the Government to enhance the social and economic well-being of the nation's citizens. They are of strategic significance, not only because of the macro-economic effects they have on the national economy but also because they control the key sectors of the economy. Moreover, the substantial contributions they make to employment creation and national output regardless of the level of the economic development of a country cannot be under estimated (O'Connor, Deng & Luo, 2006).

In Namibia, one of the main challenges facing the SOEs is that of the dual governance system. Under this system, authority is binary, making it difficult to identify clear lines of reporting as the SOEs are governed in two different places which are the line ministry and the SOE governance council, giving each SOE two places to report and thus reducing their effectiveness. Besides, most of the SOEs are facing enormous challenges: under staffing, dilapidated infrastructure, outdated equipment, lack of innovation, escalating operating costs, high maintenance costs, and unreliable service delivery. These challenges have led to a drastic decline in revenue levels, escalating operational costs, diminishing market share and consequently poor financial performance, (Keyter, 2006).

2.3 The Financial management process of state owned enterprises

An enterprise can only function effectively if it has appropriate assets or working capital. Depending on the type of business, these assets may include money, land, buildings, machinery, vehicles, equipment, raw materials, auxiliary materials and trading stock. Besides, businesses also require additional resources such as management skills, labor and services such as electricity and communication facilities. The management of the enterprise funds is the function of financial management. Financial management includes financing, (obtaining funds), investment, (applying funds by acquiring assets), and administering and reporting on financial matters. Financial management is responsible for managing all facets of the financial function efficiently.

Its main aim is to make the best possible contribution to the attainment of the enterprise's objectives, within the broad framework of its strategies and plans by performing the following tasks: effective financial analysis, reporting, planning and control management of the acquisition of funds, which is also known as management of the financing or capital structure, management of the application of funds, which is also known as management of the asset structure (Capobianco & Christiansen, 2011).

Financial management is defined as the management of the flows of money or financial resources through an organisation, whether it is a company, a school, a bank, or government agency. The actual flow of money or financial resources as well as claims against money in a judicious way is its concern. The traditional concept of finance, (providing funds needed by an organisation) has the merit of highlighting the central core of the financial function – the treasury function - which is simply

keeping the organisation supplied with enough funds to accomplish its objectives, (Luke, 2010).

In the present modern economy, there is an increase in complexity, size, technology, inflation, recession and government control, with a lot of implications to financial management in many organisations, including the TransNamib. As a result, the focus of financial management has shifted from being a treasury function to the concept of managerial finance, which is concerned not only with the acquisition but also with the application, conservation, timing, volume and composition of funds in order to ensure an effective utilisation of funds. Thus financial management is seen as the provision of the needed funds from the most suitable and appropriate sources, in the required amount, at the right time and a cost that will make their employment beneficial (Luke, 2010).

In public financial management, every decision is based on equity and efficiency, backed-up by public policy, (not on sentiment and personal aggrandisement). This is so not only to ensure good organisational financial performance through efficient employment of resources in production, but also to ensure that both real and nominal benefits accrue to the society. Thus public financial management deals with judicious use of funds and also ensures accountability and financial control. The financial management process in an enterprise, involves the following four major areas: financial planning, financial decision-making, financial control and financial analysis (Hertog, 2010).

2.3.1 **The role of financial analysis**

Financial analysis is the evaluation of the enterprise's past, present and anticipated future financial performance and financial condition. Its objective is to identify the firm's financial strengths and weaknesses and to provide the essential foundation for financial decision making and planning (Hertog, 2010). Financial ratios are the principal tool of financial analysis and they can be used by a variety of people to help diagnose the financial well-being of a firm.

Interested parties such as accountants, analysts, bankers, managers, investors, owners and governmental entities use financial ratios as a tool to help evaluate a firm's financial performance and financial condition and to compare these with other like firms or with itself over time, (Jones, 2009). As we shall see, it is helpful in financial analysis to distinguish between financial performance and financial condition. Thus it requires interpretative skills to assess future strategic potential as well as evaluating past performance.

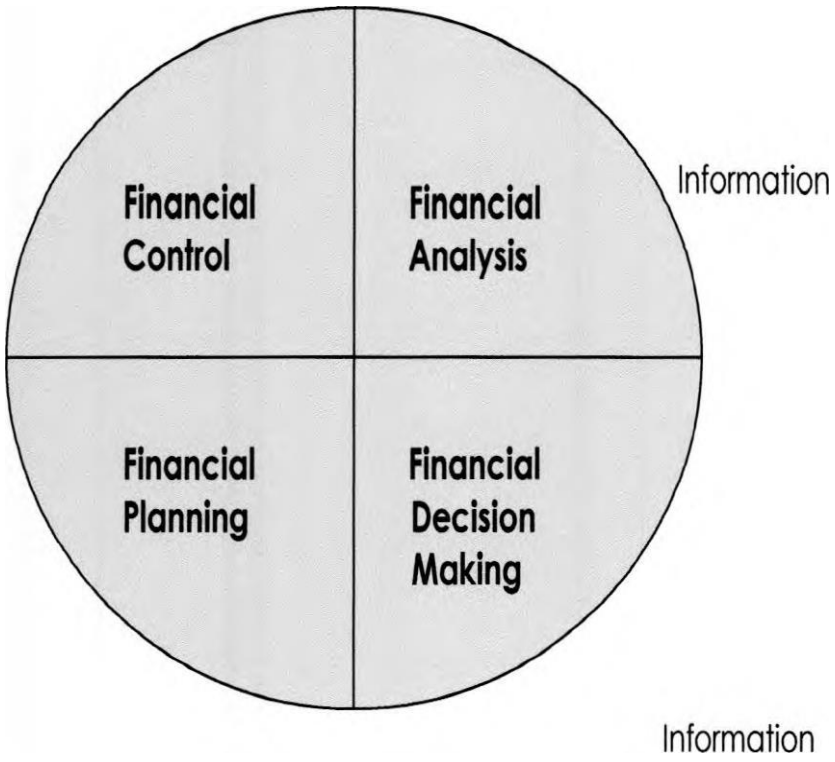
Each stakeholder will have a different interest in the firm's finances, such as having a special focus on the firm's ability to meet the loan repayment plus interest. In other words, the firm's liquidity and cash flow position. On the other hand, others will be interested in the level of existing debt, that is in the firm's gearing position and assets available as security for the loan, (Jones, 2009). As a section of financial analysis, financial ratios will be classified as the most important tool for the analysis, specifically developed to measure elements such as Profitability, Liquidity, Operating efficiency, Capital gearing and Investment ratios.

This approach of financial analysis can be related to the financial objectives, where they can be shown in terms of 2:1 like a football score, or as percentage or even in times. Thus, if the objectives are set specifically in these terms, then the financial ratio analysis can be used to measure progress towards their achievement. According to Brigham & Houston, (2012), the key outcomes which analysts hope to achieve from financial analysis is an assessment of the firm's level of return and its level of risk, whereby they are intimately connected, due to the positive correlation that exists between them and cannot look at either in isolation; seeking higher returns usually means accepting higher risk and vice versa.

Financial ratios are the diagnosis tools of financial analysis. We use them to evaluate a firm's financial health and performance, to check its financial vital signs. However, a word of caution is appropriate at this stage, financial ratios, while very useful analytical tools, do have their limitations which makes it very sensitive and need to be applied with care and more importantly, their results should be interpreted with care to convey some useful feedback on how the business' performance is concerned (Jones, 2009). However, financial analysis can be a very subjective process, therefore we should be aware of the alternatives available and some ambiguities associated with them.

The financial manager needs to coordinate the financial tools as depicted in Figure 1, below, in order to deliver to the organization and its environment, an accurate financial measurement and analysis and consolidate a strong financial strategy:

Figure 2.1: The Financial Management Process - Financial Analysis



2.3.2 **Profitability and financial performance**

Profitability is essential if an enterprise is to continue to be in business in the longer term. The level of profit must be sufficient to make it worthwhile to retain the assets in that business. Although profit maximization has been identified as one of the measurable economic objectives that can be applied to all types of enterprises, most enterprises usually seek to achieve some accounting measure, like a level of return on capital employed (ROCE), or income per share. Götze, Northcott & Schuster (2008), revealed that profitability has been the most widely used measure of financial performance. Profitability is the excess of income and expenditure which can be

expressed by ratios of Gross profit margin, net profit and return on equity. A new paradigm of performance measure has been adopted by many SOE's. This is based on identifying what the business does in terms of levels of processes and attaching key performance indicators to those processes. The recording and analysis of the key performance indicators, should significantly contribute to the achievement of business goals. Key performance indicators guide businesses on how well they provide services, how long they take to process customer requests, their product delivery performance and how much time they spend fixing mistakes (Kim & Chung, 2008).

The traditional statement of financial performance, statement of assets and liabilities, and management accounts are not enough to effectively manage organizations which are seeking to survive and add shareholder/owner value. The management needs to have timely information, which should not be in the form of the traditional financial data. The information must be reliable and simplified so that it can be understood by all levels of staff, who should be able to use them for the continuous measurement of their actual performance against the business's pre-determined targets, in order to effectively manage their organization, (Kim & Chung, 2008). In actual fact, the main purpose of financial accounting is the determination of profit. Accurate profit measurement is important for the following reasons:

Overall, the profit made by an enterprise can be used as the basis of taxation; in public reports as a measure of the success of a company's activities; as a basis for establishing withdrawals by owners or dividend policies by directors; by lenders of short-term loans and by suppliers in making decisions to grant credit; to guide the

management of an enterprise in the conduct of its affairs. It provides a basis for the development of policies on asset acquisitions, marketing and research programs, production and manpower planning and it is also used to evaluate decisions taken in the past.

The Department of Public Enterprises (DPE, 2006), stated that the contributions made by the SOEs to the sustainable development of their country over a period of time should be used for measuring their performance. The department explained that the financial performance of SOEs should take into account the SOE's profitability, tariffs and its earnings; the causes of decreases and increases in its profitability over a period of time, looking at its liquidity and solvency ratios. Fratini & Tettamanzi, (2015), mentioned that the performance of SOEs in terms of profit or alternatively, the returns on capital or rewards to shareholders, are also a function of the structure of the market. They argued that stronger competition tends to drive down profits and the ability to reward the owners through dividends.

2.4 Determining the profitability performance and financial resources of an enterprise

A study of profitability performance in our framework of analysis will indicate if the business is making money and earning a satisfactory return on its investment. A higher profit level, results in a better financial performance of the enterprise. In particular, the return on assets ratio is often used by top management to evaluate individual operations within a multidivisional firm performance, (Fratini &

Tettamanzi, 2015). Following are the ratios used for determining the profitability performance and financial resources of an enterprise:

- **Net Profit Ratio,** is the percentage remaining after the firm's operational activities such as administration, marketing, distribution and other operating costs have been deducted from the gross profit.

- **Gross Profit Ratio,** is a very important profitability measure for any business; it essentially measures the Trading Effectiveness and basic Profit earning potential of a firm. GP ratio will be affected by factors such as: Changes in selling prices, changes in buying policies and practices, changes in sales unit and stock valuation methods.

- **Return on Investment, (ROI),** or **Primary Ratio** is also sometimes referred to as Return on Assets (ROA) or return on capital employed (ROCE). In whatever way it is expressed, the ratio attempts to measure the overall return the firm is generating on the amounts of money invested in its assets.

- **Return on Equity (ROE) or Return on Shareholders' Funds (ROSF)** measures the return the firm is earning on the equity funds invested by its shareholders – firm's owners.

  As investment ratio is used by investors, present and potential in making their decisions as to the attractiveness of the firm's shares as an investment. They are

used to assess profitability because they do largely measure the return on the company's shares from the investor's perspective.

- **Earnings per shares, (EPS),** is widely used by investment analysts, managers and shareholders to evaluate how profitably the company is using investors' capital and it specifically reveals how much money the company is earning for every share invested.

- **Price Earning (P/E) Ratio** is used as valuation tool, in the context of financial analysis, the ratio is used to evaluate the earnings growth potential of the company and it is clearly related to the EPS ratio. EPS is often referred as the "Earnings multiple", as it shows the number which the EPS must be multiplied by to arrive at the share's current market price.

Profitability measurement in financial analysis can be broken down into more detailed information, according to the department or section within a company in order to suit each company operation and to provide more specific information required by managers to monitor performance and obtain accurate outcomes. Profitability, can also be used to set corporate strategic objectives and to keep the company's operational activities in accordance with the strategic vision and mission statement of the company, and quantitative objectives like shareholders' required return on investment and corporate growth, (Fratini & Tettamanzi, 2015).

2.5 Enterprise Liquidity Assessment and Financial Condition

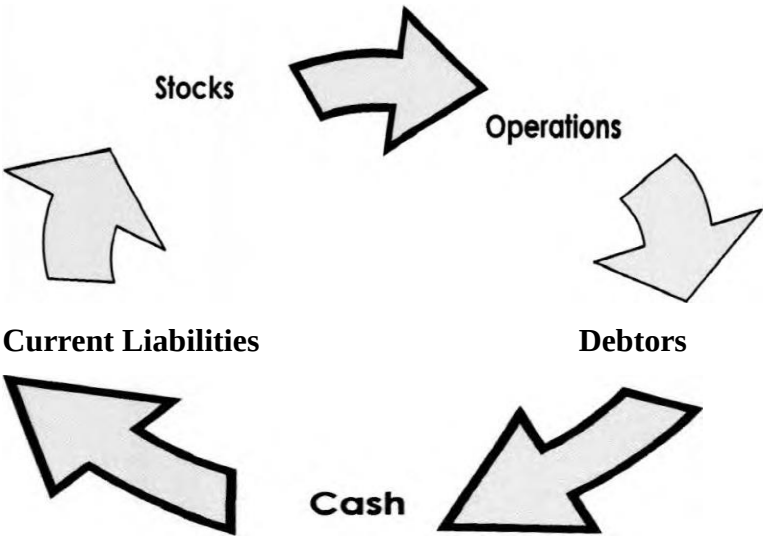
Essentially, liquidity ratios will be used to assess an organization's ability to pay its way. Liquidity or solvency means being able to satisfy financial obligations without difficulty, as and when they become due. A firm is considered technically insolvent if it is unable to settle its debts when they become due for payment. Liquidity is a measure of how easily or specific an asset can be converted into cash without any significant loss of value, (Fratini & Tettamanzi, 2015).

Focusing on risk assessment, a liquidity ratio is indicative of a firm's financial condition. Effective liquidity management is of paramount importance on the survival and future development of any organization. While profitability is clearly very important for the survival of a commercial enterprise, it is more often a lack of liquidity rather than a lack of profitability which causes a business to fail, (Okhmatovskiy, 2010). Liquidity is measured using the current ratio, quick ratio and working capital ratio. According to the decision rule, current assets should be twice the current liabilities, in other words should be at a ratio of 2:1. Therefore such a decision rule should be kept in order to be able to pay its creditors when the bills are due, and the lower the risk exposure of the firm the more healthy is it's financial position, (Okhmatovskiy, 2010).

In liquidity management, one is concerned with the short-term funds. These are the funds which are continuously circulating through the business and of which it needs to have a constant flow to keep it running smoothly on a day-to-day basis. By comparison, gearing or capital structure management, as we shall see shortly, is to do

with managing the firm's long term funding and solvency. Short term funds flow is important to keep it in line, for the survival and growth of the firm in the longer term, in this case, a combination of good profitability and sound liquidity, (Okhmatovskiy, 2010).

Figure 2.2: **Short Term Fund Flow**



Source: Researcher's Construct

2.6 Determinants of the financial performance of state owned enterprises

According to Elger, (2007), to perform is to take a series of complex actions that integrate skills and knowledge to produce valuable results. Developing his theory of performance further, he stated that performance is a journey and that the level of performance of an enterprise describes its location in the journey. In support of his position, he explained that the financial performance of an enterprise is closely linked to the adoption of strategic planning, which will enhance the efficiency of day

to day operations that will boost the financial performance of the enterprise. The financial performance of an enterprise is defined as a subjective measure of how well it can use its assets to generate revenues, (Muogbo, 2013).

Fan, Wong & Zhang, (2007), explained that financial performance can be used as a general measure of an organization's overall financial health over a given period and can also be used to compare similar organizations across the same industry or to compare industries or sectors in aggregation. Although there are many ways to measure financial performance, it is important that all measures should be taken in aggregation. Alec, (2006), concluded that line items such as revenue, income or cash flow from operations can be used as well as total unit sales. According to the traditional approach in financial management, the enterprise has the objective of maximizing the rate of return on the equity over the long run, with due consideration for the liquidity and the solvency aspects of the enterprise, within the limitations imposed by risk.

Many empirical studies exist on the financial performance of SOEs. These include a study by the World Bank, (Kikeri, 2013) that identifies five governance related problems that have persistently led to SOEs' poor performance in the developing world. The identified governance problems which in essence are agency theory related were: unclear ownership objectives, weak owners, low transparency levels, lack of professionalism of the boards and poor stakeholder relations. In their study: investigating the effect of market structure on SOE performance, Mbako & Charles (2013) established competition as a determinant of performance and specifically that competition can be detrimental to SOE performance.

This is consistent with other literature suggesting that operational margins tend to be depressed with competition. Reliance on state debt finance has been found to be negatively correlated to performance of state enterprises. In support of the resource based theory, an efficient use of resources has been found to improve SOE performance. ‘According to Kim & Chung, (2008), there was a positive correlation established between government pressure on SOEs and their performance outcomes in Korea’.

The authors found empirical evidence to the effect that with appropriate pressures from government, SOEs can perform even if there is no intention to privatise. This is consistent with empirical evidence that, in China, Corporatisation of SOEs improved their performance without an element of privatisation. They also found through an empirical study that in Hungary, Poland and the UK, firms improved performance during a period leading to privatisation and not necessarily thereafter, meaning that indeed with appropriate pressures from the relevant stakeholders, SOE performance can be improved without privatisation. The author further finds that unlike within OECD countries, where privatisation resulted in marginal performance improvement, privatised African firms reported no significant improvements in performance (measured by profitability, efficiency, output and leverage).

‘According to Fratini & Tettamanzi, (2015), performance is the function of an organization’s ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way’. Westover et al., (2010), add that performance entails effectiveness, which refers to the firm’s ability to serve and produce what the market requires at a particular time and efficiency, which means

meeting the objectives at the lowest possible cost with the highest possible benefits. In order to assess performance, managers have to use actions designed to generate sustainable long-term improvements, (Westover & Taylor, 2010).

'According to Joshi, (2009), performance measures must focus attention on what makes, identifies and communicates the drivers of success, supports organization learning and provides a basis for assessment and rewards'. On the other hand, Liu et al., (2012), define performance as a function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Götze, Northcott & Schuster, (2008), adds that performance entails effectiveness, which refers to the firm's ability to serve and produce what the market requires, timely and efficiently, which means achieving the objectives at the lowest possible cost with highest possible benefits.

Lee, Kim & Park, (2013), looked at performance in terms of competitive performance, financial performance, and quality of service, flexibility, resource utilization and innovation. A Study by Jones, (2009), shows that performance can be measured at both organization and individual level and this measurement is sometimes referred to as performance appraisal. He urges that organizations should have desired potential, in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved.

2.6.1 **Motivation and financial performance**

‘According to Courtney, Marnoch & Williamson, (2009), there is a strong relationship between employee motivation and the financial performance of an enterprise. Employee motivation enhances customer loyalty, which is an influential factor for financial performance’. Liu et al., (2012), explained that the roots of customer loyalty are based on employee motivational levels and customer satisfaction because the major outcome of motivated employees is that they keep on improving their quality of work, which ultimately results in improvement of financial performance. When an enterprise understands how its employees can be motivated, it can push them to give their best output in terms of quality and quantity (Kim & Chung, 2008).

O’Connor, Deng & Luo, (2006), asserts that when employees are highly motivated, it is not just productivity that is affected positively, but various other factors are also affected such as improvements in the atmosphere of the workplace and highly satisfied employees which would improve the financial performance of an enterprise. Furthermore, motivation of employees is crucial for enterprises, because it allows the managers to meet or even exceed the organization’s set targets and thus improve its financial standing (Westover & Taylor, 2010). In the same vein, Courtney, Marnoch & Williamson, (2009), argues that when organizations improve the efficiency and effectiveness of their employees through motivation, it will also improve its financial performance.

Hertog, (2010), outlined the following as that which an enterprise can derive from having a motivated workforce:

- Cost savings – motivated employees will work faster and use their creativity to implement improved processes that can lead to cost savings for the enterprise
- Increased quality – they will produce qualitatively better products that cost the enterprise less resources to produce
- Reduced labor turn-over – turn-over not only costs money to replace the employees but also slows down the progress of the enterprise while the replacements are being trained
- Speed to the market – the time it takes to get finished products to the market will be reduced and the enterprise will be able to meet the demands of its customers.

Mbako & Charles, (2013), intimates that it is only by having a motivated workforce that an enterprise can ensure that the release cycle of its products or services is reduced to the barest minimum so that whenever a new product is released, customers will already be expecting a newer version. A study carried out in Brazil by Cunha et al., (2013), also concluded that there is a strong correlation between employee motivation and financial performance and that organizations that underestimate the contributions of their employees, usually end up incurring financial losses. In conformity, Joshi, (2009), say that employee engagement can positively or negatively impact the financial performance of an enterprise, because employees are the determining factor between successful and unsuccessful organizations.

The results of the study in Brazil by Cunha et al., (2013), proved conclusively that enterprises with higher levels of motivation strategies achieved better financial performances than those that had lower levels of motivation strategies. Based on results from empirical studies, Courtney, Marnoch & Williamson, (2009), made it clear that organizations should view employee motivation with the same significance as profitability, customer loyalty and other key business performance indicators that are used regularly to monitor and measure the financial performance of organizations.

2.6.2 **Accountability**

Accountability is the process by which a person or persons are required to report to others on the exercise of responsibilities given to them. It is the mechanism for ensuring that information is provided by the management of an enterprise to internal and external stakeholders about progress in achieving the firm's objectives. It also applies to different levels of management, where subordinates need to report to their own senior management about what they are doing and how successful they are in meeting their objectives, (Mbako & Charles, 2013). Specifically, the function of accounting in an enterprise is to provide information for three broad purposes:

- External reporting to the government and other stakeholders.
- Internal routine reporting to managers to help them to plan and to control their activities.
- Internal non-routine reporting to managers to assist them in deciding what products to make and how to sell them.

Thus, management will provide reports on the various objectives of the enterprise and for which they have responsibility for achieving – for example, such financial objectives as profit, sales volumes, cost reductions, and so on. Whilst the owners of the enterprise are directly concerned with its success, there are also other stakeholders with an interest in its performance, like employees, customers, suppliers and creditors.

2.6.3 **Business growth**

This is one of the important determinants of the financial performance of an enterprise because by increasing in size, the enterprise can find it easier to continue in business. For instance, if it diversifies into different products and services and can increase its size and profits, it will be able to take advantage of economies of scale.

2.6.4 **Level of service**

It is very important for an enterprise to establish and maintain a very high level of service, in order to meet the demands of clients and thus be able to improve its financial performance. Enterprises with poor levels of service usually end up with poor financial performance.

2.7 **Corporate governance and financial performance**

‘According to Demise, (2006), enhancing transparency and accountability is central to improving the corporate governance of state-owned enterprises’. Although this

will bring about complex challenges, it is an efficient entry point for improving SOE governance and their financial performance. ‘According to Hadija & Samuel, (2012), accountability includes effective accounting, and making public officials responsible for their actions and responsive to consumers; the justification of actions and the answerability for implementation by management, must be according to agreed criteria of performance’. It is not surprising therefore that public sector reforms, especially the ones relating to institutional reforms have been aimed at improving the quality of information regarding SOE performance.

Schlettwein, (2010), mentioned that through the implementation of performance agreements, the Namibian Government is encouraging the SOEs to communicate clear priorities and objectives which the citizens and political leaders can use for evaluating the performance of SOE managers. SOEs are now required to monitor and report on their performance against their objectives, hence promoting transparency and accountability.

Nowadays, the SOEs face much higher pressure to improve their operational and financial performance, due to a more demanding environment, including greater competition, financial sector liberalisation, restructuring and privatisation of SOEs, technological changes, international agreements and budgetary reforms, (Kikeri, 2013). She further states that the improvement of SOE governance would allow the State to better protect its assets and enhance the performance of the SOEs through improved board practices; a robust control environment and better disclosure practices. The proper evaluation or analysis of financial performance of SOEs, does not only deal with the individual SOE but it also includes the comparison of SOEs

with other national or international companies within the same industry, to assess the SOE's performance but not to benchmark performance because of the different operating environments and policies used. According to the DPE, (2006), the evaluation of SOE performance is centred on the SOE's contribution to the national economy through taxes, dividends and its contribution to the Gross Domestic Product, (GDP), through the analysis of the SOEs' cash flows.

2.8 **Managing the working capital of an enterprise**

Working capital or circulating capital is the amount of money which a business needs to survive on a day to day basis. Thereby it should be sufficient to cover: paying creditors in time, allowing trade credit to debtors and carrying adequate stocks. So it is the kind of short term capital required to finance a firm on a day to day basis! It is the key measure of business liquidity. The more working capital a firm has, the less risk there is of the firm not being able to pay its creditors, when the bills become due, (Brigham & Houston, 2012). Although scholars are not agreed on a generally accepted definition of working capital, it refers to a firm's investment in short term assets and all aspects of current assets and current liabilities and can be defined as the current assets less current liabilities and represents a measure of the ability of the company to pay its way. Current assets are those that can be converted into cash in the short term, usually within one year such as cash in the bank, money owed by trade debtors, and finished and half-finished products. Current liabilities, on the other hand, are the debts or obligations of the business which are due to be paid in the short term, usually within one year such as bills due to suppliers, interest payments and loans for repayment.

Working capital management is significant in the financial performance of an SOE, because it plays a pivotal role in keeping the wheels of a business enterprise running. It is concerned with short term financial decisions so as to avoid shortage of funds for working capital that can lead to eventual failure or retard their growth, (Brigham & Houston, 2012). Lack of efficient and effective utilization of working capital, can also lead to a low rate of return on capital invested or huge losses. The basic principle of working capital management is that, the permanent current assets are to be financed from long term sources and temporary fluctuations in current assets are to be financed by raising short term funds. However, working capital may either refer to those funds used in acquiring current assets or the excess of current assets over current liabilities. The main difference between the two, lies in the problems of management of each type and the fact that each has different appeal to different people (Brigham & Houston, 2012).

It all depends on the point of observation. However, the management of an enterprise will be happier with gross working capital details since this shows how the scarce resources of the business are being managed, that is, the balancing of the components of the current assets. Likewise, a financial analyst would prefer to have both the gross and the net working capital position as the gross enables him to calculate the solvency ratios while the net position enables him to measure the capability of the company to take on additional current liabilities. On the other hand, prospective creditors would be more interested in knowing the net working capital of an enterprise, as this shows what funds would be left to meet further commitments after all the existing current liabilities have been settled and also because in determining

the funding pattern, the net working capital represents the portion of the current assets that is being financed from long term sources. However, the main weakness of this approach is that it does not reflect the current liabilities of an organization (Brigham & Houston, 2012).

The movement of circulating capital through different forms within a business is called the working capital cycle. All phases of the working capital cycle take place concurrently because cash is continually being expended on raw materials, operating, selling and administration costs and is being received continuously from debtors. In a successful enterprise, cash always tends to increase due to profit and it is either retained in the business, or returned as dividend to shareholders (Brigham & Houston, 2012). If the flow of cash is interrupted, a firm may find that it is not able to continue trading. This is why it is important to analyze the past behavior of the cash account and to prepare projections of what the future cash position will be.

2.8.1 **Components of the working capital**

2.8.1.1 **Current assets -** are those assets which are convertible into cash within a period of one year and which are required to meet the day to day operations of the business. The current assets are cash or near cash resources such as Cash and bank balances, Temporary investments, Short term advances, prepaid expenses, Accounts Receivables, Raw materials, stores and spares, Work-in-progress and Finished goods.

2.8.1.2 **Current liabilities -** are those claims of outsiders which are expected to mature for payment within an accounting year. These include Creditors – Accounts Payable, Outstanding expenses, Short term borrowings, Advances received against sales, Taxes, dividends payable and other liabilities maturing within a year.

2.8.1.3 **Gross and net working capital** - generally, the working capital is categorized into two perspectives. These are the gross working capital and the networking capital, which are called the balance sheet approach of working capital.

2.8.1.4 **Gross working capital -** refers to the firm's investment in current assets. The concept of gross working capital is usually advocated because the management of an enterprise is usually more concerned with the total current assets as they constitute the total funds available for operating purposes than with the sources from which the funds come.

2.8.1.5 **Net working capital -** This refers to the excess of current assets over current liabilities. The net working capital is a qualitative concept which indicates the liquidity position of a firm and the extent to which working capital needs may be financed by a permanent source of funds.

Permanent and temporary working capital - Considering time as the basis of classification, there are two types of working capital namely: permanent and temporary:

Permanent working capital - the magnitude of investment in working capital may increase or decrease over a period of time according to the level of production. There is however, a need for a minimum level of working capital to carry the business, irrespective of changes in the level of sales or production. Such minimum level of working capital is called permanent working capital or fixed working capital.

Temporary working capital - is also called fluctuating working capital. It depends on the changes in production and sales over and above the permanent working capital. It is the extra working capital needed to support the changing business activities. It represents on additional assets required at different times during the operation of the year. While the supplier of permanent working capital looks for long term return on funds invested, the supplier of temporary working capital will look for immediate return and the cost of such financing and it will also be costlier than the cost of permanent funds used for working capital.

Positive net working capital represents the excess of current assets over current liabilities.

Negative working capital is when the current liabilities are exceeding the current assets. The negative working capital position will adversely affect the operations of the firm and its profitability.

2.8.2 **Strategies for managing SOE working capital**

Depending on the risk exposure of a SOE, any one of the following strategies can be adapted for managing its working capital:

2.8.2.1 Conservative approach

A conservative strategy suggests not to take any risk in working capital management and to carry high levels of current assets in relation to sales. It requires maintaining a high level of working capital and it should be financed by long term funds like share capital or long-term debt. Under this strategy, long term financing covers more than the total requirement for working capital. The excess cash is invested in short term marketable securities and in case of need; these securities are sold to meet the urgent requirements of working capital, (Lee, Kim & Park, 2013).

2.8.2.2 Aggressive approach

Under this approach, current assets are maintained just to meet the current liabilities without keeping any cushion for the variations in working capital needs. Adoption of this strategy will minimize the investment in net working capital and ultimately it lowers the cost of financing working capital. The main drawback of the strategy is that it necessitates frequent financing and increases risk as the firm is vulnerable to sudden shocks. The price of this strategy is higher financing costs, since long term rates will normally exceed short term rates. However, when aggressive strategy is adopted, sometimes the firm runs into mismatches and defaults (Lee, Kim & Park, 2013).

2.8.2.3 The Matching or Hedging approach

Under the matching or hedging approach to financing working capital requirements of a firm, each asset in the balance sheet assets side would be offset with a financing instrument of the same approximate maturity. The basic objective of this method of financing is that the permanent component of current assets, and fixed assets would be met with long term funds and the short term or seasonal variations in current assets would be financed with short term debt. To shorten the receivable period without necessarily reducing the credit period, the companies can offer trade discount for prompt payment, (Lee, Kim & Park, 2013).

2.8.2.4 Zero working capital approach

This is one of the latest trends in working capital management. This implies having no working capital at all times and the current asset, shall always be equal to the current liabilities. The firm saves opportunity cost on excess investments in current assets and as bank cash credit limits are linked to the inventory levels, costs of interest are also saved. Zero working capital also ensures a smooth and uninterrupted working capital cycle and it would pressurize the finance manager to improve the quality of the current assets at all times. Zero working capital calls for a fine balancing act in financial management and the success in this endeavor would get reflected in a healthier bottom line (Lee, Kim & Park, 2013).

2.8.3 **Working capital policies**

The degree of current assets that a company employs for achieving a desired level of sales is manifested in working capital policy. In practice, the enterprise follows three forms of working capital policies, which are as follows:

- **Restricted policy** - involves the rigid estimation of working capital to the requirements of the concern and then forcing it to adhere to the estimate.
- **Relaxed policy** - involves allowing sufficient cushion for fluctuations in funds requirement for financing various items of working capital.
- **Moderate policy** – is where the working capital level of an enterprise is placed between the two extremes of restricted and relaxed policies.

2.9 **Analysis and measurement of the financial performance of an SOE**

The basic objective of the financial functions is to assist management in formulating policies so that the most effective use is made of resources, so that the enterprise will make the best use of the funds at its disposal and will also select the most favorable sources of additional funds to finance future activities. By far the most important source of information employed in financial analysis and planning is that in the accounting records, (Lee, Kim & Park, 2013).

Accounting, by a process of measurement, analysis and communication, has developed to reflect and control the economic activities of enterprises as accountants use analytical ratios to measure such things as performance, sales, expenses, profits,

assets and liabilities and express their findings in numerical terms. This data is analyzed and communicated to individuals, both inside and outside the enterprise, who have an interest in its affairs. The prime objective of this process is to enable rational economic decisions to be made. For an enterprise to remain financially healthy, it is imperative for the financial manager to understand the basic analytical tools for effective financial planning and control, (Lee, Kim & Park, 2013).

The importance of an analysis of the statement of source and application of funds, and financial ratio analysis to an enterprise cannot be over emphasized. Certain norms are necessary for measuring and evaluating financial performance. The financial ratios, which express the relationship between two figures or groups of figures in the financial statements - balance and/or income statements and funds statement - serve as criteria or norms for purposes of comparison. The reason for a given ratio should always be thoroughly investigated and diagnosed, and financial ratios must be interpreted and used with the greatest caution. It is often necessary to make a more detailed analysis, and not to rely entirely on the information contained in the annual financial statements, (Götze, Northcott & Schuster, 2008).

Financial ratios are used by various people. They are used by financial management for purposes of internal control, decision-making and planning. Secondly, they are used by outside suppliers of capital including creditors, because these suppliers are particularly interested in the enterprise's liquidity and solvency. In the third place, interested stakeholders, as well as potential stakeholders, are interested in the current as well as the expected rate of return on equity, cash. In some cases, the annual

financial statements of SOEs, might be the only access to information about the organization (Götze, Northcott & Schuster, 2008).

2.9.1 **The importance of financial statements**

It is surprising that many SOEs have not realized the importance of regular preparation of financial statements. For this reason, they always fail to account for money coming into the enterprise, the money going out of their entities, what they possess and what is due to them from other entities, as well as how their equity is changing over time. However, since financial statements are used by a lot of internal and external stakeholders, it is important for all enterprises to ensure that these are prepared. If an enterprise does not prepare its financial statements as most do, they would not be able to know where they are coming from and where they would be heading to, and therefore will not be able to determine their profitability at the end or during the accounting period (Götze, Northcott & Schuster, 2008).

Internally, it will be useful for the stakeholders and to its board of directors, its managers and some employees, including labor unions and externally, they are important to prospective investors, government agencies responsible for taxing and regulating, lenders such as banks and credit rating agencies and to analysts and stockbrokers. Financial statement can be prepared monthly, quarterly, half- yearly or yearly. This varies from one organization to another. However, the period which financial statements are prepared must be regular, to be in line with the concept of consistency. Financial statements are intended to be understandable by readers who have a reasonable knowledge of business and economic activities and accounting and

who are willing to study the information diligently (Götze, Northcott & Schuster, 2008).

Since the objective of financial statements is to provide information about the financial position performance and changes in financial position of an enterprise that is useful to a wide range of users, in making economic decisions, these financial statements should be understandable, relevant reliable and comparable (Götze, Northcott & Schuster, 2008).

The three main types of comparison that can be made with the aid of financial ratios are:

- Firstly, a present ratio can be compared with a ratio of the past and/or an expected future ratio of the same enterprise to reveal an improvement or deterioration in financial performance by identifying possible trends.
- Secondly, the financial ratios of enterprises in the same industry can be compared with one another.
- Thirdly, the financial ratios of a given enterprise can, with the aid of industry averages, be compared with those of the industry.

A further analysis is probably necessary to establish the reasons for any deviation that may exist. Financial ratios are of no value without the existence of norms, for purposes of comparison. It is further necessary to do an analysis over a period of time in order to determine certain trends, (Götze, Northcott & Schuster, 2008).

i) The Balance Sheet

The Balance Sheet is a statement of assets, liabilities and the net worth or the owners' interest in the business.

- Assets are items of value owned by the company or owed to it by others. They include cash, buildings, machinery, furniture and fittings, stocks and debtors.
- Liabilities on the other hand are the claims of the creditors against these assets. They include long-term debts, taxation, accrued charges, trade creditors, and so on.
- Net worth or shareholders equity is usually made up of the ordinary share capital, reserves, and retained earnings: It is also the difference between the total assets and the total liabilities above.

ii) Profit and Loss Accounts or Income Statement

The Profit and Loss Account or Income Statement, reports the operational results of the SOE for a given period. It should be noted that the Profit and Loss Account covers a period of time like one month, one quarter or one year. It is different from the Balance Sheet which is a statement of the financial condition of the SOE as at a particular date. The Profit and Loss Account shows sales turnover for the period and the various costs incurred in achieving that sales level. The difference between the sales and the total costs is the profit and usually when a taxable profit is made, a charge for taxation is reported in the account. The appropriations of the profits are usually shown such as dividends proposed, transfer to reserves, and so on. Whatever

is left after the appropriations is the retained earnings (Götze, Northcott & Schuster, 2008).

iii) Source and application of funds

The source and application of funds statement shows the sources from which funds have flowed into the SOE and the way in which they have been used. The usefulness of this statement can be seen from the fact that the information for the interested parties will not be complete without letting them know from where the funds used in the SOE come from and how these funds have been used to achieve the state of affairs reported in the Balance Sheet. In detail, the statement shows what funds were available to the company during the period being reported upon and how these have been distributed between the various competing demands (Götze, Northcott & Schuster, 2008).

In general, the following are the main sources of funds for the SOEs as well as their application:

a) The Sources of funds for enterprises focusses on the profits from operations before charging depreciation; profits from operations before charging depreciation; capital contributions by owners; increases in long-term liabilities; increases in short-term liabilities; reductions in short-term financial assets; reductions in long-term financial assets; reductions in long-term financial assets and proceeds from the sale of fixed assets.

b) On the other hand, the application of funds by enterprises considers the withdrawals of profits or capital by owners; reductions in long-term liabilities; reductions in short-term liabilities; increases in short-term financial assets; increases in long-term financial assets and expenditure on fixed assets.

2.9.2 Enterprise accounting ratios – definitions and computation

i) Definitions

There are many accounting ratios that could be calculated from a set of accounts and can be used for comparing the current trading period with earlier periods and see how the enterprise is performing. For the accounting ratios to be meaningful, the following are some terms that must be understood:

ii) Computation of enterprise financial control ratio

- **Trading Account**

(a) Gross Profit percentage on turnover formula: -

Gross Profit x 100/ Turnover

This ratio tells us when to check on trading profitability and to pinpoint troubled areas in the SOE. The ratio will determine how efficiently the management has been running the SOE. All things being equal, this ratio should be consistent monthly or quarterly or yearly. If not, then it indicates that there is trouble somewhere.

(b) Rate of Stock Turnover -

Cost of stock sold / Average stock at cost price

This shows us how many times the stock is turned over in a year. A low stock turnover means low overall profit. But where the SOE turn its stock over rapidly it will earn more profit because of the profit element in each stock turn. Thus, a SOE can make more profit by improving its rate of stock turnover (Götze, Northcott & Schuster, 2008).

- **Profit & Loss Account**

(a) The net profit percentage is computed in the following formula:

Net Profit X 100/ Turnover

The net profit percentage is useful because it enables the SOE to compare one trading period with another. We can see from the percentages why there has been a change.

(b) The Expense ratio:

Expense item x 100/ Turnover

This enables us to compare every item of expense with the previous month or year and remedial action could be taken to correct any adverse position. Various expense ratios could be calculated for wages and salaries, administration expenses, electricity, water, rents, insurance, advertising expenses, bank charges, and so on. Any abnormal percentage increase when properly investigated could be a result of inefficiency somewhere in the organisation.

- **Balance Sheet Ratio**

A balance sheet is a statement produced periodically at the end of a financial year to show the organisation's assets and liabilities, expressed either as totals or as balances if a two-way flow has occurred. The Balance Sheet would show items like total value of the business, who owns the business, the total of fixed and current assets, and so on (Götze, Northcott & Schuster, 2008).

(a) Return on Capital employed

Net Profit before tax x 100/ Net Capital employed

The Net Capital employed (NCE) = Fixed Assets plus Current Assets minus Current Liabilities (other than Bank overdraft).

The ratio shows what rate of interest (or profit) the SOE is getting on the money invested in the business.

(b) Liquidity ratio:

Current Assets/ Current Liabilities

Liquid capital is made up of liquid assets which can be easily converted to cash, such as cash in hand (which is the most liquid), cash at bank, debtors, stocks, investments, and so on. The liquidity ratio can only be computed when liabilities which may be due for immediate payment is taken into account. This ratio is also called the working capital or current ratio as it shows the financial stability of the SOE. It is also a guide as to whether the SOE can meet its immediate financial commitments. A step further from the current ratio is the "Acid Test" which gives a truer picture of the liquidity of a business.

(c) Acid Test:

Current Assets – Stock/ Current Liabilities

(d) Debtors-to-sales ratio:

Debtors/ Sales × 365 days

This ratio is used for discovering the average credit period in days.

(e) Return on investment:

Annual cash flow × 100/ Investment

2.9.3 **Limitations of financial analysis**

- Applied and interpreted intelligently, financial ratios are very powerful analytical and planning tools, but their improper use can lead to erroneous diagnoses and invalid conclusions. Brigham & Houston, (2012), review some of the limitations and identified that many financial ratios are available, the interpretation should be done with care, accounting policies and practices, Consistency in methodology, Information availability, Historic in usage, Partiality in nature, Creative accounting as some of the pitfalls.

- **Many financial ratios are available**

In evaluating financial performance many ratios are available, therefore financial analysts uses different methods of calculating the same ratios. Therefore, skills should be applied with care.

- **Interpretations should be done with care**

Financial ratios are an essential diagnostic, decision making and planning aid, but they have to be used with care. Ratios need to be used selectively for the purpose and their results interpreted with skills and judgment.

- **Accounting policies and practices**

The use of different accounting policies such as depreciation and stock valuation policies, and practices like different accounting periods even between like firms may distort comparisons. Due to the accounting standards whereby, financial statements are prepared in order to be standardized and tighten up on the financial reporting through Financial Reporting Standards (FRSs) and Statements of Standards Accounting Practice (SSAPs), different interpretations of accounting rules and regulations and the adoption of different accounting practices will clearly affect the validity of comparisons with other firms and with the financial benchmarks for the industry overall. Changing accounting policies and practices may even limit the usefulness of analyzing an individual firm's performance over a number of years (Götze, Northcott & Schuster, 2008).

- **Consistency in methodology**

Whatever method of calculating a financial ratio is chosen, it should be applied consistently to facilitate meaningful comparison over time.

- **Historic in usage**

Ratios are static, historic, and retrospective and should be viewed in this context: they may not be appropriate as a basis for making future projections and forecasts.

- **The use of creative accounting**

As Götze, Northcott & Schuster, (2008), has pointed out; managers invariably engage in Creative Accounting to window-dress the published information, when they realize that the company may be in difficulties.

- **Partiality in nature**

Financial analysis is partial, the finances only reveal part of the overall performance, other non-financial measures such as marketing, production, product quality and human resource effectiveness are also required for a more complete appraisal. There is a need to like financial and non-financial performance measures together in order to provide what was referred to as the Balanced Scorecard and to create a powerful performance measurement system for the business (Malmi & Brown, 2008; Gordon, Loeb & Tseng, 2009).

- **Information availability**

The quality and amount of the financial information available will affect the quality of the ratios calculated and hence the analysis. For Example, a firm's internal

management will have access to a greater volume and much more detailed and commercially sensitive information than would be available to parties outside the firm - remembering information Asymmetry in relation to the agency problem. An external analysis therefore will by its nature be limited by the amount of information publicly available (Keyter, 2006).

- **Timeliness of information**

Published accounting information always lags behind real events. Even in the best of cases the information is likely to be at least several months out of date and in some cases publication could even be purposefully delayed.

2.10 Accountability of Namibian SOEs

The accountability of the management of the Namibian SOEs to the Namibian government is a central issue in their financial performance. This principle of effective management requires that those entrusted to manage the resources of the enterprises deliver the required outcomes. This implies that the enterprise management should be characterized by openness and transparency in their relations with stakeholders, (Elger, 2007). This requirement translates specifically into an obligation upon management to provide stakeholders with complete confidence regarding the decision-making processes. Such transparency is also necessary to ensure that public enterprises are fully accountable and therefore central to good financial performance (Götze, Northcott & Schuster, 2008).

2.11 **Internal control systems in Namibian SOEs**

An internal control system is the process that is used to provide reasonable assurance that the goals and objectives of an enterprise will be achieved (Hadija & Samuel, 2012). Götze, Northcott & Schuster, (2008), stressed that internal control can be described as any action taken by an organization to help enhance the likelihood that the objectives of the organization will be achieved. It is a dynamic process that involves the management of business risks and changes as personnel and circumstances change. The system includes organizational design, written policies and procedures, actual operating practices, physical barriers to protect assets and all personnel. Hadija & Samuel (2012) further stated that the system should be designed to discourage occurrences of errors or irregularities and to identify, within a reasonable time frame, errors or irregularities that may occur. The internal control system encompasses a variety of internal controls such as background checks of prospective employees for sensitive positions to locking the door when the office is closed for the day. The internal control system provides for safeguarding of assets, proper recording of transactions, and the efficient and effective accomplishment of the enterprise's goals and objectives including compliance with Government regulations.

2.11.1 **Roles and responsibilities in internal control**

‘According to Gramling & Myers (2006), since everyone in an organization has responsibility for internal control, to some extent because virtually all employees produce information used in the internal control system or take other actions needed

to effect control, it is necessary that all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions'.

- **Board of Directors -** is accountable in providing the governance, guidance and oversight of every business. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfil their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem (Gramling & Myers, 2006).

- **The Chief Executive Officer of the enterprise** - has overall responsibility for designing and implementing effective internal control. More than any other individual, it is the chief executive officer of an enterprise that has to set the tone at the top that affects integrity and ethics and other factors of a positive control environment. In an enterprise, the chief executive officer provides leadership and direction to senior managers. Senior managers, in turn, assign responsibility for the establishment of more specific internal control policies and procedures to personnel under them. Of particular significance are financial officers and their staffs, whose control activities cut

across, as well as up and down, the operating and other units of an enterprise (Gramling & Myers, 2006).

- **Auditors (internal and external)** - measure the effectiveness of internal control through their efforts and also assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. These include reviewing Information technology controls, which relate to the IT systems of the organization. There are various laws and regulations on internal control related to financial reporting in Namibia. To provide reasonable assurance that internal controls involved in the financial reporting process are effective, in Namibia they are tested by the external auditor who is the Auditor-General of the country, who is required to assess the internal controls of the SOEs and the reliability of their financial reporting.

2.11.2 **Internal control models**

2.11.2.1 The COSO model

i) The Committees of Sponsoring Organizations of Tread Way Commission (COSO) according to Turley & Zaman (2007) report defines internal control as a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations are the categories the model focusses on.

i) COSO describes internal control and it consists five essential components which is the control environment, risk assessment, control activities, information and communication and monitoring. The COSO model was depicted as a pyramid, with control environment forming a base for control activities, risk assessment, and monitoring. Information and communication link the different levels of the pyramid. As the base of the pyramid, the control environment has arguably the most important component because it sets the tone for the organization. Factors of the control environment include employees' integrity, the organization's commitment to competence, management's philosophy and operating style, and the attention and direction of the board of directors and its audit committee. The control environment provides discipline and structure for the other components.

Götze, Northcott & Schuster (2008) explained that risk assessment refers to the identification, analysis, and management of uncertainty facing the organization. Risk assessment focuses on the uncertainties in meeting the organization's financial, compliance, and operational objectives. Control activities were once thought to be the most important element of internal control, but COSO suggests that the control environment was more critical since the control environment fosters the best actions, while control activities provide safeguards to prevent wrong actions from occurring.

2.11.2.2 The CoCo Model

i) Turley & Zaman (2007) declared that some users of the COSO report found it difficult to read and understand. A model that some believe overcomes this

difficulty was found in a report from the Canadian Institute of Chartered Accountants which was issued in 2005. The report, Guidance on Control, presents a control model referred to as Criteria of Control (CoCo). The CoCo model, which builds on COSO, was thought to be more concrete and user-friendly. CoCo describes internal control as actions that foster the best result for an organization (Begg et al, 2013). These actions, which contribute to the achievement of the organization's objectives focusing on the Effectiveness and efficiency of operations, Reliability of internal and external reporting and Compliance with applicable laws and regulations and internal policies CoCo indicates that control comprises.

These elements of the organization (including its resources, systems, processes, culture, structure and tasks) taken together, support people in the achievement of the organization's objectives. CoCo model recognizes four interrelated elements of internal control, including purpose, capability, commitment, and monitoring and learning. An organization that performs a task has guided by an understanding of the purpose (the objective to be achieved) of the task and supported by capability (information, resources, supplies, and skills). To perform the task well over time, the organization needs a sense of commitment. Finally, the organization must monitor task performance to improve the task process. These elements of control, which include twenty specific control criteria, are seen as the steps an organization takes to foster the right action (Begg et al, 2013).

2.11.3 **Other internal control models**

In addition to the COSO and CoCo models, the two other reports that provide internal control models are:

The SAC model - was the Institute of Internal Auditors Research Foundation's Systems Auditability and Control (SAC), which was issued in 2001 and revised in 2004. The Institute of Internal Auditors issued SAC to provide guidance to internal auditors on internal controls related to information systems and information technology (IT). The definition of internal control that was included in SAC described it as a set of processes, functions, activities, sub-systems, and people who are grouped together or consciously segregated to ensure the effective achievement of objectives and goals (Turley & Zaman, 2007).

The COBIT model - the Information Systems Audit and Control Foundation's COBIT (Control Objectives for Information and Related Technology), which was issued in 2006. COBIT focuses primarily on efficiently and effectively monitoring information systems. The report emphasizes the role and impact of IT control as it relates to business processes. This control model can be used by management to develop clear policy and good practice for control of IT (Turley & Zaman, 2007).

These two internal control models also stress the concept of reasonable assurance as it relates to internal control. Internal control systems cannot guarantee that an organization has met its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives has met. The effectiveness of internal controls depends on the competency and dependability of the organization's people. Limitations of internal control include faulty human judgment,

misunderstanding of instructions, errors, management override of controls, and collusion (Turley & Zaman, 2007).

2.12 **Effects of poor financial management in the Namibian SOEs**

Poor financial management is one of the major factors that contribute to the failure of many Namibian SOEs. According to Brigham & Houston (2012), financial management is a very broad term and entails planning, organizing, activating and controlling and it is an important division of the SOEs. For SOEs, the two critical areas are the financial needs and control of such funding as well as accountability to the stakeholders. It is widely held that the SOEs within the social welfare context can increase their chances of obtaining more funding if they maintain their accountability status. Therefore, accurate record keeping is one of the most important tasks under the financial function ((Begg et al., 2013), which can assist in avoiding the failure of SOEs as SOEs with poor financial management often fail to achieve their objective of profitability.

2.13 **Summary**

In this chapter, the works of previous researchers and scholars relevant to the study was reviewed, analyzed and synthesized. It looked at various aspects of financial performance in SOEs and the possible measures or strategies that an enterprise can implement to overcome poor financial performance. An SOE's performance, measures its financial position or the financial results that result from management decisions and the implementation of those decisions by the SOE. The poor financial

performance of Namibian SOEs, which creates a negative image to different stakeholders might improve and turn into positive performance if the management of the SOE is held accountable for the performance of the SOE and if the internal control system that gives reasonable assurance that the objectives are achieved is enhanced. It ended by examining the effects of poor financial performance of SOEs and the different models used to analyse financial performance.

CHAPTER THREE RESEARCH METHODS

3.1 Introduction

This chapter focuses on the research methods that were used in the process of collecting data for the study. It describes the type of research design, population, sample size and sampling procedures adopted; research instruments; validity and reliability of data; data analysis and research ethics.

3.2 Research design

According to Creswell, (2013), a research design refers to the overall strategy that a researcher has chosen to integrate different components of the study in a coherent and logical way; thereby ensuring that the research problem would be effectively addressed to constitute the blueprint for the collection, measurement and analysis of data. Thus, it is a process which involves various procedures to be considered by the researcher to address the research issues or to provide solutions to the research questions. It describes how a research will be conducted and provides the details of its procedures and the methods of data collection used, (Maxwell, 2012).

The researcher designed a framework that used both qualitative and quantitative data. In other words, this study uses a mixed method, since it may not be adequate to a certain extent to explain the financial performance of an SOE in a qualitative form only. A semi-structured questionnaire was used to gather data on the financial performance of TransNamib in a comprehensive manner. Some quantitative data was obtained from TransNamib's annual reports for the period 2009 to 2013.

3.3 **Population**

As the research was a case study of TransNamib, the target population for this study was fifty, (50), made up of the entire management workforce at the TransNamib headquarters and the Ministry of Works & Transport. The population at TransNamib is twenty (20) consisting of five (5) board members, seven (7) senior managers and eight (8) middle level managers. A population of thirty (30) managers at the Ministry of Works & Transport within the departments of transport and administration was considered consisting of eleven (11) senior managers and nineteen (19) middle level managers since the former is a subsidiary of the latter.

3.4 **Sample size and sampling procedures**

The sample for this study comprised of twenty-five (25) participants that were selected by purposive sampling that targets only subjects who are relevant to the objectives of the study. Thus the sample consisted of personnel in financial management positions and board members. Specifically, a sample of fifteen (15) people was selected for TransNamib and consisted of five (5) Board members, five (5) senior managers and five (5) middle level managers out of population of twenty (20) people. The population of thirty (30) people was selected for the Ministry of Works & Transport and consisted of eight (8) senior managers and two (2) middle level managers at the Ministry of Works & Transport (MWT).

Purposive sampling was found to be more appropriate for the study, because it made it easier to capture data that was relevant to the study. Sampling was used to focus on

a set of people of interest and afforded the generalizability of the study findings. According to Yin, (2013), the crucial factor to be considered in relation to sample size is not the proportion of the population which is included in the survey but the absolute size of the population.

3.5 **Research instruments**

The survey method was used to collect all qualitative and quantitative data that was then analysed in line with the recommendations of earlier studies. The primary data for the study was obtained through questionnaires that were administered by the researcher. Both open and closed-ended questions were used to enable the researcher to gather enough relevant data from the respondents. Questionnaires were used because they gave the respondents enough time to think properly before responding to the questions. Also, useful secondary data was collected from the TransNamib audited annual financial statements and published annual reports.

3.6 **Data collection procedure**

The data collection procedure flowed from the research design. It involved many different methods and resources that included documents review, textbooks, and the Internet. Additional secondary data was obtained from the audited annual financial statements and other published annual reports after permission was obtained from TransNamib and the MWT by explaining the aim of the study. To save time, the

questionnaires were administered personally to the participants and they were given two weeks to fill them. To ensure that the respondents answered the questions correctly, the researcher took time to explain the questions to them. The researcher then made a follow up to collect the filled questionnaires at the end of the two weeks.

3.7 **Validity**

According to Merriam & Tisdell, (2015), validity is the extent to which an instrument measures what it was intended to measure as it was addressed from different angles. A specification of enterprise financial performance best practice was used as a guideline in obtaining relevant information through questionnaires and follow-up interviews. Suggestions from financial experts were also used to improve the validity of the research instruments.

3.8 **Reliability**

Reliability is the consistency with which the instrument yields a certain result when the entity being measured has not changed (Merriam & Tisdell, 2015). A pilot study involving six TransNamib financial management staff members was used to address the problem of internal consistency reliability. Internal consistency reliability is the extent to which questions of the research instrument yield similar results under similar conditions, (Merriam & Tisdell, 2015). The pilot study identified from the draft questionnaire, ambiguous questions and difficult terms that were subsequently edited before producing the final questionnaire that was used in the study.

3.9 **Data analysis**

Data analysis is a process of organizing, summarizing and presenting data in a meaningful way, (Merriam & Tisdell, 2015). In this research, data entry, cleaning, and checking of the data, followed immediately after data collection. The questionnaires were scrutinized for errors and then recorded in the Microsoft excel database to capture respondents' views and from there it was transferred to the SPSS v24 computer software. Qualitative data collected was organised and summarized by using descriptive statistical methods such as tables and diagrams. Responses from open-ended questions were conducted with the aim of extracting information that addresses specific research questions. The Quantitative data was analysed and interpreted using Microsoft excel and SPSS. The SPSS tools was used to test the significance, variability and estimating the relationship among variables of qualitative data using ANOVA, Coefficients of Variation (CV) and Regression Analysis due to the nature of the data collected. Data entry was combined with validation whereby range, structure, and consistency checks were re-programmed to ease the detection and immediate correction of errors.

3.10 **Research ethics**

The researcher ensured that data collection and interpretation was done in an authentic, transparent manner and that it remained free of any misrepresentation. Anonymity was adhered to by ensuring that completed questionnaires could not be linked to any specific respondent. The completed questionnaires are only accessible to the researcher as they are kept in a secure, locked up wardrobe and will be

destroyed after five years. Data collected remains confidential and was used for the purposes of this study only. Informed consent was sought from all respondents, with the researcher explaining to all their rights, and that they were free to participate or not to participate in the survey.

3.11 **Summary**

This chapter focussed on the research methodology and outlined the methods used to collect data, such as the research design, population, sample, data collection procedures; and provided the reasons why particular methods were used. Furthermore, it discussed the research ethics, reliability and validity of the research process.

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter contains information gathered during the research and the analysis of the data. The chapter proceeds by analysing the characteristics of the sample and continues with the analysis of the responses. Data is presented in descriptive formats as tables and associated diagrams.

Out of all the questionnaires that were distributed to potential respondents, only 12 were returned completed. Hence, the discussion that follows below is based on only those 12 respondents. Because of the smallness of the sample, emphasis in the discussion will be on the relative prominence of a response and not so much on the magnitude of the figures themselves. For instance, the researcher will not emphasize the fact that, say, 48% of the responses was for a certain response while it was only 42% for another response. The researcher will only conclude that the former response was more prominent than the latter; not emphasizing the difference in the percentages.

4.2 Characteristics of the sample

The sample selected for this study was somewhat evenly distributed between management of TransNamib and the Ministry of Works and Transport. Table 4.2 below shows that 40% of the respondents were from TransNamib itself while the rest were from the parent ministry of Works & transport.

Table 4.2: Distribution of respondents by Employer

Employer	Frequency	Percent
TransNamib	5	41.7
Ministry of Works & Transport	7	58.3
Total	12	100

As seen from Table 4.3 below, while most of the respondents from TransNamib were from the middle level management, the rest being senior managers, the opposite is the case with respondents from the ministry: more than a half of them were senior managers.

Table 4.3: Level of Employment by Employer

Level of employment	TransNamib	Works & Transport	Total
Not stated	0 0.0%	1 14.3%	1 8.3%
Senior Manager	1 20.0%	4 57.1%	5 41.7%
Middle Level Manager	4 80%	2 28.6%	6 50.0%
Total	5 100.0%	7 100.0%	12 100.0%

In terms of experience, the table 4.4 below shows that more than 90% of the respondents had a work experience of more than six years. The mean length of experience was 11.3 years. In summary, we note that respondents from whom the data was collected were senior level personnel with long experience. Hence, we expect the information they provided to be reasonably trustworthy.

Table 4.4: Length of Employment

Length (Years)	Frequency	Percent	Cumulative Percent
0-5	1	8.3	8.3
6-10	6	50.0	58.3
11-15	2	16.7	75.0
16-20	2	16.7	91.7
21 and above	1	8.3	100.0
Total	12	100.0	

Table 4.5 below shows that most of the respondents are aware of the bad financial performance of the organisation with over seventy percent rating the financial performance as poor, while only one out of 5 respondents rated it as good.

Table 4.5: Rating of TransNamib financial performance

	Frequency	Percent	Valid Percent	Cumulative Percent
Poor	12	100.0	100.0	100.0

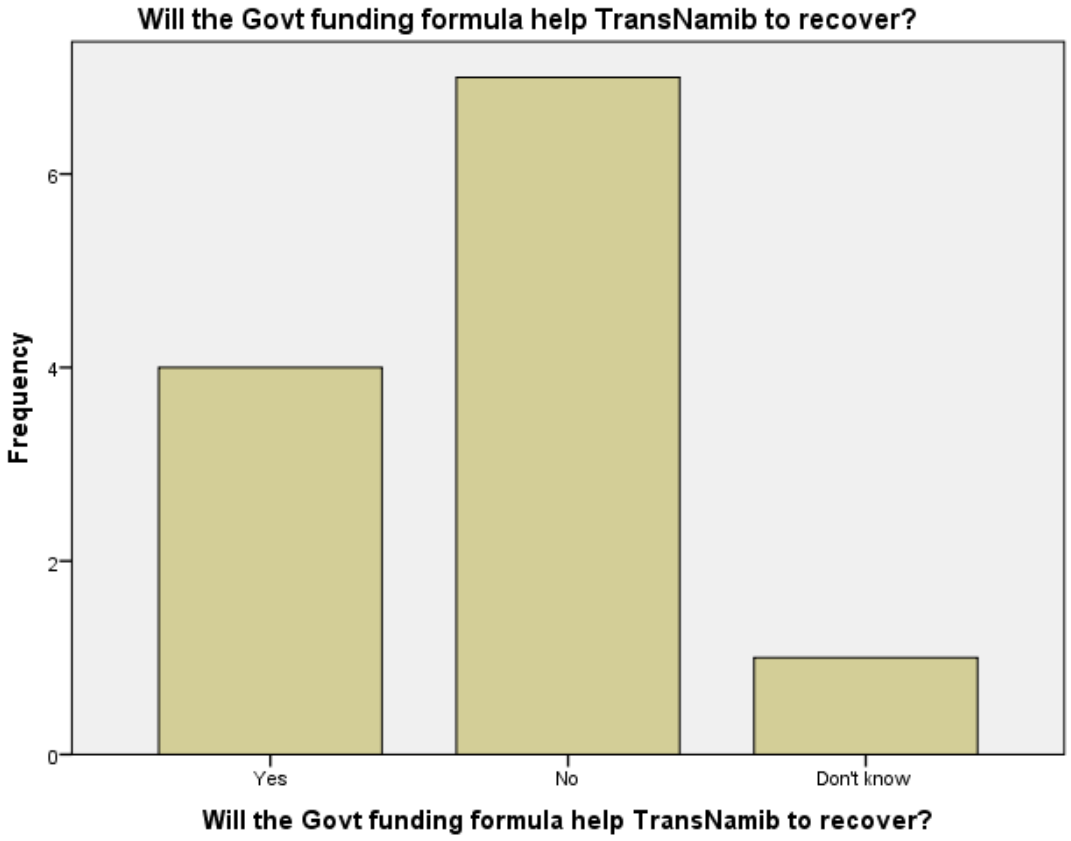
Among the respondents that indicated that the performance of TransNamib is poor, ~~a~~ one out of every five respondents did not attribute it to any of the specified reasons as they selected ‘Don’t know’. The remaining respondents selected lack of planning and expertise as shown below in Table 4.6.

Table 4.6: Reasons why rating is ''Poor''

	Frequency	Percent	Valid Percent	Cumulative Percent
Not stated	3	25.0	25.0	25.0
Lack of expertise	2	16.7	16.7	41.7
Lack of expertise and planning	3	25.0	25.0	66.7
Lack of planning	4	33.3	33.3	100.0
Total	12	100.0	100.0	

Respondents were divided on whether Government funding formula well help TransNamib recover. However, more feel that it will not as shown in figure 4.3 below.

Figure 4.3: Will the government funding formula help TransNamib to recover



Government funding has been key to the day-to-day running of TransNamib as an SOE. Therefore, respondents were asked if the government funding formula can help the organisation to recover and improve performance in the future. Figure 4.4 below shows that, a third of the respondents are not sure, as many as two-thirds believe that could be the TransNamib's panacea to recovery.

Figure 4.4: Reasons for Poor Financial Performance

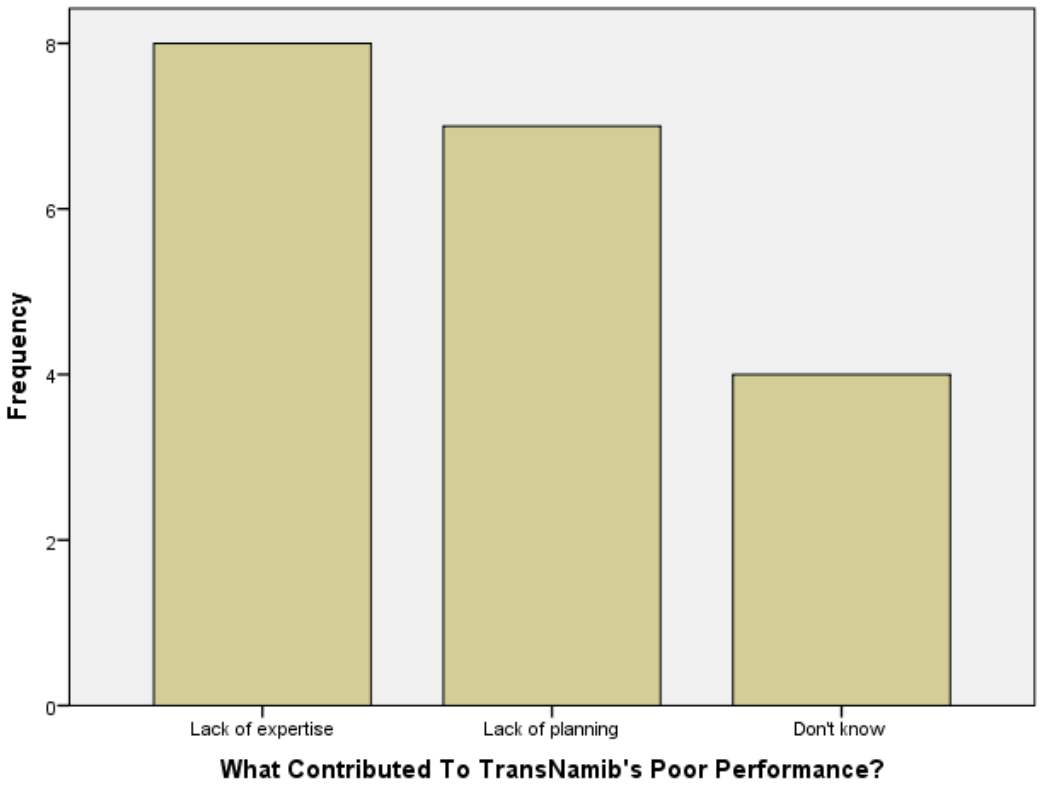


Table 4.7 below shows that almost the respondents are equally divided are the opinions of respondents on whether the Board and senior Management of TransNamib are held responsible for the Company's performance. However, respondents from TransNamib itself seem to agree more than those from the Ministry.

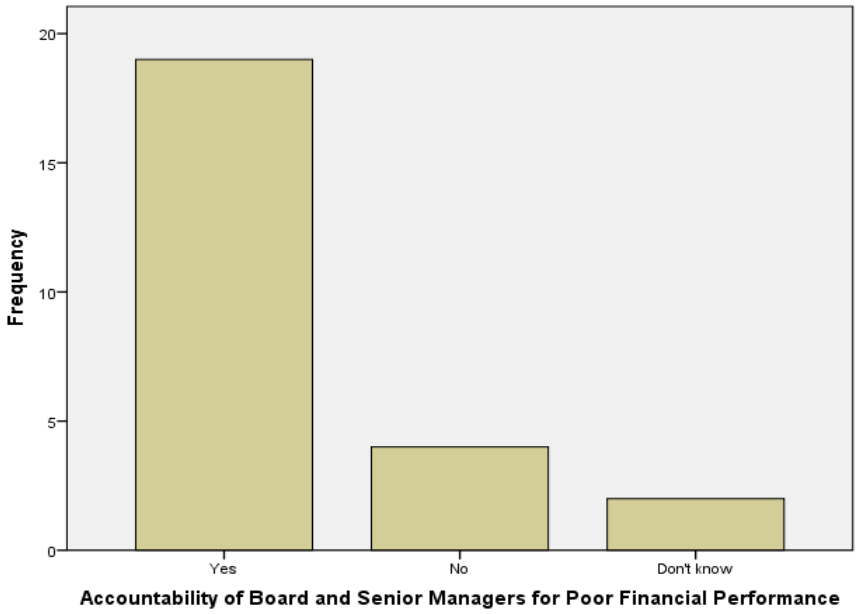
Table 4.7: If Board/Senior management are responsible for performance

Is Board/Senior Management held responsible for performance? by Employer Cross tabulation

			Employer		
			TransNamib	Works & Transport	Total
Is Board/Senior Management held responsible for performance?	Yes	Count	3	2	5
		% within Employer	60.0%	28.6%	41.7%
	No	Count	2	4	6
		% within Employer	40.0%	57.1%	50.0%
	Don't know	Count	0	1	1
		% within Employer	0.0%	14.3%	8.3%
Total		Count	5	7	12
		% within Employer	100.0%	100.0%	100.0%

Also, the response to the accountability of the board and senior managers shows that even as TransNamib is an SOE, the Board and senior managers are seen as responsible for the financial performance of the organization as shown in figure 4.5 below.

Figure 4.5: Accountability of Board and senior managers



The importance of stakeholder oversight is also important in the performance of an organization. This has been examined in the literature review chapter in terms of stakeholders in the country such as the government, press, interest groups and others. Table 4.8 below indicates that eighty-three percent of respondents think that oversight is very weak.

Table 4.8: If weakness in shareholder's oversight

Is there weakness in shareholders' oversight?

	Frequency	Percent	Valid Percent	Cumulative Percent
Not stated	1	8.3	8.3	8.3
Yes	10	83.3	83.3	91.7
Don't know	1	8.3	8.3	100.0
Total	12	100.0	100.0	

The respondents in table 4.9 below mostly selected that the expertise available among current staff is enough to improve the performance of the organization. Deploying the available expertise is thus an important element of improving the financial performance of the organization. Also, almost equally divided in terms of proportion is the opinion of respondents on whether current expertise at TransNamib is enough to improve the Company's performance. However, noteworthy is the fact that whereas some 60% of the TransNamib workers agree with the statement, the percentages among the Ministry's workers of those who agree and those who do not are the same. Thus, the parent Ministry believes that the necessary human resources are in place whereas those at the company itself do not think so.

Table 4.9: Expertise enough to improve company performance

Is current expertise enough to improve Company's performance? by Employer Cross tabulation

			Employer		
			TransNamib	Works & Transport	Total
Is current expertise enough to improve Company's performance?	Yes	Count	2	3	5
		% within Employer	40.0%	42.9%	41.7%
	No	Count	3	3	6
		% within Employer	60.0%	42.9%	50.0%
	Don't know	Count	0	1	1
		% within Employer	0.0%	14.3%	8.3%
Total		Count	5	7	12
		% within Employer	100.0%	100.0%	100.0%

SOEs are established with specific visions, aims and objectives that are usually tailored to deliver public goods and services. Therefore, a SOE that is performing well financially can contribute to the country's development not just financially but to its overall development. Financial performance can also be an indication of prompt delivery of better goods and services. While TransNamib have not been performing well enough financially, sixty-four percent of the respondents are still of the opinion that the organisation can contribute to the nation's development as shown in Table 4.10.

Table 4.10: If TransNamib is Namibia's investment vehicle

Does TransNamib have capacity to make Namibia investment vehicle?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	3	25.0	25.0	25.0
No	8	66.7	66.7	91.7
Don't know	1	8.3	8.3	100.0
Total	12	100.0	100.0	

The question with regards to Table 4.11 below attempts to look at how the operations of the company and the dynamics of the market in which it operates affects its performance. It seems that the participation of other forms of transport in the country may have impacted the organization. While this can be true, it may also present opportunities with proper management of operations. Motivation among employees can play an important role in this regard. The operations of an SOE can be impacted

negatively if the motivation levels among the employees are down as referred to in the literature review.

Table 4.11: If change in operations/market dynamics contributes to positive performance

Does change in operations/market dynamics contribute to positive performance?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	3	25.0	25.0	25.0
No	7	58.3	58.3	83.3
Don't know	2	16.7	16.7	100.0
Total	12	100.0	100.0	

4.3 Factors Influencing the Poor Financial Performance of TransNamib

Respondents were asked to rate a number of factors in terms of how they influence the financial performance of the organization. Among these factors are poor managerial practices, lack of planning, lack of expertise, insufficient funding, and lack of effective internal control system. The collected data are presented below with tables 12 to 16.

Table 4.12 below shows that, fifty-eight percent and seventy-five percent of respondents selected very high and high in response respectively. Compared with the percentages that are undecided, or selected low and very low; the respondents do not seem to conclusively agree that poor managerial practice is a factor in the poor financial performance of the SOE. Nevertheless, the highest percentage of fifty-eight percent indicated that managerial practices are a major factor.

Table 4.12: Extent of poor management influence on financial performance

To what extent does poor management influence financial performance of the Company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	7	58.3	58.3	58.3
High	2	16.7	16.7	75.0
Low	1	8.3	8.3	83.3
Very low	2	16.7	16.7	100.0
Total	12	100.0	100.0	

Financial planning is key in the management of SOEs. With the above in mind, the level of financial planning at TransNamib was identified as lacking in table 4.13 below, among the most of the respondents with thirty-three percent selecting very high and sixty-seven percent selecting high. Improving financial planning can lead to better financial performance in the future.

Table 4.13: Extent of poor planning influence on financial performance

To what extent does lack of planning influence financial performance of the Company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	4	33.3	33.3	33.3
High	4	33.3	33.3	66.7
Average	2	16.7	16.7	83.3
Low	1	8.3	8.3	91.7
Very low	1	8.3	8.3	100.0
Total	12	100.0	100.0	

There are specific areas of TransNamib operations that require the services of trained experts. This includes those handling the various mechanical parts, machines, tracks and so on. The process of acquiring the service of trained experts may involve a

variety of costs but the long-term effect can contribute to cost reduction. Seventeen percent of the respondents selected either very high while forty-two percent selected high regarding the effect of lack of expertise on the organisation's performance as shown in table 4.14 below.

Table 4.14: Extent of lack of expertise on financial performance

To what extent does lack of expertise influence financial performance of the Company?

	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	2	16.7	16.7	16.7
High	3	25.0	25.0	41.7
Average	6	50.0	50.0	91.7
Low	1	8.3	8.3	100.0
Total	12	100.0	100.0	

Table 4.15 below shows that the respondents were concerned about the level of funding available to the SOE. Since the organization is not performing well enough financially, it may require additional support from the government. Thirty-three percent of the respondents selected very high for the influence of funding on the financial performance of the organization.

Table 4.15: Extent of insufficient funding on financial performance

To what extent does insufficient funding influence financial performance of the Company?

		Frequency	Percent	Valid Percent	Cumulative Percent
	Very high	4	33.3	33.3	33.3
	High	4	33.3	33.3	66.7
	Average	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

The respondents indicated that accountability in terms of financial performance is very high with forty-two percent as shown in table 4.16 below. While the organisation's financial performance is very low, its annual reports were always presented on time, which could be an indication of accountability. Another probable indicator is the type of audit report issued by the auditor general.

Table 4.16: Extent of accountability on financial performance

To what extent does lack of accountability influence financial performance of the Company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	5	41.7	41.7	41.7
	High	3	25.0	25.0	66.7

Average	2	16.7	16.7	83.3
Very low	2	16.7	16.7	100.0
Total	12	100.0	100.0	

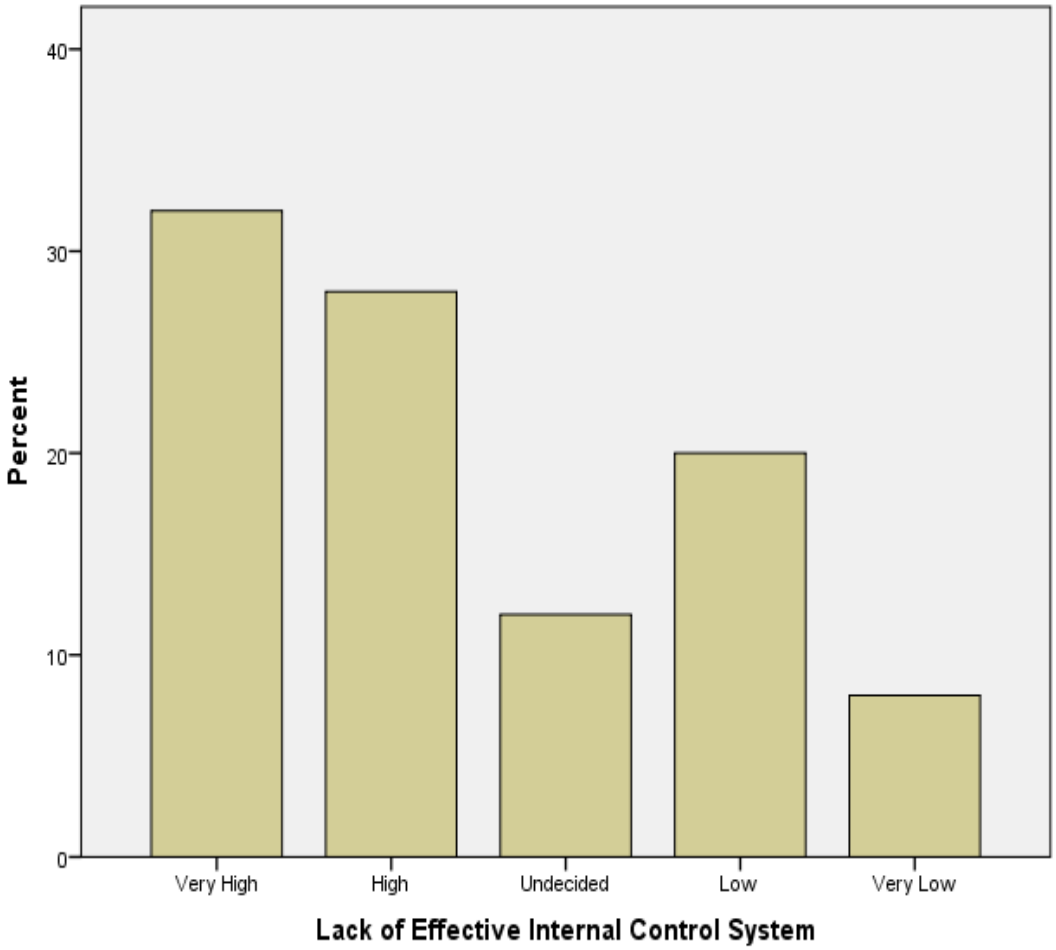
The above tables 11 to 16 seem to suggest that factors that contribute to poor financial performance at TransNamib are:

1. Poor management; be a problem.
2. Lack of planning;
3. Insufficient funding; and
4. Lack of accountability.

Expertise does not seem to be a factor influencing poor financial performance of the company.

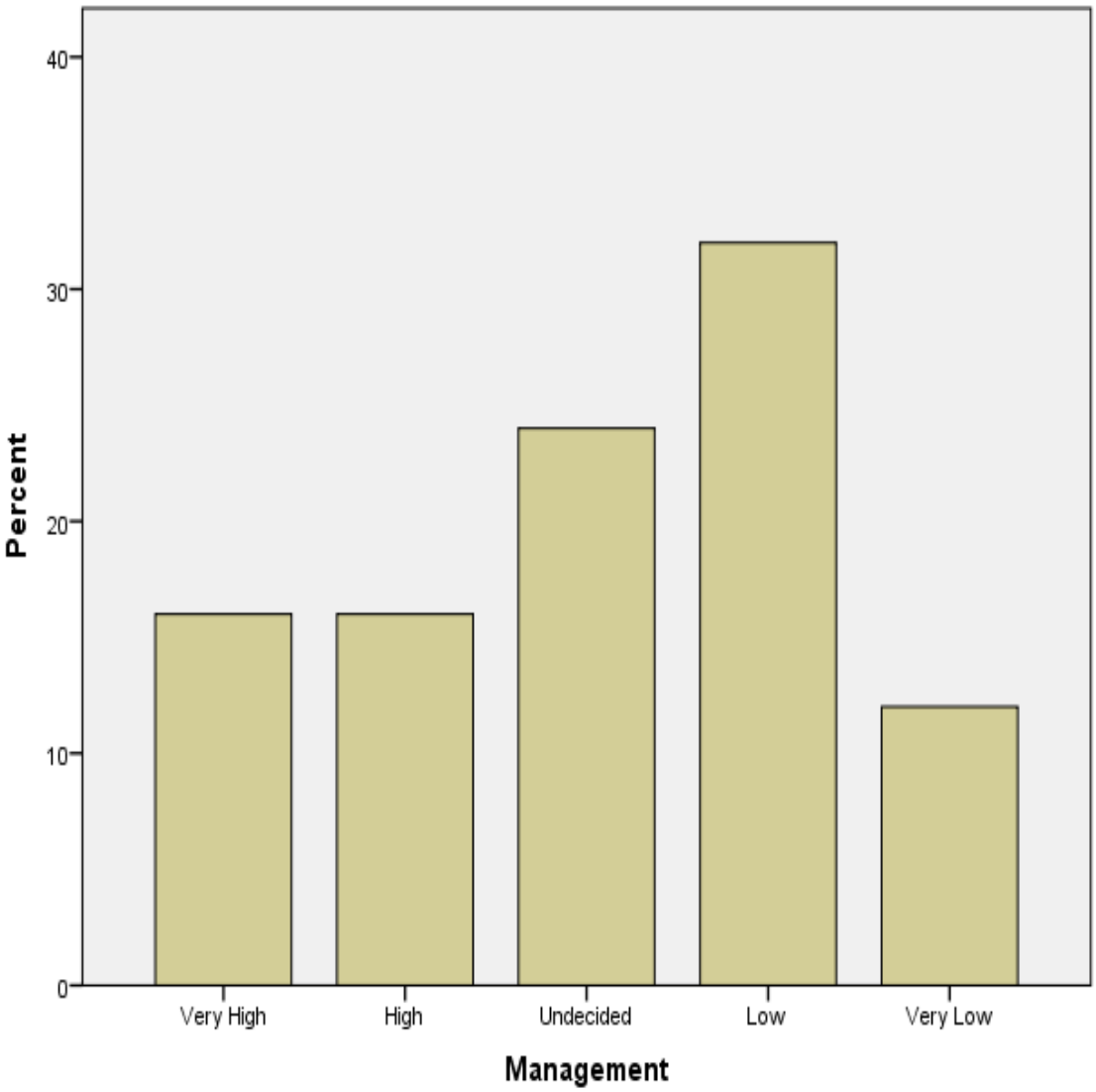
The importance of an effective internal control system within an SOE cannot be understated. Internal control procedures and processes, such as segregation of duties, financial control, source documents control, and assets control and so on; can lead to improvements in financial performance as waste and leakage of resources can be prevented. A large percentage of the respondents agree that lack of effective internal control has contributed to the poor performance of the organization with thirty-two percent and twenty-eight percent selecting very high and high as shown in figure 4.6 below.

Figure 4.6: Lack of internal controls



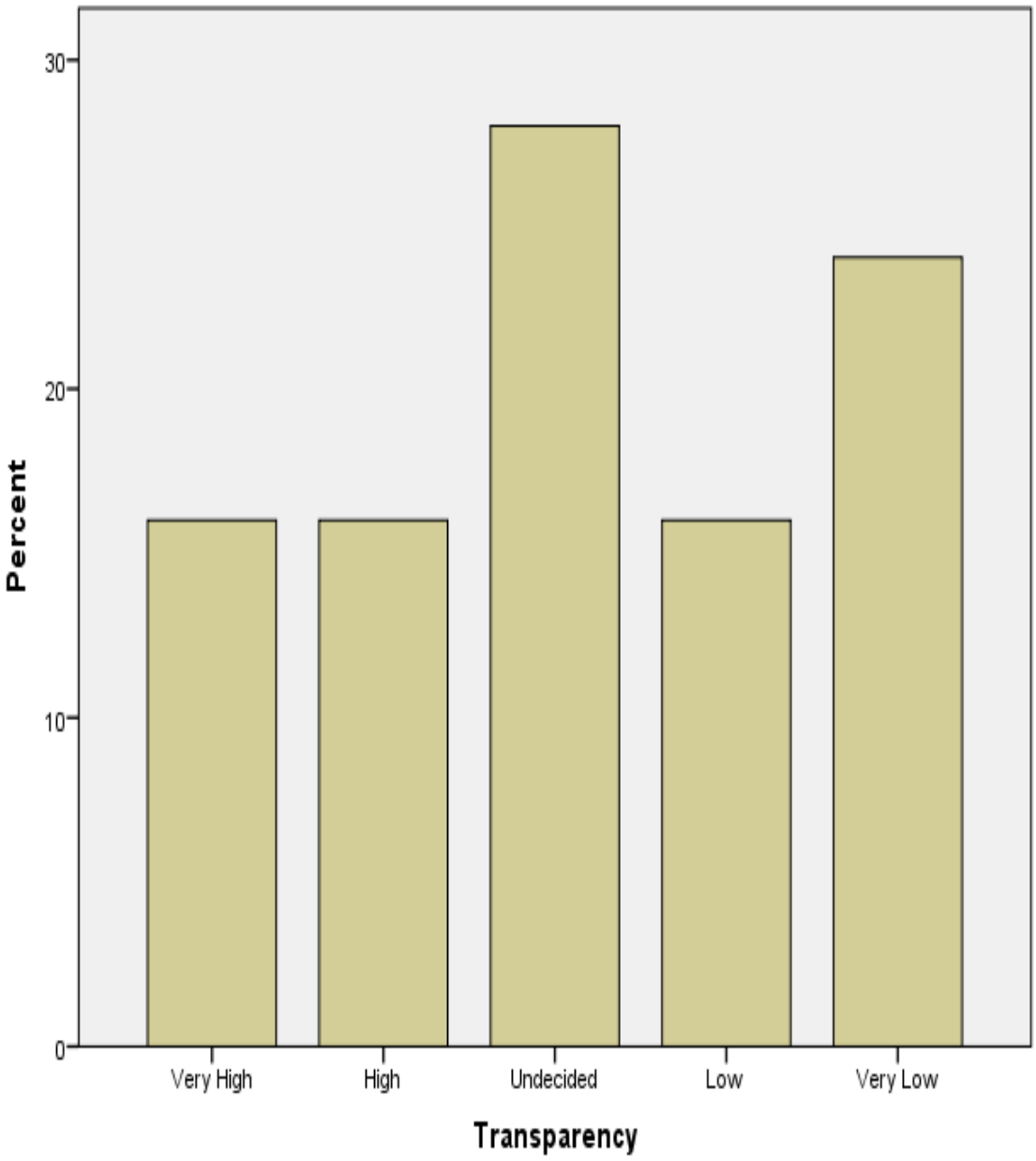
The financial management at the organization is indicated as low by thirty-two percent of the respondents and very low by twelve percent while twenty-four percent were undecided. On the other hand, thirty-two percent in total have rated it high and very high. The effectiveness of the management of the organization's finance can be reflected in the financial performance in the long term if not immediate. But the responses as shown in Figure 4.7 are an indication of the current financial state.

Figure 4.7: Financial management



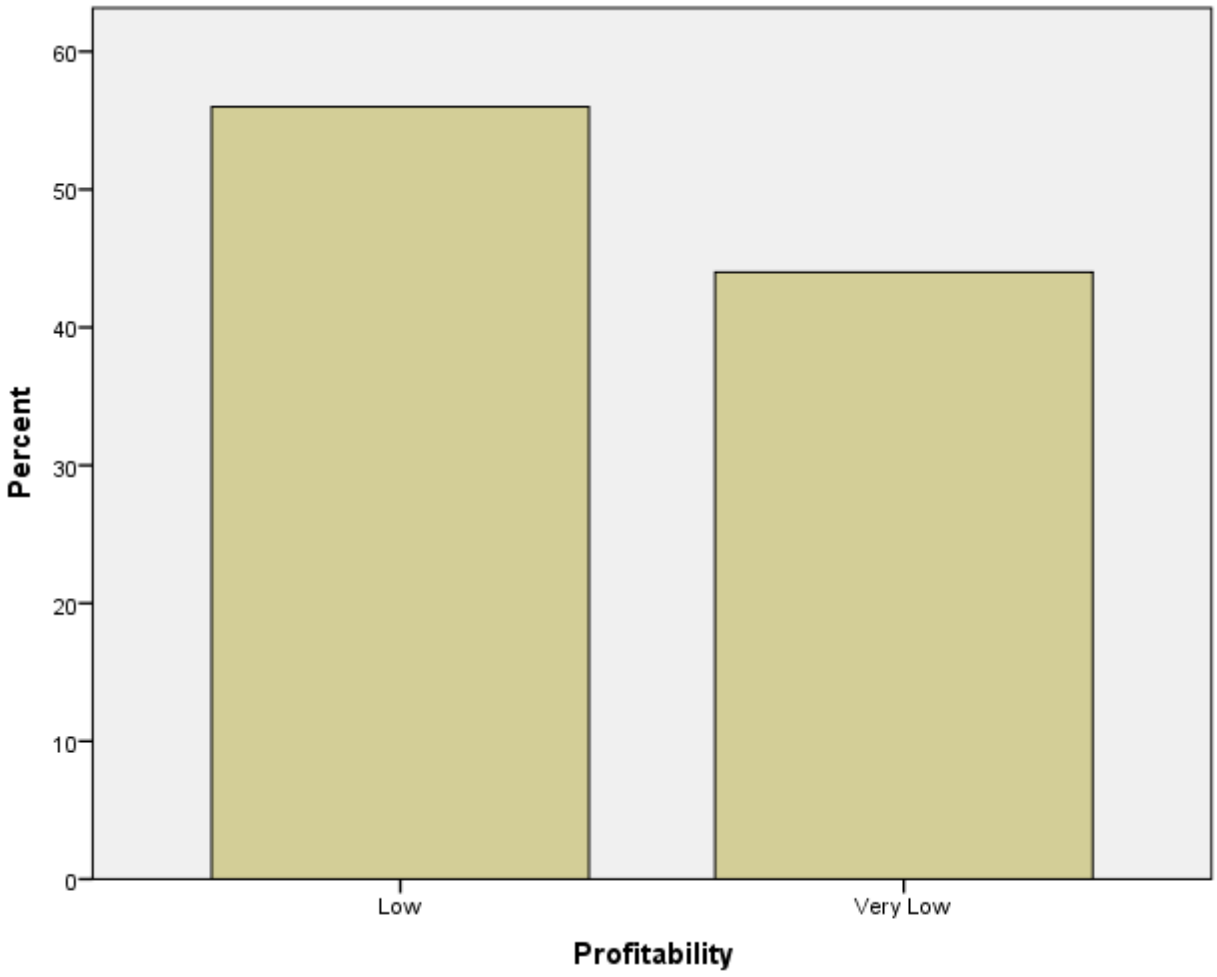
Transparency can also indicate how the organization is performing in many areas including finance. It can also prevent misappropriation of financial and other resources within the organization which can improve the performance of the organization. Twenty-five percent in total indicated that transparency is very low and low, while twenty-eight percent are undecided as indicated in figure 4.8 below.

Figure 4.8: Transparency



All the respondents in figure 4.9 below ranked the profitability of TransNamib as low and very low. This may be connected with the financial reports which show that the organization is not making a net profit.

Figure 4.9: Profitability



4.4 The Company's Performance in Relation to Other Associated Factors

The composition of the board of an SOE can have an impact on its performance. The strength of a board in terms of expertise in management and financial matters can affect the performance of the board in terms of oversight and providing appropriate supervision and advice to the management. Table 4.17 indicated that the board is not perceived as been composed in such as a manner that it can influence the financial performance of the organization appropriately.

Table 4.17: Strength of the board

How do you rate TransNamib's performance in relation to strength of the Board? by Employer Cross tabulation

			Employer		
			TransNamib	Works & Transport	Total
How do you rate TransNamib's performance in relation to strength of the Board?	Average	Count	2	1	3
		% within Employer	40.0%	16.7%	27.3%
	Low	Count	1	3	4
		% within Employer	20.0%	50.0%	36.4%
	Very low	Count	2	2	4
		% within Employer	40.0%	33.3%	36.4%
Total		Count	5	6	11
		% within Employer	100.0%	100.0%	100.0%

The participation of stakeholders in a public organization such as TransNamib can also contribute to its effectiveness in achieving it objectives including financial performance. The representation of stakeholders in table 4.18 below shows that, among board members cannot be entirely ascertained from available information; therefore, respondents were asked the question. Thirty-six percent of the respondents indicated that they were undecided, while twenty percent and sixteen percent

selected low and very low. When compared with the remainder, the indication is that the board may not be representative of stakeholders in the Namibian society.

Table 4.18: Stakeholders representation

How do you rate TransNamib's performance in relation to extent of stakeholders' representation on the Board? by Employer Cross tabulation

			Employer		
			TransNamib	Works & Transport	Total
How do you rate TransNamib's performance in relation to extent of stakeholders' representation on the Board?	Very high	Count	0	1	1
		% within Employer	0.0%	14.3%	8.3%
	Average	Count	4	1	5
		% within Employer	80.0%	14.3%	41.7%
	Low	Count	1	3	4
		% within Employer	20.0%	42.9%	33.3%
	Very low	Count	0	2	2
		% within Employer	0.0%	28.6%	16.7%
Total		Count	5	7	12
		% within Employer	100.0%	100.0%	100.0%

The number of years with losses has made the organisation to continuously request for government funding. This may have accounted for the figures in Table 4.19

which shows that forty-two percent are on the either sides of high and low dependence on government funding with twenty-five percent being undecided.

Table 4.19: Financial dependency on Government

How do you rate TransNamib's performance in relation to financial dependency on Government? by Employer Cross tabulation

			Employer		
			TransNamib	Works & Transport	Total
How do you rate TransNamib's performance in relation to financial dependency on Government?	Very high	Count	1	4	5
		% within Employer	20.0%	57.1%	41.7%
	High	Count	0	1	1
		% within Employer	0.0%	14.3%	8.3%
	Average	Count	2	1	3
		% within Employer	40.0%	14.3%	25.0%
	Low	Count	1	1	2
		% within Employer	20.0%	14.3%	16.7%
	Very low	Count	1	0	1
		% within Employer	20.0%	0.0%	8.3%
Total		Count	5	7	12
		% within Employer	100.0%	100.0%	100.0%

4.5 **Analysis of Open-ended Questions**

In the Part C section of the questionnaire, a content analysis of the responses was conducted with the aim of extracting information that addresses specific research questions. Among the issues identified by the respondents with varying occurrences as contributing to recurring losses at TransNamib, is lack of regular audits (seventy-seven percent) proper facilities (twenty-eight percent), modern equipment (thirteen percent) and motivation of employees (sixty-three percent). Other mentioned factors include the presence of alternative transport and logistics operators (nineteen percent) across the country especially in the private sector.

The financial performance of the organisation was also attributed to several challenges such as the issue of government appointments to the organisation's board (twenty-three percent) with the absence of finance professionals identified as a contributing factor (twelve percent) and the influence of politics on management (twenty-eight percent). Some also cited the breakdown in ageing machinery and lack of motivation among employees.

There were also recommendations about possible interventions that can remedy the situation at the organisation. These include management investing in the upgrade of ageing machinery (nineteen percent), diversifying the types of services provided (three percent), and motivating the employees (fifteen percent) especially by improving the quality of work environment (five percent). In order to improve the financial performance, the recommendations include a financial plan to streamline

operations (ten percent) and a marketing plan with the aim of improving the market share of the organisation (twenty-five percent).

4.6 Financial Performance of TransNamib

The financial performance of TransNamib as shown in Table 1 – replicated from chapter 1 below has not been positive from 2009 – 2013 with the only one year with positive Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) being 2010.

Table 2 – replicated from chapter 1: TransNamib's Financial Performance: 2009-2013

Description	**2009**	**2010**	**2011**	**2012**	**2013**
Loco avalability in %	80%	80%	77%	78%	73%
Tonnages	2 547	2 450	2 396	2 345	2 101
Number of Locos	48	47	41	42	38
Revenue per Tonne	224	238	230	241	251
Revenue	570 475	582 713	551 550	565 318	527 113
Cost of Sales	-211 111	-162 465	-179 880	-211 204	-215 764
Gross Profit	**359 364**	**420 248**	**371 670**	**354 114**	**311 349**
Operating Expenses	-249 805	-193 107	-203 623	-193 779	-197 458
Employee Cost	-241 717	-215 489	-231 779	-279 331	-295 357
Net Income	**-132 158**	**11 652**	**-63 732**	**-118 996**	**-181 466**
EBIDTA	**-72 351**	**43 112**	**-14 544**	**-83 231**	**-140 124**

Source: TransNamib (2009-2013)

The EBITDA is a better measure of financial performance than gross profit which was positive throughout the period. The negative EBITDA is an indication that the organisation may not be able to meet its obligation in terms of paying interest to creditors such as finance institutions and suppliers.

The quantitative data analysing the financial performance of TransNamib will focus on the following ratios.

4.6.1 Profitability ratios

Profitability ratios indicate management's ability to convert sales money into profits and cash flow.

4.6.1.1 Return on Asset (ROA)

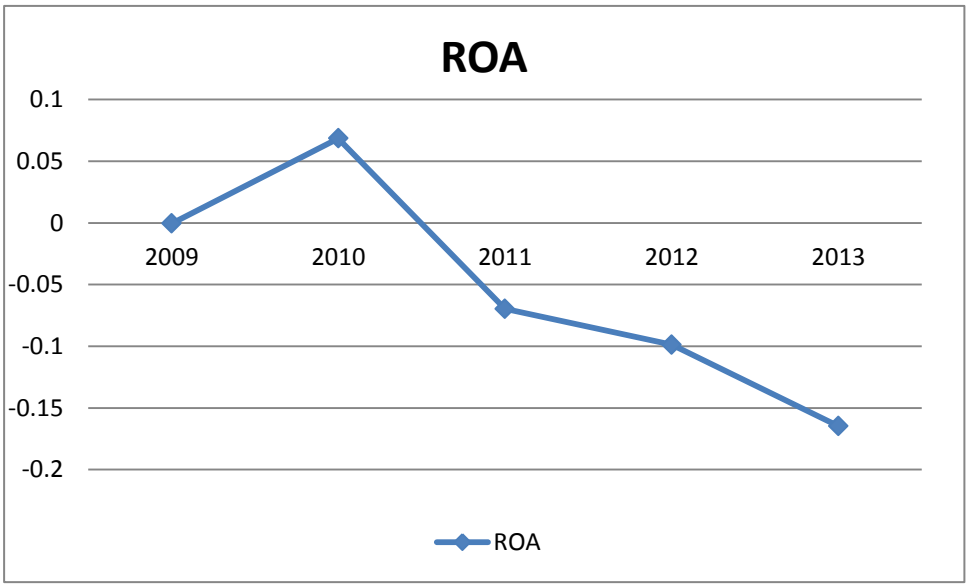
Return on assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income.

The formula to calculate return on assets is:

$$ROA = \frac{\text{Annual Net Income}}{\text{Average Total Assets}}$$

Figure 4.10 below shows the ROA is not efficient enough to generate more revenue even though the assets were available; meaning the assets could not be utilised fully to generate revenue for the SOE, except for the improvement in 2010. The rest of the period the profitability decreased which means that the profitability is deteriorating which results in low asset incentives.

Figure 4.10: Return on Asset (ROA)



The table 4.20 to 4.22 below shows that between 2009 and 2013 there was a fluctuation of both revenue and total assets owned by TransNamib. Logically, other things being equal, an increase in assets would be expected to generate more revenue. However, this does not seem to be the case with TransNamib. A regression of revenue on assets for the 2009-2013 period yields the following relationship:

$Revenue = 982878.178 - 0.364Assets$; meaning that on average one Dollar increase in worth of assets yielded a decrease of 36 cents in revenue. The R-

square is 0.475; meaning that just about 48% of revenue is explained by assets available. However, this relationship is not statistically significant as the p-value is 0.198

Regression

Table 4.20: Regression Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.689[a]	.475	.300	17774.709

a. Predictors: (Constant), Total assets

Table 4.21: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	857420608.400	1	857420608.400	2.714	.198[b]
	Residual	947820866.400	3	315940288.800		
	Total	1805241475.000	4			

a. Dependent Variable: Annual revenue

b. Predictors: (Constant), Total assets

Table 4.22: Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	982878.178	257163.598		3.822	.032
	Total assets	-.364	.221	-.689	-1.647	.198

a. Dependent Variable: Annual revenue

4.6.1.2 Return on Equity (ROE)

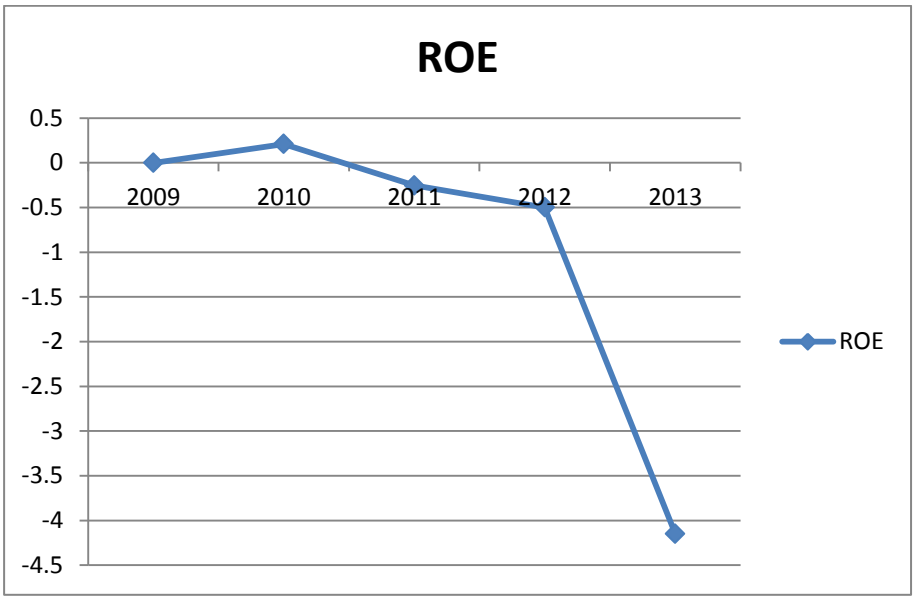
Return on equity or return on capital is the ratio of net income of a business during a year to its stockholders' equity during that year. It is a measure of profitability of stockholders' investments. It shows net income as percentage of shareholder equity.

The formula to calculate return on equity is:

$$ROE = \frac{\text{Annual Net Income}}{\text{Average Stockholders' Equity}}$$

The trend in figure 4.11 below indicates that the ROE is not efficient enough to generate income on new investment due the losses that has occurred for the period. The performances from 2011 to 2013 shows a decreasing trend and investors might not want to risk investing in the SOE.

Figure 4.11: Return on Equity (ROE)



4.6.1.3 Gross Profit Margin

Gross margin ratio is the ratio of gross profit of a business to its revenue. It is a profitability ratio measuring what proportion of revenue is converted into gross profit (i.e. revenue less cost of goods sold).

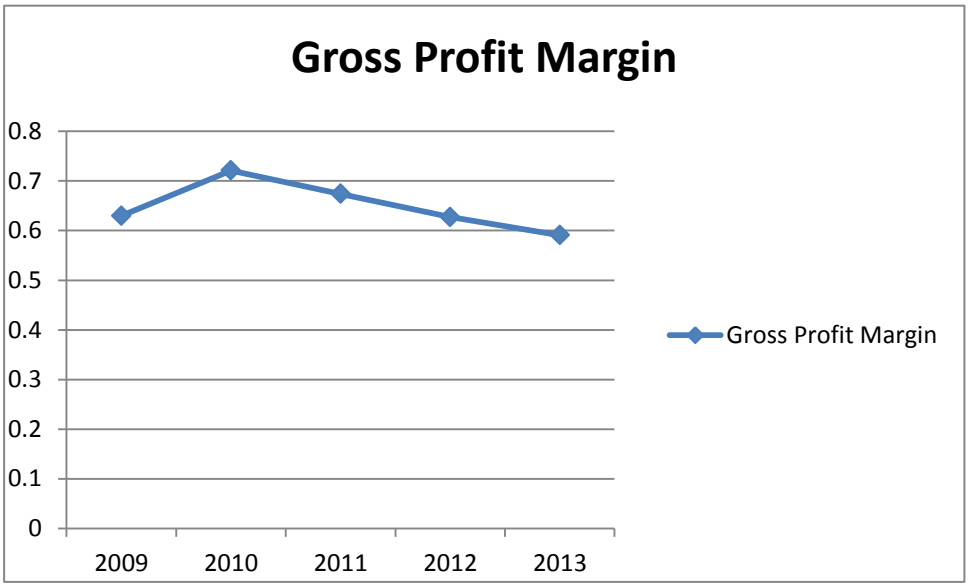
Gross margin is calculated as follows:

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Revenue}}$$

Figure 4.12 below shows that the Gross Profit Margin was consistent percentage of 6 percent for 2009, 2011 and 2012 except for 2010 which had a 7 percent and 2013 decreased to 5 percent which shows that less money was earned per each dollar of

revenue. The results are unfavourable due the decrease of the gross profit of the SOE.

Figure 4.12: Gross Profit Margin



4.6.1.4 Net Profit Margin

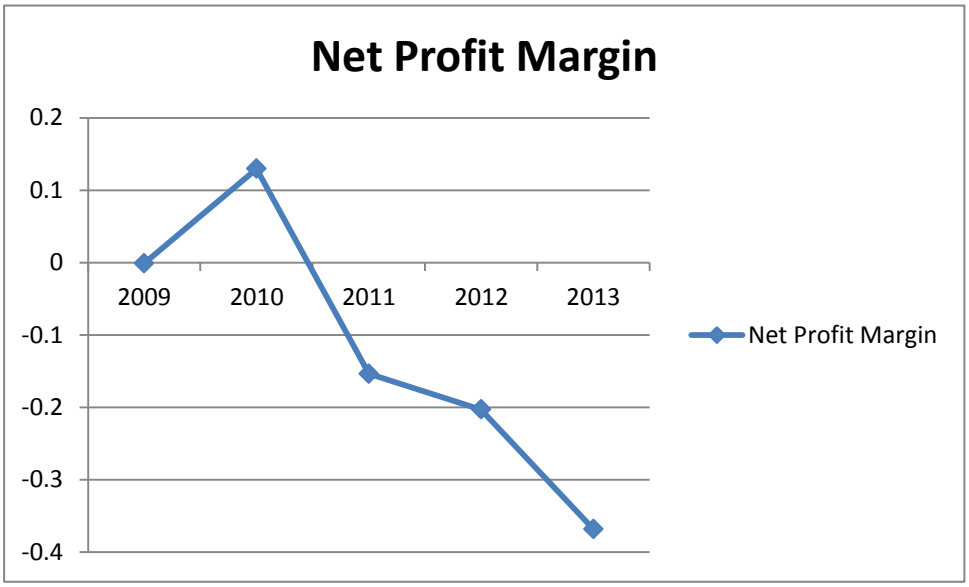
Net profit margin (also called profit margin) is the most basic profitability ratio that measures the percentage of net income of an entity to its net sales. It represents the proportion of sales that is left over after all relevant expenses have been adjusted.

Net profit margin is calculated as follows:

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

The results in figure 4.13 shows that the SOE suffered losses for the period, except for 2010 were the SOE had a positive Net Profit Margin. The SOE did not make any profit for 2009, 2011, 2012 and 2013 although the levels of sales have been constant the net income remained negative. This could mean that the SOE is not able to manage its expenses in relation to sales due the losses made for the period.

Figure 4.13: Net Profit Margin



4.6.1.5 Return on Capital Employed (ROCE)

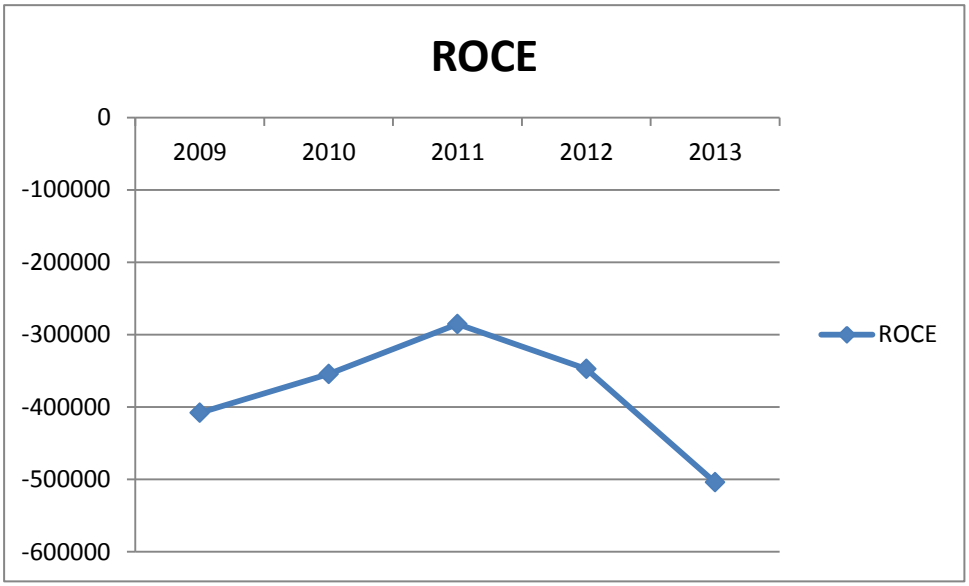
The ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed.

ROCE is calculated as follows:

$$\text{ROCE} = \frac{\text{Net Operating Profit}}{\text{Employed Capital}}$$

The return on capital employed as shown in figure 4.14 shows that the SOE could not generate profit for each dollar of employed capital. This could be as a result of the negative net operating profit and the increase of the current liabilities. During 2010 the SOE made a profit and 2011 it reduced its current liabilities and increased again during 2012 and 2013. The negative result of 2013 exceeded 2009 with -4 and it moved to -5 besides the improvements made in the other three years.

Figure 4.14: Return on Capital Employed (ROCE)



4.6.2 Liquidity Ratios

This ratio indicates a company's ability to pay its short-term bills. A ratio of greater than one is usually a minimum because anything less than one means the company has more liabilities than assets. A high ratio indicates more of a safety cushion, which increases flexibility because some of the inventory items and receivable balances may not be easily convertible to cash.

4.6.2.1 Current ratio

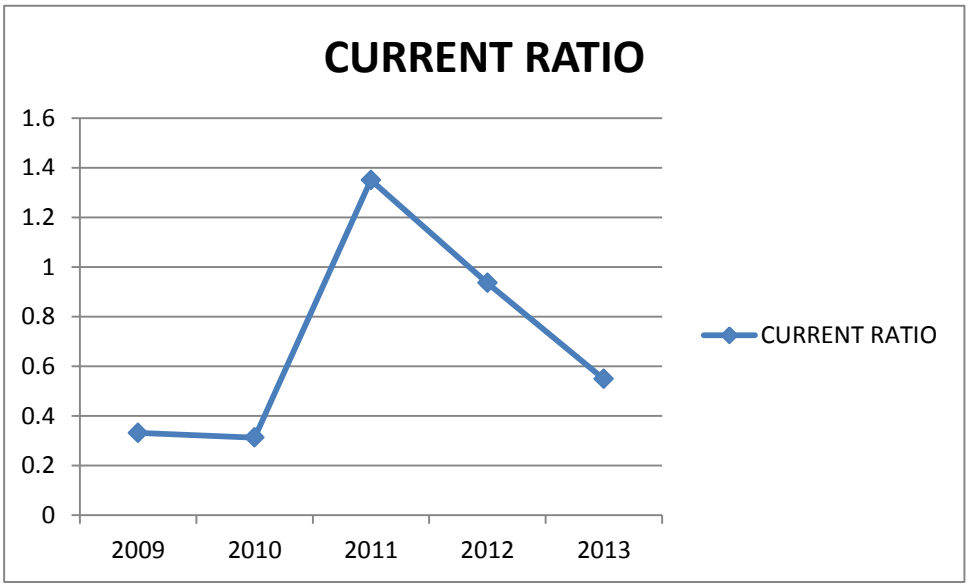
Current ratio is one of the most fundamental liquidity ratios. It measures the ability of a business to repay current liabilities with current assets.

Current ratio formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Figure 4.15 below indicates that the Current Ratio had a positive slope of almost 1.4 which as a results of the increase in current assets and a decrease in current liabilities. The worst performance was in 2010 when the current liabilities were almost double the current assets. The SOEs could not maintain a current ratio of at least 1 for the rest of the period to ensure that the value of their current assets cover at least the amount of their short term obligations. This can cause panic if the trend keeps on decreasing for the following years because the SOE will have no contingencies in the future.

Figure 4.15: Current ratio



4.6.2.2 Quick ratio

Quick ratio measures the dollars of liquid current assets available per dollar of current liabilities. Liquid current assets are current assets which can be quickly converted to cash without any significant decrease in their value.

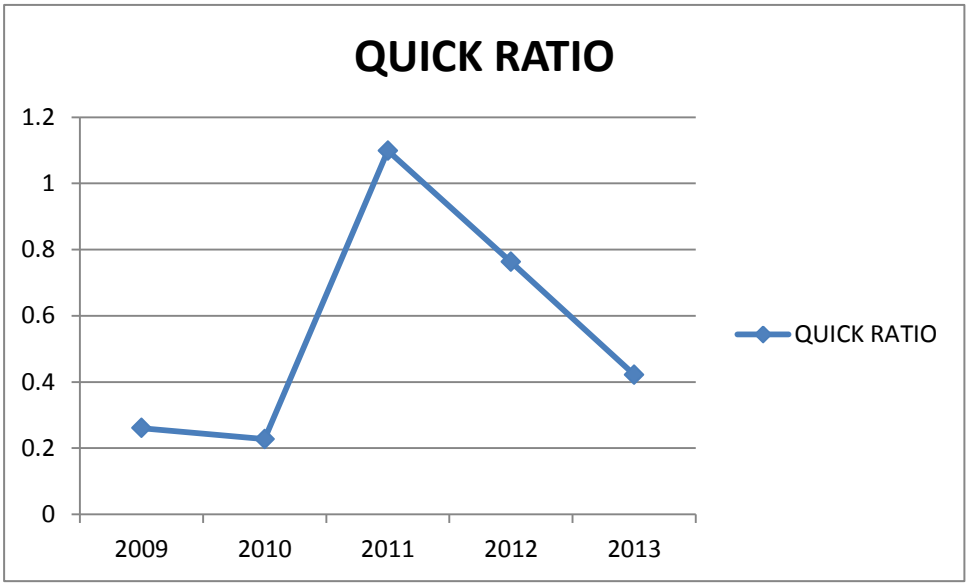
Formula used to calculate quick ratio:

$$\text{Quick Ratio} = \frac{\text{Cash + Short-term investments + Receivables}}{\text{Current Liabilities}}$$

In figure 4.16 below it shows that in 2010 the SOE tried to maintain a quick ratio that provides sufficient leverage against liquidity risk as compared to the other periods especially in 2011. The liquidity risk was much higher in 2011 where it increased from 0.2 to 1.0 and again decreased in 2012 to 0.7 ratio. The quick ratio remained

high compared to 2009 and 2010 which had a 0.3 and a 0.2 respectively. The result means that the SOE has an uncertain the business environment due the uncertainty because the SOE does not have any liquidity to address short term demands due to high current liabilities as opposed to current assets.

Figure 4.16: Quick ratio



4.6.3 Solvency ratios

Solvency ratios indicate financial stability because they measure a company's debt relative to its assets and equity. A company with too much debt may not have the flexibility to manage its cash flow if interest rates rise or if business conditions deteriorate.

4.6.3.1 Debt to Equity Ratio

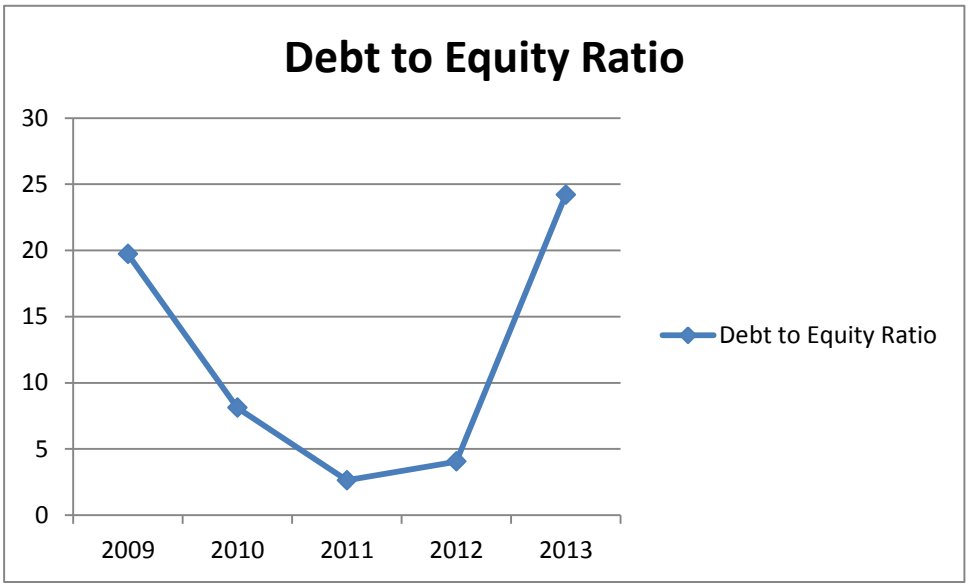
Debt-to-Equity ratio is the ratio of total liabilities of a business to its shareholders' equity. It is a leverage ratio and it measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business.

Debt-to-equity ratio formula:

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

The outcome of this analysis in figure 4.17 shows high values of debt-to-equity ratio that are unfavourable, indicating higher risk. The total liabilities for the year 2009 and 2013 were much higher with 19.7 ratios and 24.2 ratios respectively compared to the other years especially 2011 which had 2.6 ratios. The result show that the SOE relied borrowed more from external lenders thus it is at higher risk, especially at higher interest rates. The unfavourable result indicates that more assets of the SOE are financed by debt.

Figure 4.17: Debt to Equity Ratio



4.6.3.2 Debt Ratio

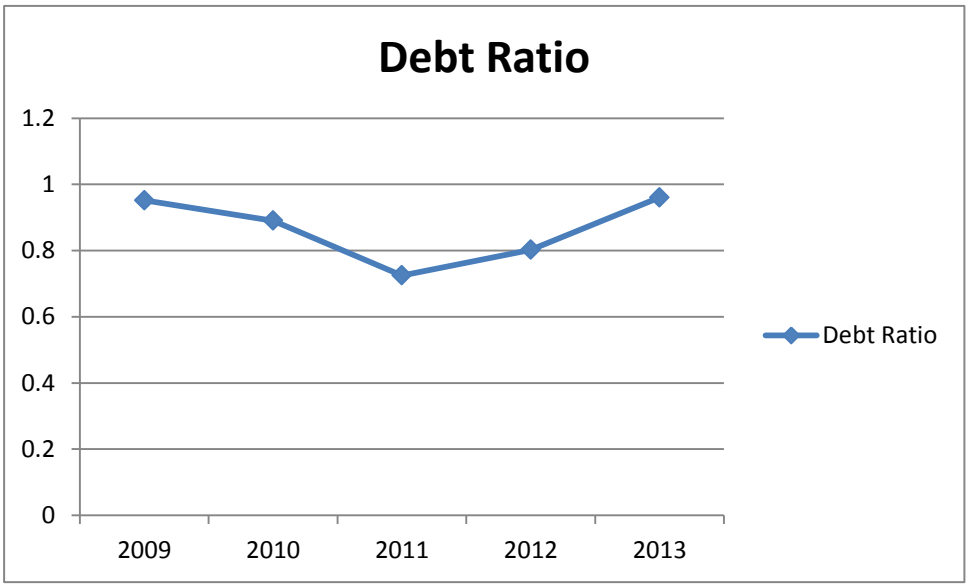
Debt ratio measures the company's total liabilities as a percentage of its total assets; it shows a company's ability to pay off its liabilities with its assets. In other words, this shows how many assets the company must sell in order to pay off all of its liabilities. This ratio measures the financial leverage of a company.

Debt ratio formula:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Figure 4.18 below shows that the debt ratio for the period of 2009 to 2013 was more than 50 percent which is considered to be unfavourable. The liabilities of the SOE are almost equal to the total assets, which mean that the SOE will have to sell off most of its assets in order to pay off its liabilities. It is a clear indication that, the SOE might not be able to operate due high leverage in the long run.

Figure 4.18: Debt Ratio



4.6.4 Efficiency ratios

Efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income. Efficiency ratios often look at the time it takes companies to collect cash from customer or the time it takes companies to convert inventory into cash—in other words, make sales. These ratios are used by management to help improve the company as well as outside investors and creditors looking at the operations of profitability of the company.

4.6.4.1 Accounts Receivable Turnover

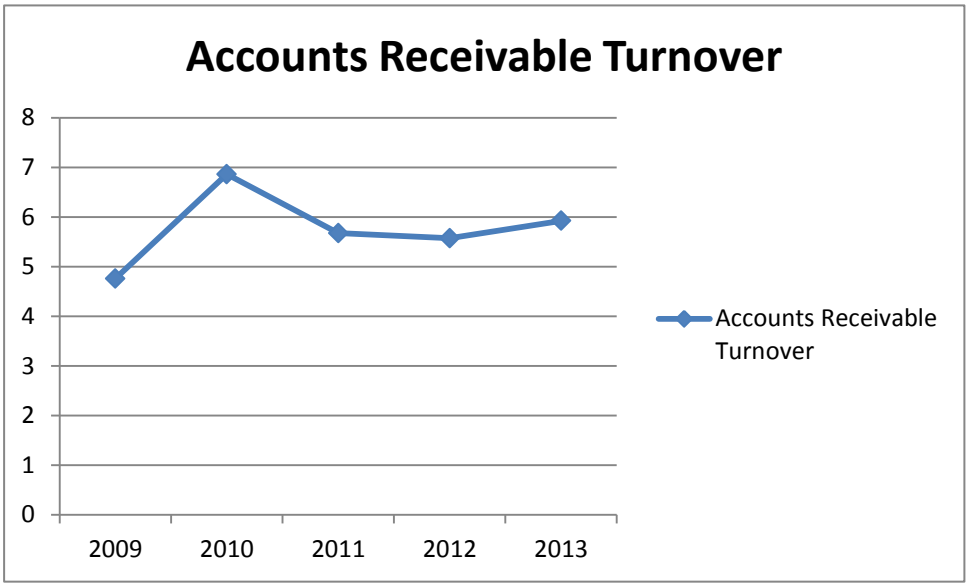
Accounts receivable turnover measures how many times a business can turn its accounts receivable into cash during a period.

Accounts Receivable Turnover formula:

$$\text{Accounts Receivable Turnover} = \frac{\text{Revenue}}{\text{Average Accounts Receivable}}$$

The Accounts Receivable Turnover shown in figure 4.19 below shows that the SOE has a higher efficiency which a favourable result from the cash flow standpoint especially during the year 2010 with a turnover of 6 compared to 2009 with a 4. The receivables for 2010 are the lowest compared to the other years but it had the highest revenue as well. This shows that the SOE collected cash from customers six times a year, to use that cash to pay bills and other obligations sooner.

Figure 4.19: Accounts Receivable Turnover



4.6.4.2 Account Payable Turnover

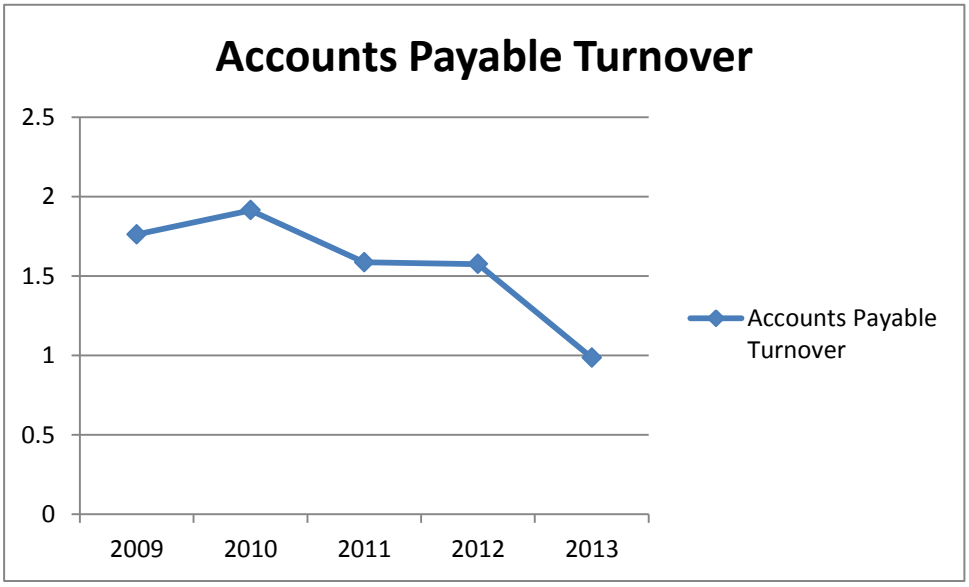
The accounts payable turnover shows a company's ability to pay off its accounts payable by comparing net credit purchases to the average accounts payable during a period. It shows how many times a company can pay off its average accounts payable balance during the course of a year.

Accounts Payable Turnover formula:

$$\text{Accounts Payable Turnover} = \frac{\text{Cost of Sales}}{\text{Average Accounts Payable}}$$

Figure 4.20 below shows that the Accounts Payable Turnover was ineffective compared to the Accounts Receivable Turnover for the same period. The analysis shows the SOE was not able to honour its obligations faster although the collection period was at a maximum of ratio 6. This ratio shows that the SOE honoured its obligations 2 times a year except 2013 where obligations to creditors were honoured once a year. This is an indication that suppliers would not be interested to supply its goods and services to the SOE since they wait for too long to be paid.

Figure 4.20: Accounts Payable Turnover



4.6.4.3 Asset Turnover

The asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. The

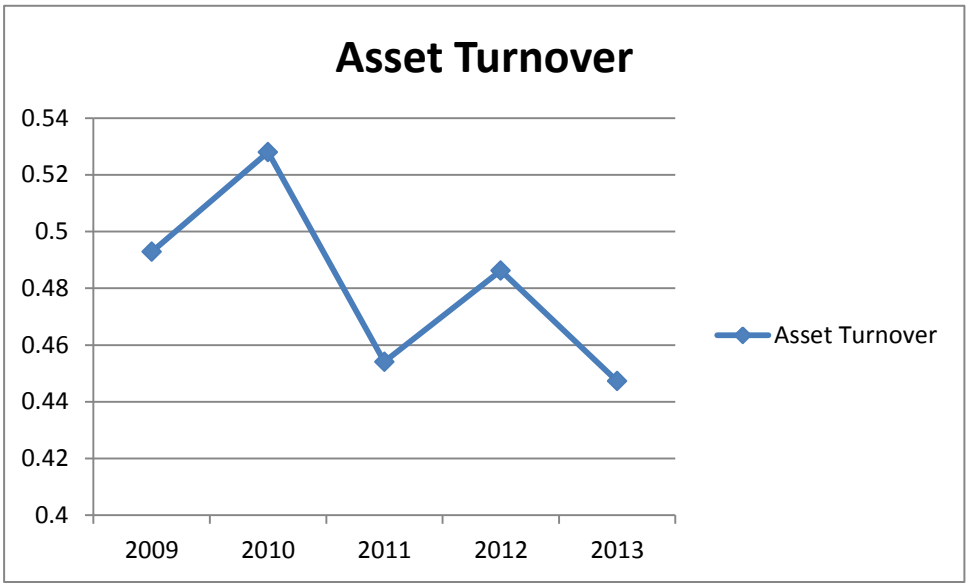
total asset turnover ratio calculates net sales as a percentage of assets to show how many sales are generated from each dollar of company assets.

Asset Turnover Ratio formula:

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

The Asset Turnover as shown above in figure 4.21 shows that the SOE has a lower turnover ratio which tells that the SOE is not utilising its assets optimally to generate revenue. During 2010 the SOE managed to obtain 0.53 ratio compared to the other years with ratios of less than 0.50 ratios.

Figure 4.21: Asset Turnover



4.6.4.4 Inventory Turnover

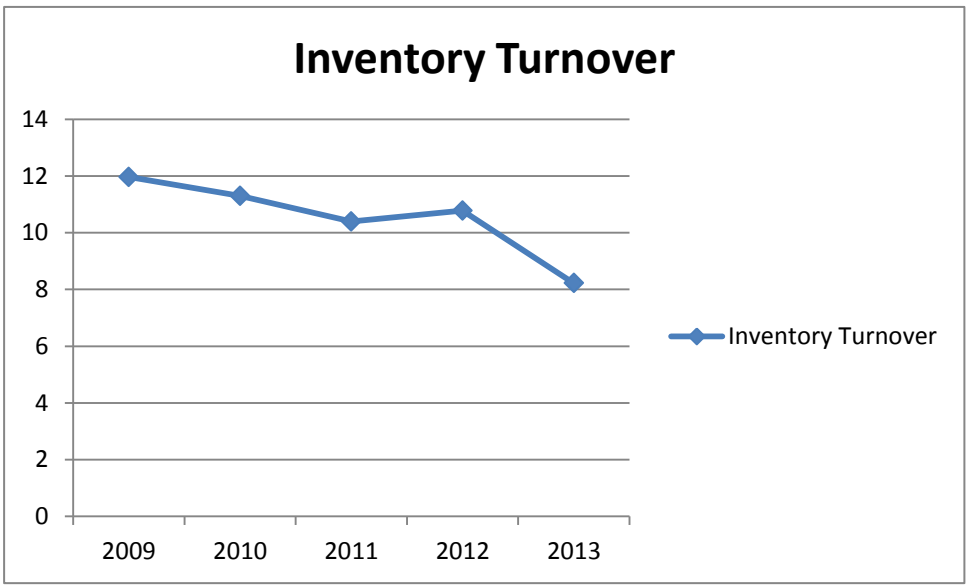
The inventory turnover ratio shows how effectively inventory is managed by comparing net sales with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period.

Inventory Turnover formula:

$$\text{Inventory Turnover} = \frac{\text{Net Sales}}{\text{Inventory}}$$

Figure 4.22 below declares that the Inventory Turnover declined in 2013 from a ratio 10 to 8 which shows that the SOE could not effectively sell the inventory it bought. This could mean that the inventory in 2013 was not easy to sell which is difficult to use as collateral.

Figure 4.22: Inventory Turnover



4.6.4.5 Return on Investment (ROI)

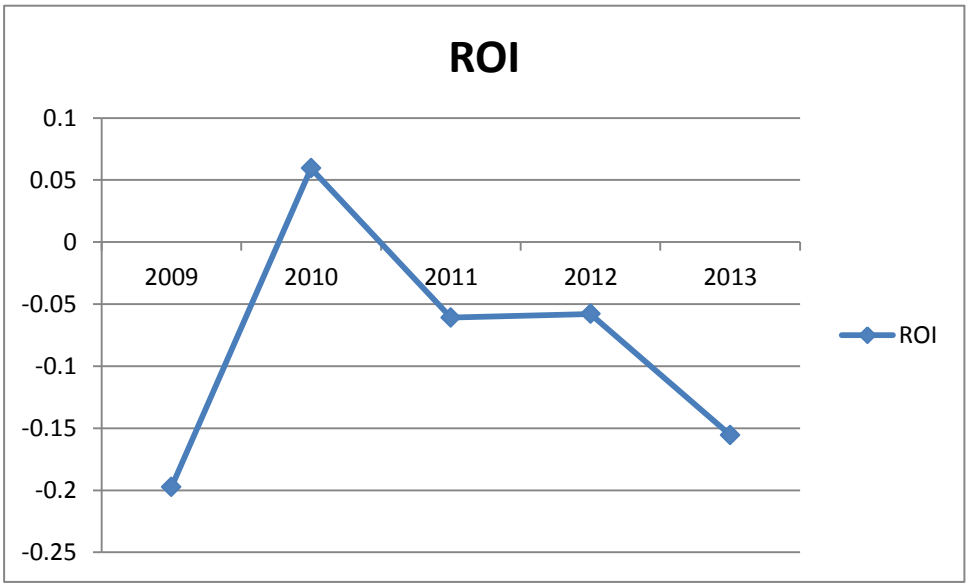
ROI is performance measure used to evaluate the efficiency of investment. If an investment has a positive ROI and there are no other opportunities with a higher ROI, then the investment should be undertaken.

ROI formula:

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

The Return on Investment shown in figure 4.23 below declares that the SOE had a negative return except for 2010 with a 5 percent investment ratio. The periods 2009, 2011, 2012 and 2013 had a negative return on investment and it means that the revenues were not even enough to cover the total costs although there was an increase in the average total assets. This means that the assets are not employed efficiently to gain revenue for future investments.

Figure 3: Return on Investment



4.6.4.6 Equity Turnover

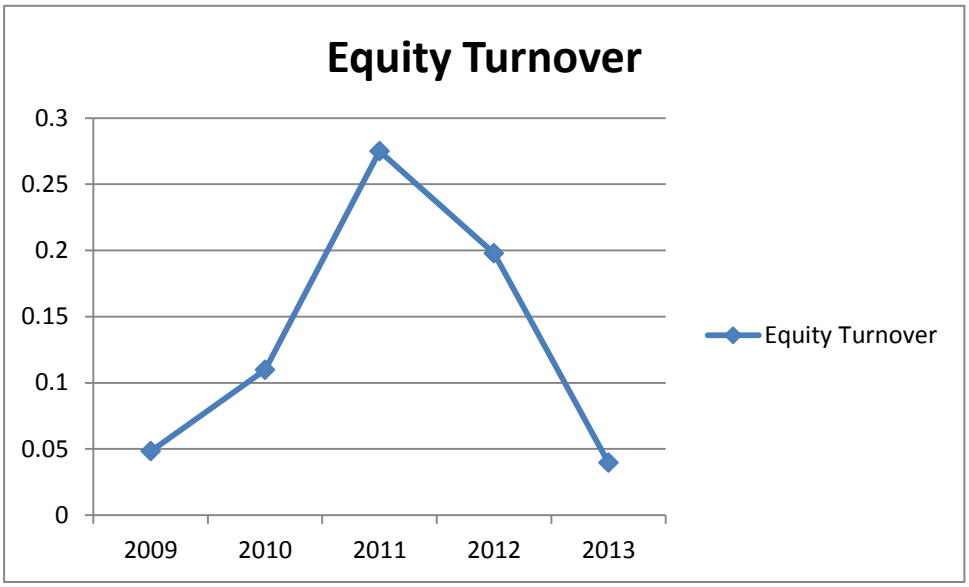
Equity Turnover ratio is the proportion of Company's revenue to its shareholder's equity.

Equity Turnover formula:

$$\text{Equity Turnover} = \frac{\text{Net Sales}}{\text{Average Total Equity}}$$

Figure 4.24 below indicates low equity ratios which is not favourable to the company. The ratios are low which indicates a high investment risk. There is an improvement from 2010 compared to 2009. There was a favourable performance during 2011 with a 27 percent. The decline during 2013 shows that the investment levels were less favourable, which is an indication that the SOE has no potential for any investment.

Figure 4: Equity Turnover



4.7 Summary

This chapter presented the analysis of qualitative and quantitative data collected in the conduct of this research. The results showed that the organisation is not performing well enough financially. Respondents provided some insights based on their perception of the management within the organisation. There were also recommendations provided in the last section of the questionnaires with open-ended questions.

CHAPTER FIVE CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study commenced with the aim of analysing the financial performance of SOEs in Namibia, using TransNamib as a case study. The analysis of collected data was concluded in the last chapter. This chapter provides a conclusion to the research as well as recommendations for SOEs such as TransNamib to improve their financial performance. It also covers areas for future research.

5.2 Conclusion

This research study shows that the decline in financial performance of TransNamib is due to multiple factors. The most important factors identified by the research include outdated equipment and machinery, and poor financial management practices. Since every management decision and policy has financial consequences, all these factors have contributed to the poor financial performance of the organisation. While there are quite a significant number of organisations operating in the public sector as SOEs in Namibia, in recent times, their financial performance has not been up to government requirements. The findings of this study also showed that inadequate oversight by the government and other stakeholders, and lack of accountability may have contributed to the lack of financial performance at the organisation. One of the main threads emerging is that lack of oversight in terms of regular audits may have led to poor financial performance. Also, the organisation is expected to make funds

available for more investments in modernising its facilities so that it can compete better in the market.

For the organisation to improve financial performance, it has to undertake a systematic review of its financial management practices with the aim of improving its planning, budgeting and controlling activities. Also, the organisation should make the best use of its financial records to anticipate problems which may be affecting its performance. This will help the organisation to keep an orderly account of its progress and to make comparison between one period and another. Since the environment is competitive and undergoing rapid changes economically, socially and politically, public organisations such as TransNamib should be flexible enough to cope with the changing landscape and secure its financial performance and stability through proper planning and implementation.

5.3 **Recommendations**

Due to the complexities inherent in an SOE such as TransNamib, a multi-pronged approach is required to improve its performance. An SOE, must endeavour to streamline its costs in the short run and improve its profits or surpluses in the long run. However, the success of a decision-making process, among other things, is dependent on the availability of an effective board and management. It is here that the role of management accounting and financial management, as the two most important pillars in achieving effective financial management, become more pronounced. The facts gathered during this research project have confirmed that TransNamib reached its present state of affairs over a number of years in an

incremental manner. To improve the financial performance of this organisation, there is a need to also adopt an incremental approach, which is pragmatic and sustainable in the face of scarce resources.

There are some steps that can be taken to improve the financial performance of TransNamib and these include the following:

a) The training of officials in the finance departments regarding financial information management systems especially those concerning strategic and operational planning in the organisation.

b) Adoption of modern accounting procedures to strengthen TransNamib management accounting function. For instance, Activity Based Costing (ABC) may be introduced to determine accurately the cost of each aspect of the organisation's operations.

c) Adoption of applicable accounting standards, (GAAP and IFRS), for government and public organisations to make TransNamib financial statements more transparent, user friendly and comprehensible to all stakeholders.

d) Appointment of board members in accordance with international best practices, by including those with financial expertise and empowering them to perform accordingly.

e) Cash budgets and cash management models may be introduced to synchronise cash receipts and expenses to overcome liquidity problems. Introducing Discounted Cash

Flow Analysis (DCF) techniques, based on reliable forecasts, can improve project management issues significantly.

f) Introduction of improved internal control systems to minimise possibilities of loss, fraud and errors in all business operations. The internal audit function can play an important role in this context. The auditor general can also be tasked to provide oversight through regular external audits.

g) Improvement in the recruitment procedures and introduction of a performance based salary structure, may improve the productivity of the work-force significantly.

h) Development of high-quality customer services at the highest level possible. Management can introduce suggestion boxes, so that they could work on addressing complaints.

5.4 Recommendations for further research

This research study has identified broad variables responsible for the poor financial performance of TransNamib. All the factors highlighted in the systemic analysis section provide sufficient ground for detailed research to highlight the specific roles of each factor in the financial performance of an SOE. It is mentioned in the literature review that poor financial management and lack of accountability has an effect on SOEs poor financial performance. Therefore, future research is recommended with a wider scope and larger population focussing on the possible

measures and strategies SOEs can implement to overcome poor financial performance.

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APPENDICES

Questionnaire

My name is Marilyn Maurihungirire Student No 200420119 a student in the Final year at University of Namibia (Namibia Business School) enrolled for an MBA in Finance. My Thesis is entitled: An Analysis of the Financial Performance of State Owned Organisation: TransNamib – A Case Study. To enable me to complete the research project, I require the participation of TransNamib Board members, Senior and Middle level managers at both TransNamib and the Ministry of Works and Transport. The survey will only take 15 minutes to complete. Participants will remain anonymous and the information will be kept confidential. I am very much appreciating your assistance in completing this research and look forward to receiving your responses.

Part A

Please indicate your level of agreement in the appropriate box by marking with an X.

1.1 Are you in the employment of TransNamib?

Yes ☐

No ☐

1.2 What is your level of employment?

Board Member ☐

Senior manager ☐

Middle level manager ☐

1.3 How long are you employed by TransNamib

0-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ 21 and above ☐

1.4 Rate the financial performance of TransNamib over the past 10years

Poor ☐ Average ☐ Good ☐

1.5 If your answer in 1.4 is poor, which of the following would you say contributed to the poor financial performance of the TransNamib.

Lack expertise ☐ Lack of planning ☐ Don't know ☐

Part B

2.1 Please indicate whether it's a YES or NO on the following:

Situation	**Yes**	**No**	**Don't know**
Can the government funding formula help TransNamib to recover?			
Can the board and senior managers be held accountable for the poor financial performance of the company?			
Do you think there is weakness in the stakeholders' oversight?			
Is the current expertise enough to improve the company's performance?			
Does TransNamib have the capacity to contribute to Namibia's development as an investment vehicle?			
Can the change in operations/market dynamics contribute to the positive financial performance of TransNamib?			

2.2 In your view, what factors influence the poor financial performance of the company?

Causes	**Very high**	**High**	**Undecided**	**Low**	**Very low**
Poor managerial practices					
Lack of financial planning					
Lack of expertise					
Insufficient funding					
Lack of effective internal control system					

2.3 How would you rate TransNamib' efficiency in relation to its financial performance?

Efficiency	**Very high**	**High**	**Undecided**	**Low**	**Very low**
Accountability					
Management					
Transparency					
Profitability					

2.4 How will you rate the company's performance in relation to the following?

Company performance	**Very high**	**High**	**Average**	**Low**	**Very low**
Strength of the board					
Extent of stakeholders representation on the board					
The company's financial dependency on the government					

Part C

3.1 According to your own understanding what could be the cause of recurring losses?

……

……

……

3.2 What could be the challenges that lead the company to poor financial performance?

……

……

……3

3.3 What are the possible interventions that can be put in place to rescue the situation in TransNamib?

……

……

……

3.4 What are the possible plans that can improve the financial performance of the company?

……

……

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