



# Pent Vars Business Journal

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## Re-Denomination Of The Cedi



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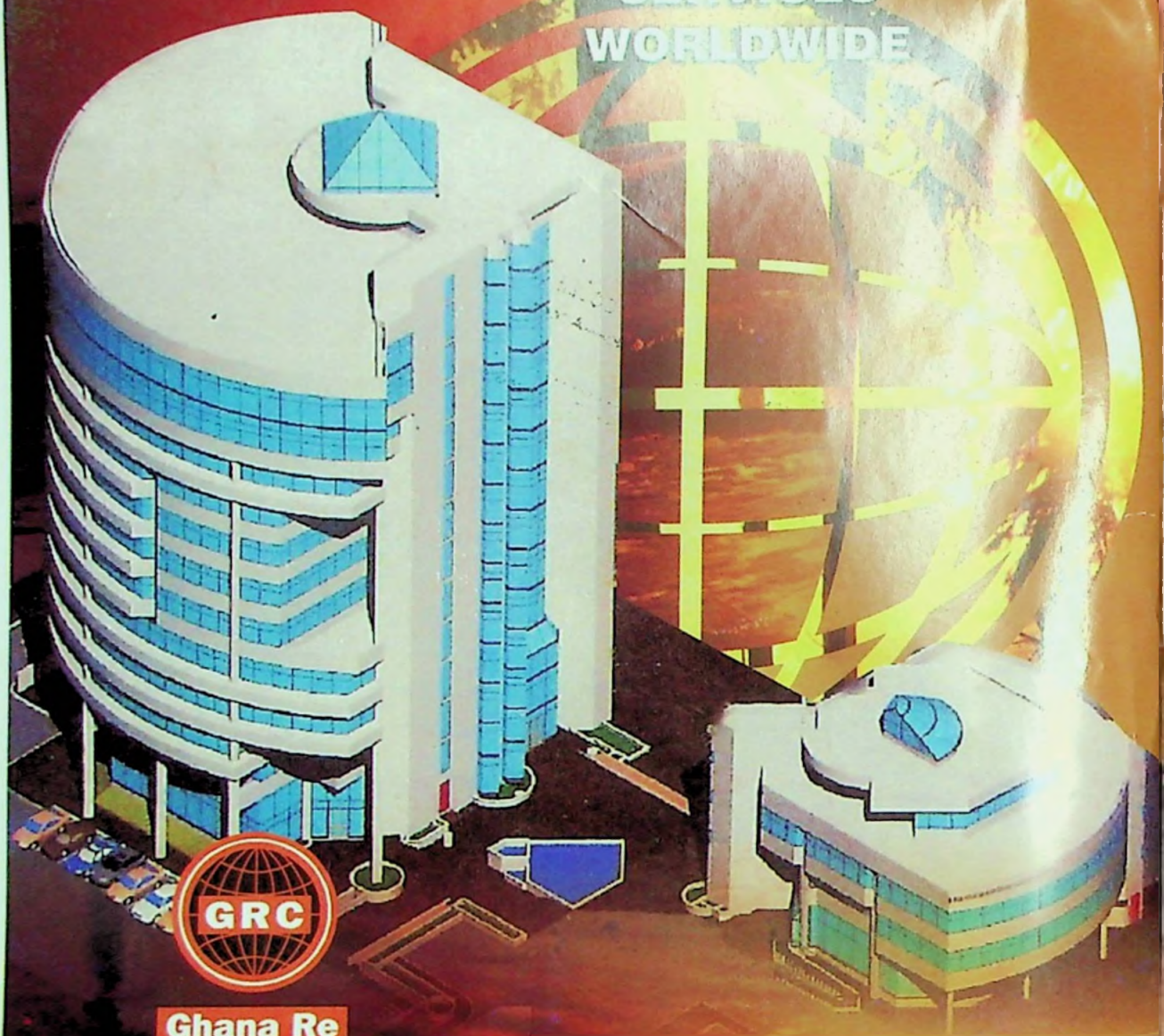
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# Araba News

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# EDITORIAL

## OUR VISION: TO COMPETE IN THE INFORMATION ECONOMY

Under the heavy impact of global competition, rising customer expectations, advances in information and communication technologies, and the need to do 'much more with less', organisations have had to change, adapt, and transform to become more agile and responsive. The roles of people at work are continually being transformed. As a result, effective administration and management has now assumed an enviable pedestal role in global socio-economic development.

Organisational learning is the key to enable organisations thrive in the face of the challenges of constant change. Rt. Hon. Tony Blair, the former prime minister of Great Britain aptly remarked: "Knowledge is the key to the future for business. The knowledge-driven economy is the economy of the future."

When the Faculty of Business Administration was created in the Pentecost University College in 2005, its mission was straightforward but ambitious: "To teach and improve the practice of management so as to leverage knowledge sharing." The vision is therefore simple and translates to: "Creating a learning environment and vehicle for sharing knowledge and working together for the future."

In line with the above, the objective of the Faculty of Business Administration is to create a conducive environment where comprehensive coverage of theoretical or conceptual issues and best practices in management can be shared, and where the impact of education on today's business and management can be robustly discussed. It is an attempt to better serve the training, education, and development needs of business managers. The Faculty aspires to create a truly supportive, collaborative, and mutually beneficial relationship between the providers and consumers of higher management education. We intend to provide globally relevant management education which can be described as a 'test bed' for global changes and transformations.

The Faculty believes that business managers need a body of professional knowledge, skills, abilities, and practice comparable to those which exist in the other professions such as medicine and law. The PentVars Business Journal (PBJ) is a vehicle to achieve the said vision.

Truly, the value of knowledge is greater than ever. Knowledge, more than material resources, has become the heart or essence of commerce. The ability to leverage knowledge is daily overturning conventional wisdom about how and where economic value can be created and enhanced. In a knowledge-based economy, the most important managerial challenge may well be learning how



to tap into the knowledge potential of every individual, gaining intimate and in-depth insights into academic disciplines such as accounting, marketing, banking, finance, information systems, human resource, economics, etc., and unleashing the power of human and organisational learning.

The PentVars Business Journal (PBJ) is therefore designed to help to advance management knowledge. Each volume will be packed with valuable business knowledge, tips, techniques, illustrations, real-world examples, exhibits, and best practices. The Journal will be a vehicle for successful knowledge sharing, networking, and collaboration between the three (3) pillars of managerial education (institutes, business and students). Successful collaboration or networking is a complete business development tool. It enables business managers to learn from one another, discuss issues and initiatives, and model globally leading-edge and best business practices.

We hope that you find, as we do, that this special maiden issue, and all subsequent issues of the PentVars Business Journal (PBJ) provide a provocative opportunity to reflect on the past, present, and future of management in Ghana. We sincerely hope that your support of the Journal in any form possible, – subscriptions, articles, critiques, etc. – would help us to produce a truly relevant and practice-oriented business Journal.

In short, the collection of articles in this maiden issue represents a wide spectrum of ideas and approaches that will be of value to those charged with preparing their organisations to manage and compete in the future. Some of the articles are indeed provocative, some are descriptive, while others are prescriptive. In our estimation, the blend of both sound theoretical and practical orientation is appropriate for our developing and market-driven, liberalised economy.

In this maiden issue, readers will find articles on such issue as, e-business, e-government, re-denomination of the cedi, and the role of business schools in educating competent managers. We also deal with small enterprises, strategic planning, corporate governance, human resource management, and many more topical issues.

We at PBJ sincerely hope that you, the readers and the business community, will find relevant and practical ideas in the Journal. We urge you to subscribe to this Journal as one of your "must" readings. We welcome your patronage, critical comments, and suggestions to improve on this maiden work. Help us to integrate management education and management

practice. We wholeheartedly welcome your articles and comments for future issues. With your active support, we aspire to transform this quarterly venture into a sound and sustainable monthly intellectual and practical opportunity. The collaborative efforts and support of the academics and practitioners are sorely needed for our economic development. Together, we can make a difference and advance effective management education and practice in Ghana.

EDITORIAL

# PENTECOST UNIVERSITY COLLEGE



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## INTRODUCTION

The President of the Republic of Ghana, His Excellency, Mr. J. A. Kuffuor, inaugurated the Pentecost University College on May 22, 2003, during the 34th Session of the General Council meeting held at the Sowutuom campus, under the chairmanship of Dr. M. K. Ntumy.

## VISION OF THE UNIVERSITY

To empower students to serve their own generation posterity with integrity and the fear of God.

## ROLE AND MISSION

Our mission, which represents our philosophy, is to be on the cutting-edge of the dissemination of knowledge, quality education, research and training for the purpose of producing an excellent human resource base to meet the demands of our country's development.

The University shall be governed by the highest level of integrity and ethical standards.

This shall be achieved through:

- Building on our strengths and pursuing affirmative and open door admissions policies.
- Providing a multifaceted education in Theology, Religious studies and Mission; Business Management, Information Technology and other academic courses towards higher degrees.
- Aligning our current and future programmes to meet the aspirations of our students, society and the worldwide community.

## Accreditation and Affiliation:

Pentecost University College (PUC) is a Christian University accredited by the National Accreditation Board (NAB) and affiliated to the University of Ghana, Legon.

## PROGRAMMES

The University currently runs the following programmes:

### BSc Administration, 4-Year (Four Options)

1. Marketing
2. Accounting
3. Banking
4. Human Resource Management

### BSc Information Technology (4-Year)

### 3 Year Bachelor of Arts Degree, 2-Yr Diploma or 1-Yr. Certificate:

1. Theology
2. Pastoral Studies
3. Mission Studies

## ENTRY REQUIREMENTS

- Three Core (including English and Core Mathematics)
- Three Elective passes at WASSCE/SSSCE & with aggregate 6-24
- Three A Level passes
- Recognised Diploma/Certificate (GBCE, O' Level, RSA III, ABCE, foundation stages of ACCA, CIM, ICA etc)



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# ENLIGHTENED INQUIRY

New Thinking, Trends, Ideas And Practices In Management And Leadership

## GOOD GOVERNANCE

### IMPORTANT WEAPONS IN THE FIGHT AGAINST BRIBERY AND CORRUPTION

We believe that we now live in a world of instant communication: by mobile telephone, pagers, e-mail, the internet, and the instant transmission of news as it happens, wherever it happens. Really, do we? Well, the facilities are certainly available, but what about the information? You cannot communicate information which is not freely available, or is prohibited for whatever reason, justly as in situations of on-going court cases or unjustly because it is not in the interest of various authorities or other parties for it to come into the public domain. Governments often hide behind the mask of "national security" or "not in the public interest" to deny access to information. Commercial organisations will use the mask of "proprietary information" or "market confidently". In the majority of instances, these may be true and valid reasons. However, in a minority of cases – although not that small a minority of cases – these are mere sinister reasons, namely that disclosure would reveal illegalities and point the finger at those responsible.

Undoubtedly, among the foremost issues, are those of the abuse of human rights and bribery and corruption. Bribery and corruption are among the most insidious practices of private, political, business, and public life. These issues thrive on secrecy; their biggest enemy is transparency. An open society with the freedom of communication, information, and free and independent media, makes it much more difficult for bribery and corruption to survive. But survive it does, even in the most advanced and democratic societies such as European Community, the United States, India and Japan. Consider the corruption charges against the International Olympic Committee, the police forces in England and Wales for having a sizeable number of officers facing corruption or dishonesty

allegations, and the recent fracas between the European Parliament and the European Commission. Other examples are the IMF 'conflict of interest' saga involving its immediate past president. Back home in Ghana, consider the ongoing cocaine trial involving police officials and the print media's reports of alleged bribery involving former key government officials.

Closed societies, principally military rulers, traditional authorities, or dictatorships, are fertile ground for liberty: there is no freedom of information or information distribution rights. There is often a chain of participants leading from the top down, or the bottom up. Protection of "whistle blowing" does not exist. There are still many democracies in Africa, South-East Asia, and Latin America, and elsewhere of course, where though strictly illegal, corruption is a tolerated culture. There are two principal participants to bribery: those who demand and accept the bribe and those who pay, or even offer it in the first instance. Most attention or condemnation however centres only on the recipients; but the donors, given the context, may be just as guilty. Transparency International is a not-for-profit, non-governmental organization to counter corruption, both in international business transactions and, through its National Chapters (of which there are over 70), at national levels. Among other activities, it publishes an annual Corruption Perception Index (CPI), which currently ranks the "perception" of corruption in 87 countries. This disclosure has gained world-wide recognition and acceptance. It is a powerful demonstration of the use of communication to expose and deter corruption.

Another weapon in the fight against corruption came into force in the shape of the OECD Convention on Combating Bribery in international business transactions. It deals with the bribery of foreign public officials. Under the convention, it becomes a criminal offence in each country bound by the convention, to bribe foreign public officials.

It does not, however, cover bribes to private sector companies. Nevertheless, it should act as a very real deterrent leading to the identification of both the one who demands or receives and the one who pays a bribe.

There is surely a case to be made for all significant commissions to be fully disclosed, either in the official annual report and accounts of a company, or through the growing practice of Social and Ethical Accounting, Auditing, and Reporting (SEAAR). This would attract the attention of all stakeholders including the media. It would become an invaluable deterrent. ■

**Prof. B. Omane-AnTWi**

President, Institute of Directors, Ghana And  
Researcher in Corporate Governance.

### WHO GOVERNS THE NET?

Internet users who register their addresses and passwords, so called domain names, in the World Wide Web (www), are looking possibly for snappy, easy to remember names. Many internet users who search for suitable domain names suffer unexpected set backs. Nearly all the words in a regular-sized English dictionary have already been reserved. An attempt to create an economically viable identity on the web might well be frustrated even before it has begun.

#### **Who Determines how Domain Names are Distributed any Way?**

Possible answers to this question may be an internet regulation authority, perhaps a government. In most cases, the Internet Corporation for Assigned Names and Numbers (ICANN), based in USA, has a hand in the matter. One thing is certain: the internet is by no means as anarchic and uncontrollable as it is often made out to be. In 1998, the US Department of Commerce undertook a decisive step to create a little order in this innovative Information and Communication System, which is undergoing constant change and was also threatening to become increasingly

chaotic.

In the five years prior to that date, thanks to its exponential growth rate, the internet had not only become a household word but had also created a whole range of conflicts involving such issues as:

- (1) Who determines the technical infrastructure of the internet and the way it functions,
- (2) Who has the right to assign domain names, and
- (3) Who should decide the growing number of legal disputes between brand name owners in the real world and domain name owners in the virtual world.

As the internet has grown into a mass medium, the need for regulation has increased. Historically, as the internet continued to develop, the American government, that played such a decisive role in the creation of the internet in the fifties, assumed the role of a de facto internet government.

However, as the internet evolved from a government-financed scientific experiment to an international market place and a global information forum, other groups (for instance other sovereign states, private businesses and individual internet users throughout the world) began to express varied interest in the network's stability and in the process of assigning domain names. At the same time, the role of the American government as the real power behind the internet was increasingly resisted by other governments around the world.

In the autumn of 1998, at the latest, it was clear from the large number of disputes over brand name, copyrights, and the assigning of domain names that changes would have to take place in the way the internet was being managed or not managed. Clearly, it was unacceptable for one government alone to regulate the global use of the internet on its own.

The internet's dynamics seem to preclude its being regulated by conventional supranational



organisations, such as the United Nations. The lengthy process of inter-governmental negotiations, which is typical of the United Nations makes it an unsuitable body for regulating the internet. If neither national governments nor established supranational organisations can do the job, the question still remains as to who should govern and who should regulate the internet.

In view of its technical infrastructure (its architecture), the internet often ignores traditional constants of social interaction such as space and time. This makes it a catalyst for social, cultural, and economic revolution. This new system of coordinates has given rise to new regulatory mechanisms. Driven by the dramatic success of the web, the community of internet users – initially nearly all based in the USA – was forced to regulate the development of the technology itself. The need to standardise and regulate the internet in the absence of existing regulatory bodies forced this community to set up its own informal regulatory agencies. Thus, the technical standards that pertain to the internet have been developed “from the bottom up” by self-regulatory agencies.

The Internet Engineering Task Force (IETF), founded in 1986, is responsible for all the internet's basic technology and has, for instance, developed standards for transfer protocols – the famous Internet Protocols or IP's. The standards are determined by the World Wide Web consortium (W3C). The consortium's strength is the broad technical knowledge base of its members, who currently number more than 1,000 and who are active in industry and research. Every member organisation has one seat and one vote on the W3C's Advisory Committee.

Bodies like the IETF and the W3C have no sovereign authority. They were created by the members of the internet users' community in response to problems that have arisen – mostly problems of a technical nature. A high level of technical competence is an essential prerequisite for participating in these bodies. The biggest technical problems that the growth of the internet brought with it in the eighties could be solved only by pooling of global technical knowledge. We should never forget that without the technical

achievements of the IETF and its members, the internet would never have been the success that it has become today.

As a result of the markedly technical orientation of regulatory competence, it is difficult for internet users, who have no technical background, to participate in this self regulatory mechanism. The often cited potential of the internet for creating more democracy is in danger of being stifled by technocratic structures. For this reason, internet self-regulation cannot be a matter for the technicians alone but must include other groups of internet users, such as economic, political, and social experts. The more the internet becomes a mass communication medium, the broader this co-regulatory base must be. The more computer networks grow and the more they penetrate social structures, the more their technical potential must be used to serve social needs, such as protecting society for network time.

#### **“Netiquette” as an Instrument of Regulation**

One well-known self regulation mechanism on the net is “Netiquette”. This functions without the active intervention of politicians or the authority of a central body to regulate communication and interaction on the internet. Netiquette is codex of unwritten ethical and moral norms, the flouting of which leads to public criticism and collective ostracism of the offender by other network users. Although Netiquette is simply a collection of informal mechanisms, in practice, it has been sanctioned as an internet norm that has the force of law. Another completely new form of transparent and informal regulation on the internet is the Request For Comment (RFC) System. Under RFC, solutions to technical problems are discussed via mailing lists according to established RFC procedures until a “rough consensus” as to the technically best solution has been reached.

RFC's subsequently become “legally binding” simply by being published in numbered sequence, creating what might be called an internet constitution; a digital loose-leaf folder of agreed upon norms. In establishing new regulatory procedures, mistakes are often made and setbacks must be expected. What is important is the



willingness of all those concerned to work with the regulatory structures that correspond to the structure of the Net itself and that are just as dynamic and, flexible and sometimes, even as experimental as the internet.

With regard to the ICANN, under President Clinton, the American government commissioned the National Telecommunication and Information Administration (NTIA) under the Department of Commerce, with the privatisation of the Domain Name System (DNS). The NTIA in turn commissioned ICANN, a new non-profit organisation under Californian Law, with the daily running of the DNS. In addition, ICANN was given the task of arbitrating in disputes over brand names.

The challenges facing ICANN involve exercising a narrowly defined technical mandate, solving a wide range of problems that had been plaguing the internet community for years, and fulfilling of the expectations of internet users, whose numbers have swelled to several hundred million. In order to allow internet users to participate in ICANN decision making processes, an "at-large" membership status was created for private individuals to elect five members of the board of directors.

The first global election took place in October 2000. In theory, all internet users were entitled to vote: anybody with an email address and a "real postal address could register as a member of ICANN and request an electronic "ballot paper." In the final analysis, only some 34,000 "netizens" participated in the election. This indicates that the election process clearly needs to be improved.

### **Productive Pluralism**

The ICANN experiment is the first attempt to date to deal with an elementary question of internet regulation using a supranational co-regulative institution created specifically for this purpose. The goal of the ICANN experiment was to ensure legitimisation through the broad participation of internet users, interest groups, and government institutions in the decision making process. The fact that administration of domain names is not the

most acute internet problem that has to be solved is not the most important point at issue here,

What is important is the way in which regulatory and Co-ordinatory tasks on the internet are institutionally anchored, and how many internet related issues, such as data protection copyright issues, and freedom of expression, might be solved using similar structures. There are different perceptions as to how far ICANN has proved a successful example of supranational and participative co-regulation.

Regulation mechanisms like ICANN have shown that global internet co-regulations is indeed possible. At the same time, the process of legitimising ICANN has nevertheless revealed significant weaknesses. If one is to transfer the ICANN principle to other institutions, the following basic constitutional elements must be guaranteed:

- (1) A clear and unambiguous definition of the institution's duties and adequate scope for its activities;
- (2) Transparent work processes;
- (3) The inclusion and representation of all those affected in the institution;
- (4) The availability of an adequate platform for public debate; and
- (5) An obligation to render public account.

Just as the ICANN experiment has at least prompted discussion on one single relevant theme, there must exist a public forum for discussing other similar themes. In addition, we need a public forum to discuss the basic issues of internet regulation; forum in which constitutional questions relating to this global communication medium are globally discussed. If one were to set up autonomous individual regulatory institutions separate from one another, one would be ignoring the interdependency of the problems they deal with.

It is clear from the above that the entire system of



Internet regulation might be improved by allowing free competition between the regulatory structures. The internet is a thoroughly decentralised system. Applying the decentralised principle to the regulation of individual problem areas means creating a productive pluralism of regulatory structures. ■

**Prof. B. Omane-Antwi**

President, Institute of Directors, Ghana  
And Researcher in Corporate Governance.



## ENTREPRENEURSHIP

### CHARACTERISTICS OF AN ENTREPRENEUR

#### Who is an Entrepreneur?

In very simple terms, an entrepreneur is an individual who accepts financial risks and undertakes new financial or business ventures. The word derives from the French words "entre" (to enter) and "prendre" (to take). In a general sense it applies to any person starting a new project or trying a new opportunity who dares to "enter and take" advantage of a sustainable opportunity to make economic difference.

The definition and explanation above will enable us to distinguish between an entrepreneur and an *intrapreneur*. An *intrapreneur* is an individual employee who acts like an entrepreneur but from inside the confines of a large organization or corporation.

Many societies place great value on an entrepreneur, since he is the one who opens up the way forward on new projects and opportunities, which others may not otherwise have seen or known. To encourage the activities of the entrepreneur, therefore, they may be offered access to inexpensive capital, tax exemptions, management advice, or business development services.

An entrepreneur has the greatest chance of success by focusing on a market niche either "too small" or "too new" to have been noticed by established businesses. To help new technologies come to market, many universities establish *business incubators* for entrepreneurs hoping to turn leading edge research into marketable products. A variant in Ghana, outside the universities, is Busy Incubator. This incubator is located within the premises of Busy Internet, where entrepreneurs are groomed into full-blown businesses.

Characteristics of an entrepreneur include spontaneous creativity, the ability and willingness to make decisions in the absence of solid data, and a generally risk-taking disposition or personality. An entrepreneur may be driven by a need to create



something new or build something tangible. In the Austrian School of Economics, entrepreneurs are described as being engaged in the "creative destruction" of existing products and services. Since new enterprises have low rates of success, an entrepreneur must also have considerable persistence.

Creativity is the process of challenging accepted ideas and ways of doing things in order to find new solutions or concepts. This does not come without obstacles; however the entrepreneur is encouraged by the benefits that creative thinking can bring to him. The person who is able to comfortably work outside the bounds of his or her experience and seek new solutions to problems will be more successful in the long run.

Entrepreneurs are generally highly independent. This can cause problems when their ventures succeed and grows. In a small company, the entrepreneur is initially able to personally manage most aspects of the business, but this is not possible once the company has grown beyond a certain size. Management conflicts often arise when the entrepreneur does not recognize that running a large, stable, and growing company is different from running a small growing company. The problem is often resolved by the entrepreneur either leaving to start a new venture, or being forced out by the other shareholders.

To be independent therefore, one has to be open-minded in one's approach to situations and people. The entrepreneur must be ready to adapt his attitude to suit different occasions and also break out of the box of past experience.

The skills that an entrepreneur exhibits or, which he needs to acquire, include the following:

#### **Create value for customers:**

- When you get a new idea and no competition is in sight, you must be sure that the product or service will be of value to customers and at a price at which you can afford to sell it. If you are entering a market with competitors then you need to be sure that you are offering something

better than that of your competitors in terms of either quality and or both price. When you undertake a market research, all the information you need to beat your competitors will pop up.

#### **Work with Business Plans:**

- You have to develop a detailed, credible, and professional business plan which is the key to building a successful business. This allows you to anticipate and recognise problems as they arise and thus take planned corrective measures.

#### **Get sound financial backing for your idea:**

- You need to take your ideas and plans to a variety of people – friends, relatives, etc. and be prepared for criticism to be thrown at you. Be flexible and adjust your plans as long as these criticisms are constructive. One of the hallmarks of an entrepreneur is the ability to regroup, rethink, and reach a goal in another way. You can position your business to receive start-up capital from government – currently there funds under Micro-finance credit schemes and business assistance funds managed by the government.

#### **Network:**

- You should be able to practice networking with potential customers, suppliers, and even those in government who control certain aspects of the business environment. This is necessary because being an entrepreneur does not mean being a lone ranger.

#### **Sound marketing:**

- Plan your marketing and public relations as these tell you the "what" and "where" of your opportunities.

#### **Effective Team:**

- You also need to ensure that you have the

# MARKETING

## OUT-SOURCING MARKETING FUNCTIONS

right financial and management support. This is necessary because entrepreneurs are good at ideas than at managing budgets, business operations, and employees. Avoid the tendency of lavish spending at the start of your project or business as the early inflows after your sweat and toil are tempting enough. Where you find yourself in such a questionable position, please do well to resort to your network of trusted and experienced advisers to help you see the proper perspective.

At this point, we can conclude that there are some general personality traits that are vital for being an entrepreneur. You may have what it takes to be an entrepreneur if:

You are persistent, with a great deal of zeal and stamina. You turn problems and ideas into sustainable opportunities. You have a good, intuitive business sense, and you thrive on new ideas. Robert Heller had this to say: "Entrepreneurs have no frontiers other than their own ambition."

You tend to rebel against authority, that is you want to be your own boss. In further explanation of this attitude of the entrepreneur R. Hunt Greene said "Everything is always impossible before it works; that is what entrepreneurs are all about – doing what people have told them is impossible."

You are positive; you communicate well, and enjoy working with people.

You have a strong need to succeed, financially and otherwise.

You are not afraid to make mistakes and you learn from them.

You can quickly and skillfully turn ideas into sustainable business opportunities. ■

**Ali-Nakyee Abdallah**

Chief Consultant of Nakyee Consult  
Adjunct Lecturer - GIMPA

### The New Dimension to Marketing

In general, many companies already out-source parts of their marketing functions such as advertising, promotion, research, etc. However, the marketing functions, like direct-mail management, lead management, or customer analytics, are most often done in-house. Increasingly, expertise in these marketing areas lies outside the walls of companies. We are familiar with the benefits of out-sourcing various corporate functions, but the idea of out-sourcing marketing, beyond advertising, seems relatively new. This is reason why more and more companies are turning to marketing partners.

According to Harvard Business School professors Gail J. McGovern and John Quelch in the March 2007 issue of the Harvard Business Review, one reason behind this move is because, while company marketing departments have plenty of talented right-brain creative types, they may often lack the left-brain analytics needed to better understand their customers in today's information-rich and driven environment.

### What are the Concepts and the Potential Benefits to Businesses?

For the past years, the media has been so fragmented that companies can no longer rely on mass marketing to reach prospective customers. Marketing communication tasks have become much more complex and complicated. Therefore, more firms are dependent on computer-aided market analysis.

Out-sourcing marketing functions other than advertising is reported to be beneficial to businesses in cost savings and improved service quality. In addition, many firms lack "left-brain" analytical skills in-house. These skills are becoming more important than ever in an age of increased direct marketing. Companies are finding that the expertise often needed fall outside the



expertise inside their companies. Sony, a well-known marketer, out-sourced its programme to market products through its online "Sony Style" store by recognising that they needed expertise in areas such as customer database construction.

### Should Firms out-source all Marketing Functions?

As much as companies stand to benefit significantly by out-sourcing, especially from skills that are not in-house, some marketing areas like those that directly drive marketing strategy are less amenable to out-sourcing. While analytical skills and computer models are important, top managers still need to meet regularly with customers. Companies need marketing officers to drive marketing strategy and make the most of the company's customer relationships. It is imperative that companies still need "flesh-and-blood" employees to win and service major accounts.

### Skills Required to Out-Source

The skills required of the marketing manager are radically changing. Managers are like ringmasters in a circus in today's changing markets. They must understand how to access the skills they need, since in practice they rely on a variety of in-house and outside suppliers to get the job done. It is important for marketing managers to nurture ongoing relationships with outside suppliers. It should be recognized that the best out-sourcing arrangements are partnerships or strategic alliances. Suppliers should not be regarded as mere contractors, since contractors do not always perceive a long-term stake in the project's success. They and customers must rather be seen as partners.

The manager must create an environment where the value created should be seen as shared value. Managing suppliers in this way requires a great deal of skill and competencies that are not always resident within a firm. This challenge requires negotiation and communication skills as well as a strong ability to project manage several elements of the various marketing campaigns.

There is then a close tie between out-sourcing marketing functions and the increasing global out-

sourcing in other functions. Companies, in general, turn to out-sourcing as a means of saving money while accessing the skills they need. It may be in the area of marketing, information technology, procurements, maintenance, manufacturing, and other services. Companies are most often apprehensive of out-sourcing some of their business functions. However, as companies have become more comfortable and familiar with out-sourcing arrangements, they have become more willing and relaxed to trust outside suppliers with business functions that, until recently, have not been out-sourced. ■

### Kofi B. Kukubor

International Trade And Trade Consultant

*Method goes far to prevent trouble in business: for it makes the task easy, hinders confusion, saves abundance of time, and instructs those that have business depending, both what to do and what to hope.*

*William Penn (1644-1718)*

*British religious leader.*



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# LEADERSHIP

## LEADERSHIP CRISIS: THE GHANAIAN PERSPECTIVE

The issue of leadership in present day Ghana is a war cry in the daily lives of every Ghanaian. The myriad problems confronting the nation include poverty reduction, the ineffective management of our nation's human and material resources, drug menace, other petty crimes, and the establishment of the rule of law. Effective solutions to the above problems would lead to peace and prosperity. The problems constitute a major source of worry for every Ghanaian in the present world of social, economic, and religious strife. The question nagging the minds of most Ghanaians then is, "How can we overcome our present leadership crisis?" The solution lies in the right leaders - how to identify, encourage, challenge, and develop such persons.

### Introduction

There is a leadership crisis in Ghana just as in the whole world. This has doubtless been the direct result of the lack of integrity on the part of our leaders coupled with corrupt practices within all spheres of our society. This lapse, in leadership has led to poverty, indiscipline, the very slow pace of national socio-economic development, and endemic corruption. Fingers are being pointed all over at our leaders in government, business, religion, tradition, youth, education, and families. This is a recipe for crisis and a breakdown of the rule of law and order.

The objectives of this paper are to identify the inherent causes of the leadership crisis in Ghana from the social, spiritual, political, and economic dimensions; to draw the attention of readers to this cancer and to attempt to offer suggestions as to the way forward. We also intend to provoke discussion on this most important issue confronting our nation, Ghana.

In a speech, read on his behalf, at the commemoration of the 10<sup>th</sup> anniversary of the

Ebenezer Oasis of Love Church at Ahodwo in Kumasi on 4<sup>th</sup> December 2006, President John Agyekum Kufuor was reported to have said, among other things, that:

*"Corruption borders on morality and as such the citizenry needed to make a conscious effort at upholding good moral principles. As an emerging economy, the nation needs to adopt a multi-sector approach to campaign against corruption in all its forms and manifestations that had permeated all segments of the society to facilitate the nation's bid to attain a middle income status by 2015. We should, at all times, try to practice what we preach to salvage the society from evil deeds whilst improving upon the standard of morality in the country."*

Professor Ankrah Badu, a consultant at the Korle Bu Teaching Hospital, is reported to have stated on 27<sup>th</sup> August 2006 that the lack of integrity was the major cause of the numerous problems facing the African Continent. He observed that Africa, though the second largest continent and the most resourced, had become the poorest due to poor governance and blatant corruption. He added: *"We are saddled with high infant mortality; low life expectancy; low quality of life; widespread civil unrest and large, refugee population."*

According to Prof. Badu, good governance should identify people, who would help to build nations and not people who would bootlick or work for personal interests. He mentioned drug abuse, drug trafficking, homosexuality and lesbianism, visa fraud, cyber fraud, pedophilia, '419 scam', and "sex tourism" as vices that bred corruption and social disorder. He advised the youth against them. He called on the graduates to intervene with prayer to halt the economic and moral degeneration as part of the spiritual solution. He stated that:

*"You will have to demonstrate a high sense of integrity in your work places. With time and with the support of the Holy Spirit you will change the work ethics of your colleagues."*

Our problems have many varied dimensions as discussed below.

## **The Social Dimension**

1. The child in the home - who acts as the spokesperson of his/her siblings - is the 'Joseph' in the house. He has the ears and eyes of mummy and daddy and usually it is through this child that requests to the parents are made. This child is a (potential) leader who must be trained to be truthful. The Bible states, 'Train the child the way that he should go and when he grows he will not depart from it.' Truth therefore becomes an essential part of a child's upbringing which when maintained leads to a leader of integrity.
2. The youth (teenager) at home, at school, at other gatherings and among his/her peers in the social group may be a leader. These are the most vulnerable and easily manipulated if a solid positive foundation is not laid by parents or guardians in their upbringing. In the political arena, they are the best recruits (foot soldiers) as experienced in conflicts world-wide where child soldiers are used in military combats. The history of the Red Guards in China and the Young Pioneers in Ghana should not be lost on us.
3. The father and mother at home. They are the best teachers, pastors, mentors etc. that a child and, especially, the youth may have in molding their future as useful citizens. They must be available when needed and must be the measuring rods for every social, political, economic and spiritual activity. Corruption begins at home when parents are not men/women of integrity. Parents are best mentors positively or negatively.
4. The chief, as head of a traditional area and custodian of the people's heritage. There is hardly any traditional home or community which does not boast, with pride of the good deeds and exploits of their past leaders. Chiefs are therefore, the best source of leadership especially in the area of the protection of the environment

and moulding the lives of the youth, and the aged alike, for the development of the nation beginning from his traditional area.

## **The Spiritual Dimension**

1. The teacher, by his/her style and the seriousness with which he/she carries out his/her duty, affects the lives of the children and youth that pass through his/her hands every week and during youth camps. These children are gullible and virtually believe whatever these teachers teach them. It is a well known fact that in the olden days, teachers in mission schools worked together with parents and social leaders to affect lives of pupils at school and within the community.
2. The fellowship groups or other religious groups are good grounds for teaching good citizenship, good moral values, family life, proper business, and social ethics; not the religious fundamentalism that goes against the progress of the country and the world at large.
3. Religious leaders, who, by heeding the voice of their calling could be agents of change for good and peaceful governance of the nation. They are the best catalysts for good and moral governance and have the opportunity to affect the lives and destiny of the people of this nation.

## **The Political Dimension**

1. The Head of State, Cabinet Ministers, Parliamentarians and Members of District and Municipal and Metropolitan Assemblies: The Constitution of the Republic of Ghana puts the management of the human and material resources of this nation into the hands of these people. Every nation's prosperity depends on the honest and prudent management of these people i.e. the integrity of this class of people.



2. Leaders of Political Parties: They are the types of leaders whose activities will ensure peace and tranquility or otherwise in the nation.
3. Officers and Men within the Military, Police and other security agencies: They are leaders charged with the responsibilities of keeping order, enforcing the laws of Ghana, preventing crime, and protecting the people and the borders of Ghana from external (and internal) aggression. A well trained and disciplined army and police force is a recipe for peace and tranquility for the people.
4. The Honourable men and women of the bench and the bar: This group of men and women of the judiciary and Bar Association are the interpreters and dispensers of justice. They are expected to be leaders of utmost integrity living exemplary lives worth emulating within the society.

### **The Economic Dimension**

The economic advancement of every nation, of course, depends on good social, spiritual and political policies and values. The performance of leaders under the economic dimension, therefore, cuts across.

1. The Chief Director, Heads of Department, Agencies etc. within the Public Sector: There are clear, written guidelines to direct their duties and performance, which when followed should bring progress and sanity in the management of the nation's assets within the civil and public services.
2. The Private Business Community. This includes the board, executives and management of businesses within the various sectors of the economy. The conduct of all these businesses are governed by laws reposed in the office of the Registrar of Companies. The

performance and the integrity of men and women managing these companies also impact the prosperity of our nation.

### **What are the Expectations of these Leaders?**

According to Emmanuel Asante in his Book Stewardship, authority is an avenue for service. Asante cites Bernard Zylstra as saying:

*"Authority is an office that is a channel for the realization of divine norms in social relationship."*

He adds that, we must exercise all authority for the welfare of those subject to it. He emphasizes that, 'According to the Bible, civil rulers are God's servants for the good of the governed. Politicians and public office bearers are to execute their executive, legislative, judicial or administrative offices only for the good of the citizen.' He is of the view that "abuse of power is the outcome of lack of realization that human authorities, be they civil or religious, derive from God and are subservient to Him. When people in power fail to realize the relative nature of their civil or ecclesiastical power in relation to God, they arrogate to themselves absolute power; a usurped power which, in the hands of the mortal being corrupts the wielder while, dehumanizing subjects. A usurped absolute power gives birth to tyranny, dictatorship, and irresponsible governance'.

### **Expectations within the Social Dimension**

**The Child:** In the past, the extended family members and the community collectively played active parts in the upbringing of a child. Every person, within the community, noted the family from which a child who behaved or misbehaved came from. In most cases this served as a yardstick with which marriage unions were agreed upon. Unfortunately, the current practice is to delegate the upbringing of children between house helps and part-time teachers. Most of these people are not professionals and have no personal stake or commitment to the development of the child.

**The Youth:** The behavior of the youth in secondary and tertiary educational institutions leaves much to be desired. The occult and other satanic groups have taken advantage of the lack of moral and

religious education by parents and society. This unfortunate situation is leading to homosexuality, drug abuse, indiscipline and the like into our educational institutions.

There are alarming and increasing reports of occultism, teenage pregnancy, examination malpractices and other acts of indiscipline among pupils and students in the country. These seem to have created a "huge monster" that is giving authorities of the Ghana Education Service (GES) nightmares.

The situation is worrying and the GES must revise the existing code of conduct or develop new ones for the schools to deal with these highly disturbing issues.

There is the strong fear that there is more to be done to prepare these leaders of tomorrow to take their rightful place in society than the mere revision of the existing code of conduct for the schools. All parties must play their appropriate roles.

It is now often said that parents have abdicated their parental roles as a result of many difficulties they face. These difficulties include single parenthood, economic hardships, and loose moral education and practices. There is the absence of family planning and education which has affected the upbringing of children. The educational system has deteriorated to such an extent that there are only a few committed and professional teachers in the system. Social support, in most communities, has collapsed as a result of broken-homes and single parenting. These leave the children and the youth at the mercy of pornographic and other negative activities. The civic and moral education programmes that used to be organized within the Community Centres are things of the past.

Chiefs appear to have lost their roles in leading the communities in good, socially disciplined and morally upright manner. A few of them are involved in all sorts of negative economic activities which have brought them to face to face with the laws of the land. The role of *nkosuohene* (development chiefs) are positive additions to the chieftaincy institution but unfortunately, of late, wrong people have found themselves on stools

and skins which have rather retarded the expected roles of chiefs. The idea of establishing and documenting the criteria for qualification, process for occupying stools and skins by the national House of Chiefs is long overdue.

The 1992 Constitution of Ghana has placed assembly men and women in the position to organize unit committees to galvanize their areas in community service and development. A few of these are discharging their duties effectively and enhancing the social lives of their communities. Many of them however have rather turned themselves into contractors, local lords, and politicians. The ideal situation is to find assembly men and women directly involved with the social development programmes of the neighbourhood which they represent through the District Assemblies. From there, and with the experience gathered, they could be elected to the national assembly to represent the area where they are located.

When talking about sports we immediately think of the development of mind and body, by bringing people from different ethnic and social backgrounds through activities guided by fair play. Sadly, the recent developments in Ghana's local football scene, where clubs 'cooperated' to score up to 31 goals during one game, is without a doubt a stark reflection of the depth of the craze to win by fair or foul means in our nation. This craze has got to the extent that many people in all areas of our society have put on the garment of blindly justifying or even glorifying corruption – petty or grand.

### **Expectations within the Spiritual Dimension**

Religious bodies, are normally expected to spearhead the spiritual, economic, and social development of the nation through sound religious and moral teachings and practices. In the past, the mere wearing of religious garments confers on the wearer great respect and honour. What we see presently is rather religious fundamentalism, immorality, and lifestyles unbecoming of religious leaders. Instead of preaching holy and righteous living, the religious houses have now become extortion clubs, completely contrary to the



teachings and directives of any true religion. Some religious leaders are even bold enough to state that, 'do what I say not what I do'.

Religious groups are supposed to be grounds for training in good citizenship and family life but today, some of these have become grounds for immoral activities, cheating, stealing, and drug trafficking. The leaders are as equally guilty as the ordinary members.

### **Expectations within the Political Dimension**

The President of the nation swears an oath of office to uphold the tenets of the Constitution of Ghana which mandates the rule of law, the observation of human rights, separation of powers, equitable distribution of the resources of the nation etc. What do we see and hear these days?

Ghana's situation may be summed up in the following statement by Rev. Kofi Owusu, The General Secretary of the Bible Society of Ghana,

*"Our country stands in great need. We are faced with many challenges and engulfed with many vices. A wind of moral decadence is sweeping over the nation. It expresses itself in many ways, including indiscipline, corruption and lack of integrity in private and public lives. These tend to undermine our stability and the future of our community and life."*

With regard to party politics, the expectations of many Ghanaians are that issues bordering on the development of the nation should be addressed on non-partisan basis. Unfortunately however, the hawks in the political parties have not allowed this to happen because of the desire to always score cheap political points. The current energy crisis and the implementation of the Representative of the People's Amendment Act (ROPAA) are issues that should have been discussed rationally, dispassionately, and on bi-partisan basis to move the nation forward. However, what actually happened is a disgrace to the long cherished concept of multi-party democracy. Political disagreements or different, alternative opinions and even suggestions are now routinely deemed as "politicising". We are being forced to speak with

one voice and in praise of any policies of the government. The one side want to behave as if what the other side is advocating is tantamount to treason.

### **Expectations within the Economic Front**

Imposition, payment and collection of taxes are areas that virtually every Ghanaian is to be blamed. Very few people, with exception of the salaried workers, regularly pay taxes. Some corporate bodies and some officials of Customs & Excise Preventive Services (CEPS), Internal Revenue Services (IRS), Value Added Tax (VAT) Service, and Ghana Immigration Services (GIS) are often reported as colluding to under-invoice or over-invoice, as the case may be. The reported collusion is to enable the taxpayer to significantly reduce their taxes due to the state, which is the main source of financing education, health, and other development programmes. Many Ghanaians, especially individuals who live in affluence hardly pay any tax. How then can the government or the nation achieve its goals of national development? Ironically, some of these people are the very vocal on the radio, TV, and the print media criticizing and offering solutions to some of the problems that they are directly responsible for creating.

Many citizens often wonder why it is only the non-security sector employees of the civil service, public service, government-subsidized departments, agencies, and offices that must go on strike to demand or get their rightly deserved better conditions of service. It is well known and an unfortunate fact that a person's rights end at the doors of any of the ministries. It is often reported that to get any thing out of the trays at most of the ministries depends on the mood of the officer or the minister in charge. It is deemed a privilege, indeed a favour to get something done routinely and on time at most of our public sector establishments. The Ministries are supposed to deliver efficient quality government services. These would have yielded good returns to the government chest, which would in turn affect the remuneration of the staff. Unfortunately these staff wants the best conditions of service while providing the most horrible services to the

taxpayers and visiting foreign investors.

Composition of Boards of Directors of both private and public entities in Ghana seems to be the exclusive preserve of a very few privileged well-placed and connected individuals. This is in spite of the abundant stock of well qualified and competent human resources in Ghana. Some Ministers of State and Chief Directors reportedly serve on as many as seven boards at the same time. How effective can they be? Most of them may just be there just to pick the perks and allowances that go with the positions, but not necessarily for their competency. It is not surprising that some of these entities are soundly mismanaged. Some of these people could honourably be honest enough to decline the offer or else deliver quality service of governance.

The latest disturbing development in Ghana is the now global notoriety of the nation as a hub for consuming, exporting, or transshipment of hard and illegal drugs to other countries. The sad aspect is the reported involvement of the Ghana Police Service, which is legally expected to seize and confiscate the drugs and arrest and prosecute the offenders, is now reportedly deep in the collaborating with and assisting the drug dealer and barons.

### **Commentaries on Lack of Integrity Resulting in Corruption**

In reaction to the reported high incidents of widespread corruption and other social vices in the nation, some government officials are reported to have indicated that the government is working towards wide-ranging reforms in its anti-corruption drive. The reported reforms include the expansion of the mandate of the Serious Fraud Office (SFO), whose ambit now only focused on economic loss to the state.

The anticipated fight against corruption must not be the concern of only the government but must be a national preoccupation. It must be a long-term concerted effort, not a photo opportunity event. We have to go about it with law and order, sound administrative procedures, transparency, accountability, and eschewed impunity.

The most important thing is that the fight against corruption should be fought at all levels, in the area of sports, health, law, education and in the private sector.

Ghanaians from all walks of life are demanding good governance, quality education, good health facilities, and good nutrition to enhance the total development of the nation. The nation is demanding accountability and transparency from technocrats, political, religious, and traditional leaders. The media must play a positive, neutral, role by drawing attention to issues that affect the well-being of all citizens.

Writing under the theme 'Time to wage war on corruption', Kwadwo Boateng observed that:

*"Miserably, corruption is a plague that has attacked and infected many developing countries today. Corruption is widespread and part of everyday life. .... Corruption respects no borders, knows no economic distinctions and infects all forms of government. Corruption comes in many guises such as bribery, extortion, fraud, (currency and human) trafficking, embezzlement, nepotism, etc.*

*.... evidence suggests that corruption retards economic development, shrinks production, undermines competition and denies the poor access to basic services. Corruption diverts resources from the poor to the rich, distorts public expenditures and deters foreign investors."*

Professor Henrietta Mensah-Bonsu, the Dean of the Faculty of Law, of the University of Ghana, in a lecture at the St. Peter's Seminary of the Catholic Church in Cape Coast in April 2007 is reported to have observed that corruption could best be eliminated if people faced up to it and stripped it of the undeserved 'dignity' conferred on it with fond names. She expressed regret that people approved of petty official corruption and coined names for such acts on a daily basis. She pointed out that corruption, particularly in high places, placed the poor at a disadvantage and raised the cost of transaction. She conceded that, 'We ourselves participate in such practices in order to secure advantage for ourselves or cause officials to short circuit systems for our benefit'. She wondered



aloud about how the Church "...can end corruption in the country if we ourselves are quick to pay bribe and lead delegations to influence our parishioners in positions of responsibility from doing their duties or encourage them to bend the rules in favour of a friend or relation?"

Professor Mensah-Bonsu expressed utter dismay at the fact that the canker had become so acceptable that even prefects in secondary schools took bribes from students who broke school rules and called on Ghanaians to help wage a war against corruption.

### Conclusion

It is a fact that many of our leaders have diminished fervour to exhibit integrity in their leadership roles. This results in corruption in every area of our society. We have all directly, partially, or passively contributed to this.

This disease is cancerous and is getting to its terminal stage. We have to start now and from all fronts. We must never throw our hands up in despair but begin the process of change immediately. The new generation of leaders and our descendants would be the beneficiaries of the change for the better. This requires our commitments to begin from the child in the womb to the aged to resolve to do what is right and upright.

We must simplify the laws on corruption and make them easily available to the public. We must develop effective anti-corruption messages in brochures, manuals and other publications for distribution.

We must address this issue of inefficient and incompetent leadership, poor integrity, and rampant corruption now. The issue of morality must be tackled first, since it is the foundation of character development. We must utilise both the legal and moral approaches at our disposal to compact the growing menace facing us in Ghana. ■

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## SUCCEEDING THROUGH TRUST AND FORGIVENESS: PRACTICING SERVANT-LEADERSHIP

Since the time of the industrial revolution, managers have tended to view people as mere tools, while organisations have considered workers as moving parts in a machine. In the past few decades, at least in the advanced economies, we have seen a shift in that long-held view. In many of the organisations today, we are witnessing the gradual transformation from the bureaucratic, traditional, autocratic, and hierarchical modes of leadership to a different way of working. This new way is based on teamwork and community. It seeks to involve others in decision making. It is firmly grounded in ethical and caring behavior, which attempts to enhance the personal growth and development of people while improving the caring and quality of the institutions themselves. This emerging approach to leadership and service began with Robert Greenleaf about five decades ago.

### What Is Servant-Leadership?

The idea of the leader as a servant came out of Greenleaf's half-century experience in working to shape large institutions. He believes that "True leadership emerges from those whose primary motivation is a deep desire to help others."

In his works, Greenleaf discusses the need for a better approach to leadership, one that puts serving employees, customers, and community – as a number one priority. Servant-leadership emphasizes increased service to others. It is a holistic approach to work which operates by promoting a sense of community, and the sharing of power in decision making. The words *servant* and *leader* are usually thought of as being opposites. However, when two opposites are brought together in a creative and meaningful way, a paradox emerges. So the words servant and leader have been brought together to create the paradoxical idea of servant-leadership.

One may ask: Who is a servant-leader? Greenleaf said that the servant-leader is one who is a servant first. It begins with the natural feeling that one

wants to serve, to serve first before being a leader. Then conscious choice brings one to aspire to lead. The difference manifests itself in the care taken by the servant; first to make sure that other people's highest priority needs are being effectively served. The best test is: "Do those served grow as persons; do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become outstanding servants? In addition, one may also ask the following two questions: what is the effect on the least privileged in society? Will they benefit or at least not be further deprived? At its core, a servant-leadership is a long-term, transformational approach to life and work. In essence, it is way of being that has potential for creating change throughout relevant institutions and societies.

### Characteristics of the Servant-Leader

After some years of carefully considering Greenleaf's original writings, Larry Spears extracted the following set of characteristics central to the development of servant-leaders.

- **Listening:** Leaders have traditionally been valued for their visioning, communication, and decision-making skills. While these are also important skills for the servant-leader, they need to be reinforced by a deep commitment to listening intently, actively and pro-actively others. The servant-leader seeks to identify the will of a group and helps clarify that will. He or she seeks to listen receptively to what is being said. Listening, coupled with regular periods of reflection, is essential to the growth of the servant-leader.
- **Empathy:** The servant-leader strives to understand and empathize with others. People need to be accepted and recognized for their special and unique spirits. One assumes the good intentions of colleagues and does not reject them as people, even if one finds it necessary to refuse to accept their behavior or performance.
- **Healing:** One of the greatest strengths of servant-leadership is the potential for healing one's self and others. Many people have



broken spirits, emotions, egos. They have suffered from a variety of emotional hurts. Although this is part of being human, servant-leaders recognise that they also have an opportunity to "help make whole" those with whom they come into contact.

- **Awareness:** General awareness, and especially self-awareness, strengthens the servant-leader. Awareness also aids one in understanding issues involving ethics and values. It lends itself to being able to view most situations from a more integrated, and holistic perspectives.
- **Persuasion:** Another characteristic of an effective servant-leader is a primary reliance on persuasion through personal competence rather than positional authority in making decisions within an organization. The servant-leader seeks to convince others rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant-leadership. The servant-leader is effective at building consensus harmony and "we" mentality within groups.
- **Foresight:** Foresight is a characteristic that enables the servant leader to understand the lessons from the past, the realities of the present, and the likely consequences of a decision for the future. It is also deeply rooted within the intuitive mind. Foresight remains a largely unexplored area in leadership studies, but one most deserving of careful attention.
- **Conceptualization:** Servant-leaders seek to nurture their abilities to "dream great dreams." The ability to look at a problem from conceptualizing perspective means that one must think beyond day-to-day realities. For many managers, this is a characteristic that requires discipline and constant practice. Servant-leaders are called to seek a delicate balance between conceptual thinking and a day-to-day focused approach.
- **Stewardship:** Peter Block defines stewardship as "holding something in trust for another.

Greenleaf's view of all institutions was one in which the chief executives, staffs, and trustees played significant roles in "holding their institutions in trust for the greater good of society at large". Servant-leadership, like stewardship, assumes first and foremost a commitment to serving the needs of others. It also emphasizes the use of openness, trust, and persuasion rather than control.

- **Commitment to the growth of people:** Servant-leaders believe that people have an intrinsic value, merit, and dignity beyond their tangible contributions as workers. As a result, the servant-leader is deeply committed to the growth and development of each and every individual within the institution. The servant-leader recognises the tremendous responsibility to do everything possible to nurture the growth of employees or others.
- **Building community.** The servant-leader senses that much has been lost in recent human history as a result of the shift from local communities to large institutions as the primary shaper of human lives. This awareness causes the servant-leader to seek to identify some means for building a distinct community among those who work within a given institution. Servant-leadership suggests that true community can be created among those who work in businesses and other institutions. Greenleaf said: "All that is needed to rebuild a community into a viable life form for large numbers of people is for enough servant-leaders to show the way, not by mass movements, but by each servant-leader demonstrating his own unlimited liability for quite specific community-related group."

The ten characteristics of servant-leadership listed above are not exhaustive. However, they serve to communicate the power and promise that this concept offers to those who are open to its invitation and challenge.

### The Impact of Servant-Leadership

According to Larry Spears, most individuals and institutions have adopted servant-leadership as a

guiding philosophy. For individuals, it offers a means to personal growth – spiritually, professionally, emotionally, and intellectually. It has ties to the ideas of Scott Peck (The Road Less Traveled), Steven Covey (Principled Leadership), our own Pastor Otabil (The Leadership Principles of Jesus), and others who have written on expanding human potential. A particular strength of servant-leadership is that it encourages everyone to actively seek opportunities to both serve and lead others, thereby setting up the potential for raising the quality of life throughout society.

Life is full of curious and meaningful paradoxes. Servant-leadership is one such paradox that is providing a framework from which many thousands of known and unknown individuals are helping to improve how we treat those who do work within our many diverse institutions. Servant-leadership truly offers hope and guidance for a new era in human development, and for the creation of better, more caring institutions and work or organisational environments. ■

**Prof J. B. K. Aheto**

Chair of Banking and Finance  
KNUST School of Business

**GOOD NEWS AND BAD NEWS:  
ACCOUNTABILITY IN EDUCATION – GHANA**

@ 50

**History of Change**

One cannot confidently say that the high educational standards that propelled Ghanaians into excellence after independence have been sustained throughout the past 50 years. Over the last 50 years, Ghana's performance in the educational sector has been uneven. Nkrumah's Government undoubtedly gave a major impetus to the expansion and democratisation of educational facilities, particularly, with the inauguration of the free compulsory education for all children.

There has been a phenomenal increase in secondary and tertiary institutions since independence. Ghana can now boast of six (6) public Universities, ten Polytechnics, more than twenty (20) private Universities, hosts of teacher training and nurses training colleges. In addition, the nation has over eight hundred (800) public and private senior secondary schools. This compared favourably with just two University Colleges, and a few dozen secondary, nurses and teacher training schools at independence.



**EXERCISING**

*Exercise Regularly*

*This doesn't have to be anything overly strenuous.  
Something as simple as a daily walk can make a huge difference.*



Nkrumah enhanced local professional training by establishing institutions such as the School of Administration, Ghana Medical School, and the Ghana Law School in the early 1960s. Hundreds of Ghanaian young men and women were awarded scholarships to study abroad after independence.

Over the years, successive governments have paid particular attention to the structure and content of our educational system and have accorded high priority to it in the allocation of budgetary resources.

### The Good News

- The Education Act of 1961 defined the fundamental privileges of education, including the prescription of compulsory education for every child of school-going age.
- The Dzobo Report of 1973 proposed the Junior Secondary School (JSS) concept.
- The Education Reform Programme of 1987/88 and the Education Commission Report on Basic and Secondary Education of 1987/88 were instituted by the PNDC to overhaul the Secondary Education System.
- The Ten (10) Year Programme of Free Compulsory Universal Basic Education of 1996 aspires to make basic education both free and compulsory for every child.
- The GETFund Act 2000 (Act 581) instituted funding for infrastructural development or rehabilitation in educational institutions.
- The Education Strategic Plan (ESP) 2003 – 2015 instituted the much needed educational link to the implementation of the Ghana Poverty Reduction Strategy (GPRS II).
- International commitments such as Millennium Development Goals (MDG)

and Education For All (EFA) are meant to achieve Universal Primary Completion (UPC) by 2015.

### The Bad News

- The Esi Sutherland-Addy Report on condition of tertiary institutions (1993): on attaining university status in 1961, the premier University of Ghana established a tradition of university education which has influenced the national attitude to higher education. This University, together with the University of Science and Technology, and the University of Cape Coast, gained for Ghana the reputation of offering some of the best university education in Africa.

Fifteen to twenty years later, these institutions are now mere shadows of their earlier glory. They are drained of teaching staff, lack equipment and teaching materials. They are housed in dilapidated structures, and openly display demoralisation and incipient decay. They are at the same time besieged with a growing demand for high quality service and public accountability; something obviously has to be done.

- The poor quality of teaching at the Junior Secondary Schools (JSS) level is making most students unable to acquire even rudimentary grounding in basic literacy, numeracy, and social studies. These weaknesses are translated into poor academic performance beyond the JSS level.
- JSS graduates are unable to move either to SSS levels of learning and attain internationally competitive standards in the world of work as promised in the 1987 reforms.
- Despite the lip-service often paid to “the importance of science and technology in national development”, our tertiary institutions, particularly the Polytechnics,

have not been accorded the appropriate priority in their mandated fields.

- The failure of our educational systems to address adequately the specific needs of our job market and the developmental aspirations of the people of Ghana.

### ***The Possible Way Forward***

Government needs to consolidate the ideas of the Educational Strategic Plan (2003 – 2015) by:

- Sustaining the Capitation Grant for all school children throughout the nation to continuously improve the number of enrolment in the basic schools.
- Strict supervision of the implementation of the reversal of the middle school cycle to a four-year programme at the Senior Secondary School level.
- The upgrading of one Senior Secondary School into a model School in each district and the establishment of science centres in all the districts of Ghana.
- The integration of Information and Communication Technology (ICT) into the educational system.
- The boosting of technical, vocational and agricultural training.
- Acknowledging the role that private universities are playing in the educational sector and extending GETFund support to them.
- Encouraging and supporting education in entrepreneurship and funding post-training establishment of businesses by the graduates. ■

### **Prof. B. Omiame-Antwi**

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## **MANAGEMENT**

### **CREATING WORKPLACE HARMONY**

Effective leaders take active, personal interest in the long-term development of their employees. They use tact and other social skills to encourage employees to achieve their best. It is not about being 'nice' or 'understanding'. It is about tapping into individual motivations in the interest of furthering both individual and organizational goals. In a groundbreaking article in the early 1960s, Prentice rejected the notion of leadership as the exercise of power and force or the possession of extraordinary analytical skills. He defined leadership as '...the accomplishment of a goal through the direction of human assistants'. He saw a successful leader as one who can understand people's motivations and enlist employee participation in a way that marries individual needs and interests to the group's purpose. He called for democratic leadership that gives employees opportunities to learn and grow – without creating anarchy.

### **Problems and Illusions**

Rudimentary forms of leadership rely solely on single source of satisfaction such as monetary rewards or the alleviation of fears about various kinds of insecurity. The task is adhered to because following orders will lead to a monthly salary and deviation will lead to unemployment.

Arguably, such forms of motivation are effective within limits. In a mechanical way, they do attach the worker's self interest to the interest of the employer or group. No one can doubt the weakness of such simple motivational techniques. Human being are not machines with a single set of push buttons. When their complex responses to love, prestige, dignity, merit, value, independence, creativity, innovation, empowerment, development, achievement, and group membership are not recognized on the job, they perform, at best, as robots. They, in effect, bring far less than their maximum efficiency to the task. At worst, they behave as rebellious slaves who consciously or unconsciously sabotage the activities they are supposed to be furthering.



It is by now widely observed that it is ironic that our basic image of 'the leader' is often that of the military commander, because – most of the time, at least – military organizations are the purest examples of unimaginative applications of simple reward and punishment as motivating devices. However, in defense of the military, two observations are relevant:

1. The military undeniably has special problems because men get killed and have to be replaced; there are therefore important reasons for treating them uniformly and mechanically.
2. Clarity about duties and responsibilities. In the context of warfare and the necessary preparation and readiness for it the bureaucratic and autocratic chain of command is essential. Any departures from an essentially military type of leadership can be considered to be a form of anarchy in the military setting.

### **Relations with People**

When leaders succeed, it will be because they have learned two basic lessons: human beings are complex and human beings are different. Human beings respond not only to the traditional carrot and stick but also to ambition, patriotism, love of the good and the beautiful, boredom, self-doubt, and many more dimensions and patterns of thought and feeling that make them 'homo sapiens.' However, the strength and importance of these interests are not the same for every worker, nor is the degree to which they can be satisfied in their job.

To the extent that the leader's circumstances and skills permit them to respond to such individual patterns, they will be better able to create genuinely intrinsic interest in the work that they are charged with getting done. In the final analysis, the ideal organization should have workers at every level reporting to someone whose span of authority is small enough to enable them know, as human beings, those who report to them.

### **Pitfalls of Perception**

For followers to recognize their leader as she really is may be as difficult as it is for her to understand them completely. Some of the worst difficulties in work relationships between superiors and subordinates come from misperceiving reality. So much of what we understand in the world around us is colored by the conceptions and prejudices we start with and acquire along the way. Our view of our employer or superior may be so coloured by expectations based on the behavior of other bosses that facts may not appear in the same way to her and to us. Many failures in leadership can be traced to oversimplified misperceptions on the part of the worker or to failures of the superior to recognize the context or frame of reference within which the subordinate will understand managerial actions.

In business, a worker may perceive an offer of increased authority as a dangerous removal from the safety of assured, though gradual, promotion or job security. A change in channels of authority or reporting, no matter how valuable in increasing efficiency, may be thought of as a personal challenge or affront. The introduction of labour-saving process may be perceived as a threat to one's job security. A new fringe benefit may be regarded as an excuse not to pay higher future salaries.

Too often, the superior is entirely unprepared for these interpretations, and they seem to her to be stupid, dishonest, or perverse – or all three. The successful leader will however have prepared for such responses. She would have known that many of her workers have been brought up to consider their employers as their natural enemies. She needs to know that habit not sound thinking, has made it a second nature for them to 'act like an employee' in this respect and always to be suspicious of otherwise friendly overtures from superior.

### **Troubles of a Subordinate**

Another and still subtle factor may intervene between the employer and the employee – a factor that must be recognised and dealt with by successful business leaders. That factor is the psychological difficulty of being a subordinate. It is

not easy to be a subordinate for not people. A subordinate could say to himself, if I take orders from another, it limits the scope of my independent decision and judgment; certain areas are established within which I do what the superior wishes instead of what I wish. To accept such a role without friction or rebellion, a subordinate could say "I must either find my reflection of some form of order that goes beyond my own personal situation, or perhaps find that the balance of dependence and independence actually suits my needs". These two possibilities could lead to different practical consequences and behaviours by the subordinate.

For one thing, it is harder to take orders from one who we do not consider in some sense superior. It is true that one of the saddest failures in practical leadership may be executives who stoop so low in social interactions with subordinates that they lose all respect and destroy any vestiges of awe employees had for them. The employees subsequently tend to question why they should take orders from such executives. Understanding leaders will not let their workers think that they consider them as inferiors, but that they may be wise to maintain a kind of psychological distance that permits them to accept authority without resentment.

To make dependence tolerable, the lines must be clearly drawn between those decisions that are the prerogative of the superior and those that can be made by or in consultation with the subordinate. Once those lines have been drawn, it is essential not to transgress them any more often than is absolutely necessary. Ideally, the subordinate should have an area within which he is free to operate without anyone looking over his shoulders. The superior should clarify the goals and perhaps suggest alternative ways of achieving them. The subordinate should feel free to make the necessary choices.

### **Goals in Development**

No decision is worth the name unless it involves the balancing of risks and rewards. Mistakes are inevitable. What we must expect of employees is to ensure that they learn from their mistakes; not that they never make them. It should be the executive's

concern to monitor the long-term growth of their subordinates and to ensure that they learn, and their successes increasingly outweigh their failures.

This concept of long-run growth of subordinates is a vital part of leadership. Each person must be permitted to know that their role in the group is subject to development and that the development of that role is limited only by their contributions. Especially, subordinates must see the leader as the person most interested in and helpful towards their personal growth and development.

### **Dealing with Tact**

No genuine growth and development of an employee will ever occur without some teaching. The superior must, from time to time, take cognizance of the successes and failures and make sure that the subordinate sees them and their consequences. At this point of assessment, a gravely difficult aspect of leadership arises. How can criticisms be impersonal and still be effective? How can a decision or method be criticized without workers feeling that they are personally being demeaned?

The importance of adequate communication at this point is twofold. Not only may long-range damage be done to employee morale. Specific short-range effect is often the employee's failure to do what he should to carry out the alternative plan of the boss. Such a failure might prove that the boss had been right in the first place. It is all too easy for a leader to produce antagonism and defensiveness by dealing impersonally with a problem and forgetting the human emotions and motives that are involved in it.

Interestingly enough, such failures seem to happen more often in office situations than anywhere else, in human endeavours. We might wonder if we have not tended to insulate behavior at work or in management from behavior outside management or work – in the home for instance. We do not assume that an order or a memorandum is the best way of making our wishes acceptable at home. Most reasonably bright people learn early in life how to get others to cooperate. It is second nature



to create a personal and emotional setting that is right for the particular person and for the particular request.

In the office, we lay aside our everyday intuitive skills in human relations and put on the mask of an employer or an executive. We try to handle our tasks with orders or directives impersonally aimed at whoever happens to be responsible for its execution. We forget that effective mobilization of human resources always requires the voluntary participation of all. Leadership is fundamentally an interaction among people. It requires followers with particular traits and particular skills and a leader who knows how to use them within specific or given contexts.

In the final resort, an executive must use skills and human insight, as does an orchestra leader, to capture individual satisfactions in common enterprise. He must create fulfillment that holds subordinates on their part. A leader's job is to provide recognition of roles and functions within the group that will permit each member to satisfy and fulfill some major motive or interest. ■

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## MANAGING ORGANISATIONAL HUMAN CAPITAL

### The Drucker Prescription

Management development has become the avenue for managing careers of many employees, especially the talented young professionals. In Ghana, there are two major public institutions whose mandates include management development. These institutions are GIMPA and MDPI. Besides these two, many other tertiary institutions also offer executive training programmes (in one form or the other) geared towards the development of managers. Furthermore, management consultants and private training institutions also provide services in the area of management development. Management

development has become a much more strategic process.

### Why Management Development?

Management and management practices are becoming increasingly complex. In addition to rapidly changing technology, management today has to be able to handle many new stakeholder expectations – relations with governments, suppliers, customers, employees, and labor unions. In addition to these are demands for innovation and entrepreneurship; for managing knowledge and the knowledge worker; for managerial responsibility for the environment and for the quality of life. All these increase the benchmarks by which managers are evaluated.

According to the legendary Peter Drucker, management development is also necessary to discharge an elementary responsibility that organizations owe to society. If organizations do not discharge this obligation by its own actions, society will impose it. For continuity, especially for big (private and public) enterprises, effective management is vital. He noted: "Our society will not tolerate, and cannot afford to see such wealth-creating resources jeopardized through lack of competent successors to today's leadership."

Employees look to their work for more than a mere livelihood. They look at such vocations also for satisfactions that go beyond the economic. They expect pride, self-respect, and achievement. Management development is only another name for making work and industry more than a way of merely making a living. By offering challenges and opportunities for individual development of each manager to her fullest ability, the enterprise discharges, in part, the obligation to make the job a "good life." If we believe that managers are made not born, then there has to be serious systematic work on the supply, development, and skills of tomorrow's managers and leaders. It cannot be left to luck or chance.

### Why Management Development?

Individual managers need development just as much as organizations and societies do. They

should first keep themselves alert and mentally alive. They need to keep themselves challenged. They must acquire today, the skills that will make them effective tomorrow. They also need opportunities to reflect on the meaning of their own experiences and, above all, they need opportunities to reflect on themselves. In essence, they must learn to make their strengths count.

One of the strengths, but also one of the weaknesses of the knowledge worker, Drucker would opine, is to expect satisfaction and stimulation from one's work. The manual worker, whether skilled or unskilled, does not expect the work to mentally challenge him, to stimulate him, or to develop him. He merely expects a living from his work. The knowledge worker however expects life out of his work or vocation.

Knowledge workers, especially the highly accomplished ones, are likely to find themselves in a "spiritual crisis" in their early or mid-forties. By that time, the majority would inevitably have reached their terminal positions. Perhaps, they would have reached what, within their business, is their terminal function. What, in the early thirties, when the job was new, was a tremendous excitement to them, would become boring and routine fifteen years later. What this means is that managers should be able to develop lives of their own before the mid-life crisis sets in.

He needs this for himself equally as well as for the organization. The manager who at age 45, "retires on the job" because he has no more interest in the work, is not likely to make further contributions to the organization. He owes it to himself, and also to the organization, to develop himself as a person, so that he can build his own life and not depend entirely upon the organization, additional promotions, or lateral transfers. He needs to focus on his own personality, capabilities, strengths, weakness and interest. He needs to be emotionally intelligent.

The critical question remains what do we really mean by the terms "management development" or "manager development?" There are many who preach management development only because it is the fashionable thing to do.

## What Management Development is Not

Peter Drucker believes that it is best to start spelling out what management development and manager development are not.

First, it is not taking academic courses. The courses constitute mere tools for management training or development; but they are not management development. Any course, whether it is a three-day seminar in a special skill or a two-year "advanced" programme for three evenings a week, has to neatly fit the development needs of a management group or the development needs of an individual manager. The job, the superior, and the development planning of both the company and the individual are far more important developmental tools than any course.

Managers are action-focused; they are not philosophers and should not be. Unless they can put into action right away the things they have learned, considered, and reconsidered, at the course it will be of little use. The course will remain "information" and never become relevant "knowledge." Secondly, manager development and management development do not constitute promotion planning, replacement planning, or finding potential.

The worst thing a company can do is to try to develop the "comers" and leave out the others. Some years later, the greater part of the work will have to be done by those left out. If they have not developed themselves to the point where they can understand, accept, and put into action the vision of the few "comers", nothing will happen. The majority of the people who were not included in the programme will, understandably, feel slighted. They may end up by becoming less effective, productive, and willing to do new things than they were before.

The attempt to find "potential" is altogether futile. It is less likely to succeed than random selection. Potential is elusive. By itself, it is worthless. Performance counts. The correlation between promise and performance is not a particularly proven one. Five out of every ten "high potential" young men turn out to be nothing but good talkers



by the time they reach forty. Conversely, five out of every ten young men who do not look "brilliant" and do not play the "talk good" game will have proven their capacity to perform by the time they are in their early forties.

Finally, management development and manager development are not means to "make a man over" by changing his personality. One of their aims is to make a man effective. They also aim to enable a man to use his strengths fully, and to make him perform the way he is, rather than the way somebody thinks he ought to be.

Practitioners of modern management believe that: "An employer has no business with a man's personality. Employment is a specific contract calling for specific performance, and for nothing else. Any attempt by an employer to go beyond this is usurpation. It is immoral as well as illegal intrusion of the privacy of the manager. It is abuse of power. An employee owes no 'loyalty,' he owes no 'love' and no 'attitudes' – he owes performance and nothing else."

Management development and manager development deal with the management skills people need. They deal with what an employee must learn to make his skills effective. The developments should concern themselves with the changes in behavior that are likely to make a man more effective. "They do not deal with who a man is – that is, with his personality or his emotional dynamics. The tendency or practice of psychological manipulation is no more defensible than any other manipulative paternalism – in fact, it is considerably more reprehensible."

Attempts to change a mature man's personality are bound to fail in any event. By the time a man comes to work, his personality is essentially set. The task is not to change his personality, but to enable him to achieve and to perform through what he is and with what he has.

### Two Dimensions of Development

Development is not one, but two related tasks that mutually affect each other. One task is that of **developing management**. Its purpose is the health, survival, and growth of the enterprise. The other

task is **manager development**. Its purpose is the health, growth, and achievement of the individual, both in his capacity as a member of the organization and as a person. Management development is a function and activity of the organization. Manager development is the responsibility of the individual, though company and superior have important roles to play.

Management development concerns itself with questions such as age structure of the management group or the skills that managers need to acquire today in order to qualify for tomorrow. It also focuses on the organizational structure and the design of managerial jobs to satisfy the needs, expectations, and aspirations of tomorrow's young career professionals.

The development of a manager focuses on the person. Its aim is to enable a man to develop his abilities and strengths to the fullest extent and to find individual achievement. The aim is excellence. No one can motivate a man toward self-development. Motivation for development must come from within.

Development is always self-development. For an enterprise to claim to assume the responsibility for development of a man is idle boast. Drucker concludes: "The responsibility rests with the individual, his abilities, his efforts. No business enterprise is competent, let alone obligated, to substitute its efforts for the self-development efforts of the individual. To do this would not only be unwarranted paternalism, it would be imprudent pretension." ■

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*The illiterate of the future will not be the person who cannot read. It will be the person who does not know how to learn.*

*Alvin Toffler*

## STANDARDS AND AUDITING PROCEDURES TO ENHANCE CORPORATE ACCOUNTABILITY

Globalisation and increased scope of corporate influence have been two key drivers behind the proliferation of economic, political, social, ethical, and environmental standards over the past two decades. As legislators and media focus attention on business concerns, such as ethnic conflict, child slavery, child labour, environmental pollution, human rights, and military dictatorships, etc. stakeholders (e.g. governments, shareholders, consumers, employees, and society) have placed significant pressure on companies to adopt standards and monitoring mechanisms that enhance company accountability.

The pressure, delivered through consumer boycotts, shareholder resolutions, increased legislation, and negative stories in the popular press, often places the company's most precious asset – its reputation – in jeopardy. In response to such pressure, many companies have been compelled to re-evaluate their business strategies and practices by addressing issues such as human rights, worker health and safety, fair trade and the environment. Companies in nearly all industries have reacted by adopting codes of ethical conduct and internal compliance monitoring.

Beyond internal monitoring, there is a growing realization in the global corporate community that significant stakeholders are demanding accurate and timely information on a company's social and ethical performance. As the call for corporate "transparency" continues, we believe that third party assessment and assurance of a company's social and ethical performance will play an increasingly important role in building trust and credibility among different and competing stakeholder groups.

Similar to the financial reporting and the "independent" auditing processes, third party assurance on social and ethical performance will become an important mechanism for assessing the accuracy of management's disclosure, prioritization of stakeholder information needs, and reliability of the underlying reporting infrastructure. Furthermore, the process for

reporting on social and ethical performance will require companies to expand upon accounting and management information systems to better reflect control and compliance process that foster adherence to codes of conduct and related corporate social responsibility issues.

The growing demand for objective, third party social and ethical assurance is reflected by the effort of many non-profit organizations to standardise criteria and auditing procedures for measuring and reporting upon social and ethical performance of businesses. For example, The Council on Economic Priorities has developed SA8000, a standard for ethical sourcing world-wide. The audit focuses on a company's supply chain issues regarding labour, wages, compensation, and discriminatory practices as well as other labour and human rights issues. Under SA8000, factories that apply for certification must receive an independent audit by a qualified firm.

Other not-for-profit organizations are developing initiatives to standardize environmental and social reporting. For example, the mission of the Global Reporting Initiative (GRI), sponsored by the Coalition for Environmentally Responsible Economies (CERES), is to create a framework for standardised reporting on sustainability of corporate environmental policies and practices.

Significant value can be added to initiatives such as those mentioned above through an assessment of internal compliance processes. This should be based on well-defined benchmarks or key performance indicators that objectify a company's performance within defined and agreed components of effective compliance. These performance indicators include:

- Corporate policies – codes of conduct, mission statements, policies;
- Training and awareness programs – desktop learning, classroom lecture, case studies;
- Upstream and downstream communications – hotline, newsletter,



ombudsman;

- Process management – compensation, benefits, incentive plans; and
- Monitoring mechanisms – evaluation, surveys, disciplinary measures.

Organisations that assess ethical performance should also consider several guiding questions including:

- Do key elements of the company's social and ethical function exist?
- Do the processes provide adequate coverage with respect to all stakeholders?
- Do the processes have a mechanism for measuring continuous improvement?

The benefits of third party assurance to companies and stakeholders are clear. These assurances help to define the extent to which organizations adhere to well-defined standards. Public disclosure can help an organization to demonstrate proactive stakeholder management by enabling it to focus its resources on the most vulnerable areas and mitigate future violations and problems. In addition, this system helps corporations to build creditability. This, in effect, enhances trustworthiness and reputation of the entity within the stakeholder community.

To achieve the above benefits, however, it is imperative that companies have the tools to measure and evaluate the effectiveness of their ethics and social accountability processes within the context of their significant stakeholders. One way to measure ethics and accountability as a "process" is to utilize self-assessment and continuous improvement methodologies developed from the total quality paradigm.


According to a recent study of CEO's commissioned by the Foundation for Malcolm Baldrige National Quality, 50% of those surveyed believe that they and their peers need to improve the ability to work well with different stakeholders. Assurances on corporate ethics programs and

social accountability will become increasingly important as shareholders, customers and future employees base their investment, purchasing, and employment decision on companies who demonstrate higher degrees of accountability, transparency, and trustworthiness. ■

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# MAIN ARTICLES

## INTRODUCING E-GOVERNMENT IN PUBLIC ADMINISTRATION IN GHANA

Prince Boni

### Abstract

*This paper discusses the development of e-government or the introduction of computer-based information systems into public administration in a developing country like Ghana.*

*The writer argues that the most significant part of the effort to develop and utilize the computer-based information systems or e-government is not the acquisition of the hardware and software tools, but rather the management of the resultant socio-organizational changes, a process which necessarily requires radical changes. These amount to transformation, most often beyond the abilities of only information systems specialists to plan and control. In certain instances, these are even beyond the capacity of the public administration institutions themselves.*

### Introduction

At the UN 2002 General Assembly, Kofi Annan, the then UN Secretary General, said, "Over the last few years, a wide consensus has emerged on the potential of information and communication technology (ICT) to promote economic growth, combat poverty, and facilitate the integration of developing countries into the global economy. Seizing the opportunities of the digital revolution is one of the most pressing challenges we face." His speech goes to confirm the widely held belief that the effective use of IT services in government administration can greatly enhance existing efficiencies, lower communication costs, and increase transparency in the functioning of various departments in developing countries, such as Ghana.

According to Harindranath (1984) while the use of IT has assumed increasing significance, the operational effectiveness in many public sector organizations has been far below initial expectations, if not disappointing. This may be due to the fact that the deployment and utilization of IT present entirely new sets of organizational and social challenges yet to be recognized by decision-makers, public sector professionals and citizens.

### Information Systems in Organisations

The lack of current and relevant information or data continue to be the frequent complaint expressed by planners and the citizens alike in most developing countries. Their information systems are still ineffective and inadequate in providing the needed information support for public sector management. Hurtubise (1984) describes an information system as a system that provides specific information support to the decision making process at each level of an organization. Therefore, the role of an information system is to identify, assemble, store, process, and deliver information relevant to an organisation, in such a way that the information is accessible and useful to those who wish to use it. Information is not an end in itself, but a means to better decisions in policy design, planning, management, monitoring and evaluation. The ultimate objective of an information system therefore, is not to "gain" information but to "improve" action.

### Computer Based Information Systems

Computerization comprises the acquisition of hardware, software, and telecommunications; the development of technical skills and an infrastructure for technical services; and the development of an organisational capacity to manage projects for the application of IT in the tasks of the organisation. A computer-based information system is always complemented by manual procedures as well as informal ways of



communication and action developed by the personnel.

Over the years, computers have been applied in the public sector in Ghana in such areas as the population census, trade statistics, industrial census, motor vehicle registration, revenue collection, expenditure monitoring, payroll and accounting, office automation, financial applications, market surveys, research applications relating to child mortality, education statistics, forecasting and modeling, customs and excise services, etc. However, most of these applications have involved 'automation' of manual rule-based procedures usually referred to as transaction processing systems.

Over the years, Ghana has committed and continues to commit sizeable amounts of economic resources to technology and communication. This is apparent in the massive deployment of microcomputers, computer-based applications, and internet connectivity in the various sectors of the public sector over the years. Examples that readily come to mind, include the GCNet by the Custom and Excise, Integrated Payroll and Personnel Database at the Controller and Accountant General's Department, Medium Term Expenditure Framework, Registrar General Computerization Project, Parliamentary Service, Judiciary Service, the Court Computerization Project, etc..

### **Attributes of Public Administration Organisations**

According to models that relate to organizations in developed economies, public administration institutions in developing countries often appear only as inefficient or irrational. Without a thorough understanding of their functioning, dynamics and the causes of their inefficiencies, any modernization attempt at introducing computer-based information systems becomes formidable and complex. Designing and implementing "technically sound" systems involve not only technical expertise but also in-depth understanding of political, sociocultural, and administrative factors.

The public administration in Ghana, like in other developing countries, after independence took over the significant but highly political role of

planning and implementation of the development process. These institutions that were originally designed to serve colonial administrative purposes have had to transform to undertake many diverse tasks such as the pursuit of socio-economic development. While public sector planning involves some elements of rational decision making, it is heavily shaped by political influences. It is therefore not surprising that public administration in these countries is highly political. One of the reasons why introducing administrative rationality by means of computer-based information systems in public administration may be unrealistic is the fact that despite the "seemingly" extensive formalization of administrative procedures and regulations, they are often in practice bypassed or circumvented. There is an urge to make things appear as they presumably ought to be rather than what they really are.

There is also the shortage of trained administrators with sound management capacity, developmental skills, and technical competence who understand the technology and its implication and who have the authority and willingness to see these changes through. In many instances, status is based on ascription rather than achievement; recruitment and promotion are based according to loyalty rather than merit.

In theory, the bureaucracy should have a strictly instrumental role, uninvolved in politics; however, civil and public servants have considerable prestige and play highly political roles. Hence, the common phrase: "this position is highly political."

Where political behaviour takes place under the cover of a formal bureaucracy or where gross dysfunctions, like corruption, exist, the necessary investigation of organizational affairs to determine the needs for change is a task beyond the capacity of most systems analysts. Information systems are arguably one of the key areas for political action in contemporary public organizations. Computer-based information systems development will be attractive to some organizational participants because they provide leverage such as increasing control, speed, and discretion over work, or in increasing their bargaining capabilities. Fear of losing control or bargaining leverage will lead

some participants to oppose particular new arrangements, and to propose alternatives that better serve their interests.

Computer-based information systems are often considered as means for increasing the productivity by the application of science. The discipline of information systems and administrative rationality share the same philosophical and scientific roots. It is common in designing information systems to incorporate techniques for problem solving, controlling, optimizing, predicting, and planning which originated in Operational Research, Management Science, and Formal logic.

However, the basic aspects of the information systems development process are incompatible with the prevailing culture of public administration in developing countries like Ghana. The design and implementation of a new information system such as the computerization of the court system will involve both the computer-based component and the necessary socio-organizational changes. This will require the ability to search for solutions to perceived problems and steer change in the organization. This ability is too limited or scarce in our public administration institutions in Ghana. As noted by Auxila and Rohde (1988), in implementing a newly designed computerized information system in Haiti: "Resistance to any change in the information system was predictable and high. For some employees, there was simply the fear that the computer would take their jobs, or the inherent laziness at learning new tasks. For others, there was the clear desire to retain the existing system as the lack of knowledge and readily retrievable data was in itself a power base for various people in the Ministry bureaucracy".

Effective use of information technology in public administration institutions require self reliant problem-solving capability. If the administrators do not appreciate the need for taking decisions by applying scientific models and techniques on collected data, and if they do not attach real value to the use of the scientific techniques incorporated in a new information system, most probably, the computer-based information system will most likely be misused.

It is obvious that information technology can support the activities of public administration, especially where it involves massive transaction processing and analyzing large amounts of data quickly because manual systems are, by their nature, paper driven or dependent. However, too often, IT has been introduced rather arbitrarily and even hastily in a top-down manner that does not facilitate a genuine and lasting acceptance of technological change. Policy makers have tended to trivialize or even ignore the sociological issues of context and culture as well as the appropriateness of IT for a given situation. They have often assumed that the mere presence of IT will bring about the desired changes in organizational climate, culture work ethics, environment, and productivity.

The main benefits of introducing computer-based information systems are not expected to accrue from the efficiency of technology only but from re-organizing effectively work and decision processes with the support of information technology. Therefore, the effectiveness of a computer-based information system can only be considered within its broader organizational context. In general, information technology offers a powerful means for increasing further the effectiveness of organizations which already have effective work practices and management. However, as Strassman notes (19), "A bad strategic situation cannot be corrected by automating it." Technology enthusiasts need to perceive IT as a useful tool for specific problems and not as a universal remedy for all the ills that plague our public sector institutions.

Apart from the usual documented problems of the lack of computer skills, lack of technical infrastructure, and inadequate maintenance support, in the development of computer-based information systems, managing the attendant organisational change seems to be the most problematic.

The trial and error methods of implementation that characterize most IT applications in developing nations can only succeed in the wastage of scarce



resource. IT requires all the supplementary investments that go with its introduction: a reliable communications infrastructure, human resources development, including training in IT and the relevant organizational mechanisms or coordinate IT activities in the country. Developing computer-based information systems in public administrations, according to Avgerou is not merely a technical task but an intervention which introduces many socio-organizational changes. Therefore, the resulting effects depend on the social realities which sustain the particular public administration system as well as the potential for information technology.

Information systems are implicated in major changes in work, work roles, and relationships between different groups within organizations. Divergent interests and perspectives are normally present. Information technology experts are convinced that computerized information systems will liberate the workers from "the drudgery of paper work", but other influential groups would not necessarily share this goal of maximizing equity, efficiency, or cost effectiveness. Managers who often base their decisions on power relations and value judgements, rather than on rational information and improved information systems, may be threatened by modern information systems. Others will show little interest in information systems reform simply because it is not part of their "professional culture." The lack of information culture is probably the biggest constraint to any information system development and utilization in the public sector.

Where computerization is perceived as being imposed from the higher echelons of power, with no regard whatsoever for its implications for the organizational context, the overt and covert resistance that emerge can only forecast certain failure for the project.

Computerisation of land use, that is, the effective utilization of a Geographical Information System (GIS) to effectively plan and manage land use in Ghana, will necessarily involve stronger inter-sectoral linkages. This will cover would institutions such as the Ministry of Land, Forestry and Mines, Town and Country Planning, Lands Department,

Survey Department, and Municipal and District Assemblies; however, the organizational relation, between the various sectors are very weak. The consequences of the development of independent GIS systems within the various governmental agencies will lead to duplications, high costs, and inefficiencies. Changes in land use cannot be centrally updated and this will lead to redundant and out-dated information within the various agencies. Computer systems will be under-utilized, misused, or stay idle most of the time.

## Conclusion

If e-government or computer-based information systems projects are to contribute to the elimination of dysfunctional characteristics of public administration, then they should be part of a long term programme of far-reaching reforms. In order to fulfill objectives of organizational effectiveness, it has been recognized that the design of new technology systems has to be accompanied by extensive re-organisation. In the case of public administration in a country like Ghana, the socio-organizational changes required for the effective use of information technology will have to be radical. Steps to be taken would include making changes in the legal framework governing the institutions with the aim of simplifying inter and intra-institutional bureaucracy to make decision making less complicated.

There will be the need for an extensive education programme to legitimise the new rationality and produce the skills required to introduce and support the computerization programme. It is important that employees familiarise themselves with the new organizational behaviour that provides incentives for increased productivity.

This may necessitate changes in key positions, so that their holders become facilitators rather than barriers to the desirable reforms. Such deep administrative changes are mostly political. Such processes are beyond the capacity of systems analysts or other information systems experts to steer.

Where the information systems project does not take place as part of a total transformation programme, the information systems project may

John B. K. Aheto

**Abstract**

This is a two-part article on critical evaluation of the role of business schools (B-Schools) in training and developing competent and effective managers. There are theoretical and applied aspects of the issues involved. This first part of the article deals with the conceptual issues on the role of B-schools in the education and development of efficient managers and management skills. The second part would critically review Ghana's experience of management skills development by the B-schools. It would propose a model for consideration for our young B-schools in Ghana.

This first part surveys the literature on the conceptual issues of efficient management skills and the role of the B-schools. It lays the foundation for the subsequent critical evaluation of Ghana's business education and training of our managers. The first part details the worldwide utter dissatisfaction with the products of the B-schools. It reviews the reactions, opinions and research findings of management gurus, employers, CEOs, B-schools, graduates, practitioners of management, and accreditation institutions of B-schools with the products of the B-schools. It critically analyses what is meant by "effective management". In the end, it reviews a six-step programme for management skills development and training in general.

The basic conclusion of this conceptual overview article is summarised in Mintzberg's insightful observation that: "Management schools will only begin the serious training of management when skill training in the business schools takes place next to cognitive learning."

Part two will deal with the need for collaboration between the educational institutions, students, and employers in providing relevant management education by our B-schools. The role of critical thinking, team work, questioning, case studies,

be cancelled through frustration or lack of support and resources. Alternatively, the new system may be assimilated into the institution's established ways of functioning. The operations of the new information system may well continue to be driven by political rather than rational behaviour. ■

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role plays, business games, vacation work, attachments, etc. will be extensively discussed there.

### Introduction and the Evidence

The most critical concern of all modern day societies is the competence or effectiveness of management in all types of human endeavour and institutions. There is a pressing need especially for developing nations to develop competent managerial skills in addition to the purely cognitive knowledge. Effective management education and training are being hopefully provided by B-schools and other executive training programmes. Competent management is the one sure cure for loss or lack of global competitiveness, perceptions of or actual poor quality, lack of consumer confidence, and general nationally low economic development (under-development). Competent management skills play crucial roles in the economic health of all nations and societies.

Managers throughout the world will continue to be requested to make decisions that range from the most mundane to the most strategic and far-reaching. These decisions will have localized or global consequences and implications. There are no secrets regarding managing very effectively or turning around of ineffective firms or corporate and national performance. In equal vein, there is no magic to being competitively effective and profitable other than through sound management practices.

Economic success that contributes to or explains the financial success of firms that are highly effective is invariably attributed to sound management. Hanson (1986) addressed the above by identifying (for 40 manufacturing firms over a five-year study period) a set of five "most powerful" predictors of financial success for effective firms. These five predictors are:

1. market share;
2. firm capital intensity (up-to-date technology and equipments);
3. size of the firm's assets (economies of scale

and efficiency);

4. industry average return on sales and investment; and
5. ability of managers to effectively manage their people.

Through use of statistical analysis, Hanson demonstrated that the last factor alone – the ability of managers to effectively manage their people – was three times more powerful than all the other factors combined in accounting for the financial success of the firms over the five-year study period.

Another study by the U.S. Office of the Controller of the Currency delved into the reasons for the wide-scale failure of banks in the U.S. during in the 1980s. The study revealed that two factors were primarily responsible for the failure of the banks. These were distressed economic conditions and poor management. The study was insightful in the sense that a total of 89 percent of the failed banks were judged to have had very poor management. Only 35 percent of the failures had experienced depressed economic conditions in the regions in which they operated. Only in 7 percent of the cases was a depressed economic condition the sole cause of bank failure. On management, the study team concluded:

*"We found oversight and management deficiencies to be the primary factors that resulted in bank failures. In fact, poor policies, planning, and management were significant causes of failure in 89 percent of the banks surveyed. The quality of a bank's board and management depends on the experience, capability, judgment, and integrity of its directors and senior officers. Banks that had directors and managers with significant shortcomings made up a large proportion of the banks that we surveyed."*

The above studies indicated that good management fosters financial success, while bad management fosters financial distress. Loss of firm competitiveness and financial decline are more "products of incompetent management than of macroeconomic factors or offshore price advantages".

From numerous similar studies all over the world, management is identified as undeniably the key factor in both firm success and firm failure. With excellent management, dramatic and rapid financial and operating improvements can be effected. Surveys of CEOs, top executives, and business owners consistently identify management as the one overriding, if not singular, factor determining success or failure of business and any other activities in any entity. The studies agree that of far less importance are factors such as government regulation, laws exchange rates, trade barriers, interest rates, foreign competition, taxes, inflation, and market structure or industry. On the issue of the factors that are most important in overcoming business failures, two answers for outnumber all others. These are (1) "provide better and more competent managers", and (2) "train and educate current managers".

Commenting on the economic slide of the U.S. since the 1980s, Whetten and Cameron (1991) observed that:

*"A variety of explanations and rationales have been proposed for this slide in the U.S. business performance: for example, tax codes, restrictive trade barriers, and government regulations. However, most observers agree that at least part of the blame, and maybe even the lion's share of the blame, rests with America's managers."*

Thurow (1984) represented this viewpoint when he asserted much earlier that there is a serious flaw in the U.S. management. He remarked that:

*"America is not experiencing a benevolent second industrial revolution, but a long-run economic decline that will affect its ability to competitively produce goods and services for world markets. If American industry fails, the managers are ultimately accountable. While we cannot fire all of America's managers any more than we can fire the American labour force, there is clearly something wrong with America's management. That something is going to have to be corrected if America is to compete in world markets".*

A more startling observation was made by Pollock (1987), a former executive vice president of RCA. In 1987, he characterised the condition of

America's management this way:

*"With the exception of the civil war, it's doubtful that America has ever faced such an awesome trauma. Recovering from this situation won't be painless. But the alternative is to accept continuing economic decline and the end to America's greatness."*

On the so-called "Japanese management style", the Japanese are reported to have said: "We just practice what you preach." Good management is not the prerogative of any single nation, nationality, or culture. The difference lies in the practice.

The role of good and competent management in our Ghanaian economic future and health is undeniable and widely recognised. What, however, is not so obvious, agreed upon, and practiced is what exactly constitutes "good and competent management". In effect, we have left unaddressed the issues of the attributes and behaviours of effective managers and how individuals can learn to be and practices as good managers stories of incompetent, management practices in Ghana at all levels are often glossed over explained away, and surprisingly even defended. We worship personalities, not performance

Identifying attributes of effective management and teaching or training in management has been the role of B-schools and by management education and training institutions or programmes. Regrettably, all over the world, businesses and society in general, has had legitimate cause to question the effectiveness of delivery by the B-schools and other management training institutions. For decades now, management the quality and relevance of education and training have been assailed as the culprits in contributing to national or even global economic decline. The criticisms have been very pointed. As Whetten and Cameron (1991) pointed out, articles such as "Managing Our Way to Economic Decline", "The Failure of Business Education", "Are Business Schools Doing Their Job?", "What Good are B-Schools?" .. etc. abound in the literature.



In one of such numerous criticisms, Peterson (1990) asserted:

*"The business schools ... are doing more harm than good. I no longer flippantly say, as I used to, 'close their doors', because now I am beginning to believe that maybe this idea (closing their doors) has serious merit."*

Wrapp (1982) had earlier fired the first shot at the B-schools when he asserted:

*"Business schools have done more to ensure the success of the Japanese and West Germany invasion of America than any one thing I can think of."*

In 1990, no less a person than Samuelson speaking on the subject of the failure of the B-school in producing competent managers remarked:

*"For three decades, we have run an experiment on the social utility of business schools. They have flunked. If they were improving the quality of U.S. management, the results ought to be obvious by now. They aren't."*

A whole decade earlier than Samuelson, in a similarly frank intellectual manner, Pfeffer (1981) stated:

*"Management education or performance in management schools does not predict subsequent career success for managers. But why not? It is because of the type of training imparted or not imparted. Management schools impart both ideology and skills of analysis ... optimization techniques for the core of current courses .... Students emerge from such a program believing that there is an optimal answer or a set of perfect answers discoverable through quantitative analysis."*

Not surprisingly, Mintzberg (1987) expressed similar viewpoint when he observed:

*"Ideal management education should reorient its priorities. My ideal management training would emphasize skill training, experiential education, if you like. Perhaps, forty percent of the effort should*

*be devoted to it.... A great deal is known about inculcating such skills, but not in the business schools..."*

Even the American Assembly of Collegiate Schools of Business – AACSB (1985), currently the International Accreditation Agency for American Business Schools concluded in the typically frank American academic manner as follows:

*"In recent years, as the U.S. seems to have lost its edge in worldwide industrial competitiveness, nearly every sector of society has criticized U.S. corporate management. Critics say that the U.S. manager is short-term oriented, naively quantitative, averse to risk, self-centered, deficient in ethics and loyalty, impatient for promotion, over-priced, and unconcerned with real productivity. Not all managers fit such descriptions by any means. But enough apparently do to prompt the question, how did they become that way? ... What kind of managers are the business and other management development programs producing?'"*

Scientific studies by many researchers also support the above critical observations and assertions of the above world-renowned business writers. It has been firmly established by scientific data that, in the absence of skills training, performance in business school is not predictive of subsequent career success. Cohen (1984), for example, summarised the results of a study of over 100 business school graduates in a study of the relationship between performance, income, promotions, personal satisfaction, eminence, and graduate degrees in business. The research found a very negligible mean correlation of 0.18. In no case did the correlation exceed 0.20. The low correlations suggest that business school performance and successful performance as effective managers in subsequent life professional activities are only at best marginally related.

The clearly disheartening statements catalogued above and supported by research findings reflect only a sampling of the scathing criticisms against B-schools, even in the most economically developed nations. These nations also happen to be the pinnacles of business education and training. In

view of the above, questions are often raised regarding the value of B-school education. Not only do people question the correlation between business school performance and job or managerial performance. Many actually question even the value and need for B-Schools as sources of competent and ready-made managers for our businesses and nations, especially the developing nations. The proliferation of B-schools all over the world attest to their perceived "catalytic" factor in global social, political, and economic developments. There is no doubt that B-schools have definite value and significance to individual, firm, national, and global economic development. These assertions are supported by equally convincing scientific studies.

We, the new comers to B-school education in the developing world, can learn from the above criticisms and critical observations on B-schools. However, before we critically evaluate how to redefine and determine our stance and prescriptions for B-school education, we need to evaluate what the expectations of "effective management" are and what the B-schools and management training institutions or programmes can do to improve the situation.

### **Effective Management**

Many people wonder as to the exact meaning and boundaries of the term "effective management." Empirical studies have been directed at answering the question. They attempt to identify "characteristics or attributes of effective management or managers". Often, effective management is identified in individuals who are acclaimed or rated as "highly effective managers" by their peers and superiors across industry and national lines. Various studies such as Whetten and Cameron (1984) have comprehensively addressed this issue.

The studies in this area have produced over 50 major characteristics identified with the so-called effective managers. Whetten and Cameron (1984), based on their own research and reviews of the many other studies conducted by others before them, observed that the characteristics or factors of effective management are distinctly

"...behavioural, not surprising, and not a secret." They noted that "They (the characteristics) are not personality attributes or styles, nor are they generalizations such as 'luck' or 'timing' issues."

The consensus topmost ten or widely identified characteristics or factors of effective management or managers as published in the management literature are:

1. Verbal communication (including listening)
2. Managing time and stress
3. Managing individual decisions
4. Recognising, defining, and solving problems
5. Understanding, motivating, influencing, and evaluating others
6. Delegating
7. Setting goals and articulating a vision
8. Self-awareness
9. Team-building and teamwork
10. Managing conflict

In addition to the above ten skills, the other relevant skills - out of the top 25 skills identified as critical management skills from other studies by Ghiselli (1963), Livingstone (1971), Miner (1973), Katz (1974), Mintzberg (1975), Flanders (1981), and Boyatzis (1982) include: leadership, respect, patience, control, human relations, tolerance, general management ability, enthusiasm and passion, appearance, ability to gather and analyse information, ability to give effective feedback and give counsel, knowledge of the job, ability to work well with others one-on-one, and ability to write effective reports.

Upon critical review, any one identify three notable characteristics of the above skills. Whetten and Cameron identified these as (1) behavioural or identifiable set of actions that individual managers perform that lead to predictable positive outcomes or impacts; not personality attributes or stylistic tendencies, (2) contradictory or paradoxical (combination of soft or humanistic versus hard-



driving or directive), and (3) interrelated and overlapping – no one skill or set of skills is performed independent of the others.

Cameron and Tschirhart (1988) used the above list to assess the performance of over 500 “mid-level and upper-middle” managers in over 150 organisations. Their statistical analysis concluded that the skills can be categorized into four main groups, namely:

1. Participative and human relation skills – supportive communication, team-building, and teamwork skills.
2. Competitiveness and control – assertiveness, power, and influence skills.
3. Innovativeness and entrepreneurship – creative problem solving
4. Maintaining order and rationality – time and stress management, conflict management, and rational decision-making.

A study by Cameron and Tschirhart (1988) reached two major conclusions. The first conclusion was that: effective managers are required to demonstrate paradoxical skills. Those managers are both participative and hard-driving, but nurturing and competitive. They are also able to be flexible and creative while also being controlled, stable, and rational. The second conclusion was that effective managers demonstrate mastery of diverse and seemingly contradictory skills.

Indeed, none of the above is magic, secret, or luck. The characteristics are applicable whether the managers are CEOs or first-line supervisors, work in public or private sector, or are employed in multinationals or local firms. It is not at all difficult to identify and describe, or even clearly recognise effective management in action. The issue for us is how to grow or lay the foundations of these skills through or by our B-S schools.

### **Improving Management Skills**

Improving management skills involves a collaborative effort on the part of the B-schools,

managers, the students, employers, professional associations, and other management training institutions. It is definitely not just a matter of following a cookbook of sequential behaviours of a few individuals out of thousands. Definitely, developing highly competent and effective management skills is much more complicated than developing trade skills. The complexities come from the fact that effective management skills are linked to a more complex knowledge base than other types of skills. They are inherently connected to interactions with other – frequently unpredictable – individuals and teams of individuals. As such, a standardised approach to development of management skills is not possible, or has it ever been possible.

Despite the above reservations, the skills needed for effective management have in common the potential for improvement through purposeful and guided practice. Any approach to developing management skills must therefore involve a heavy dose of practical applications, often on the job either on full-time basis or as a trainee. It is however undeniable that mere practice without sound conceptual or theoretical base is sterile and bound to fail for lack of flexibility and sound grounding. In essence, the development of the effective managerial skills is anchored on the inseparable twin pillars of conceptual learning and behavioural on the job practices.

Incorporating rigorous conceptual knowledge with real opportunities to practice and apply relevant observable behaviours of learning into the successful development of effective managerial skills is founded on the social learning theory developed by Bandura (1977) and Davis & Luthans, (1980). Variations of this general approach have been widely used for on-the-job supervisory training programmes by Goldstein & Sorcher (1974); Rose, Crayner, & Edelson (1977); and Singleton, Spurgeon, & Stammers (1980).

The social learning theory proposed by the above theorists involves four significant steps. These are:

1. the presentation of behavioural principles or action guidelines, generally using traditional classroom instruction methods,
2. demonstration of the principles by means of

- cases, films, scripts, or critical incidents,
- 3. opportunities to practice the principles through role plays or exercises, and
- 4. feedback on performance from peers, instructors, superiors, and experts

Whetten & Cameron (1991) proposed the following three modifications to the theory to make it relevant and appropriate or effective for the purpose. These proposals are:

1. The behavioural principles must be grounded in social science theory and in reliable and relevant research results. Common sense generalizations and "panacea-like prescriptions" would not do. To ensure the validity of the behavioural guidelines being prescribed, the learning approach must include scientifically-based knowledge about the effects of the management principles being presented.
2. Individuals must be aware of their current levels of skill competency and be motivated enough to improve upon that level in order to benefit from the model through effective and productive feedback. The feedback must be part of the model, timely, broad based, and cover the most critical skill areas.
3. An application model is needed in the learning model. Management skills training takes place in classroom settings with immediate feedback and relatively safe environments to try out new behaviour and make controllable low-cost mistakes. What is needed in practice are application exercises for effectively and timely transferring the classroom learning to an actual job or management setting. The application exercises must take the form of an outside-of-class intervention, a consulting assignment, or a problem-centred intervention, which can be analysed to determine their varied degrees of success and failure.

Cameron & Whetten (1984) and Whetten & Cameron (1983) proposed a five step model for developing individual management skills. These

involve skills assessment, skill learning, skill analysis, skill practice, and skill application. We may add a sixth to involve skill modeling, evaluation and re-enforcement. The following are the structures of the enhanced six-step model:

1. **Skills Assessment:** - assess the current levels of skill competence and knowledge; create readiness to change.
2. **Skill Learning:** - teaching appropriate, validated, and scientifically-based principles; provide behavioural guidelines for effective skill performance and application.
3. **Skill Analysis:** - analysis stage in which models or cases are provided or made available in order to analyse behavioural principles in real organizational settings; providing examples of appropriate and inappropriate skill performance; analysing the behavioural principles and the reasons why they work.
4. **Skill Practice:** - practice exercises in which experimentation can occur and immediate feedback can be received in relatively safe environments; practice behavioural guidelines; adapt principles to personal styles and circumstances; receive feedback and assistance.
5. **Skill Application:** - application or transfer of classroom learning to real-life situations; follow-up analysis of relative success or failure of the applications; fostering on-going personal development.
6. **Skill Re-enforcement:** - ensuring modeling, coaching, and appropriate evaluation of skill application results and impacts; modeling the way forward.

The above model has been shown by various social scientists and studies to produce superior results than the traditional conceptually oriented lecture-discussion approach to management training. Productivity and service quality were found to have improved with the model. Helping employees to develop management skills is the best way to improve organizational effectiveness.



Management skill training is a critical development activity for both potential and practicing managers. An important way to improve management and organizational performance is to train more managers in targeted and general critical management skills.

Surprisingly, large scale incorporation or adoption of this model in B-schools is yet to be realized. Mintzberg (1975) reflected on this sad state when he remarked:

*"Management schools will only begin the serious training of management when skill training takes place next to cognitive learning. Cognitive learning is detached and informational, like reading a book or listening to a lecture. No doubt, much important cognitive material must be assimilated by the manager-to-be. But cognitive learning no more makes a manager than it does a swimmer. The latter will drown the first time he jumps into the water if his coach never takes him out of the lecture hall, gets him wet, and gives him feedback on his performance. Our management schools need to identify the skills managers use, select students who show potential in these skills, put the students into situations where these skills can be practiced, and then give them systematic feedback on their performance."*

Porter and McKibbin (1988), after completing a study of management education in selected U. S. B-schools, sponsored by the AACSB, concluded as follows:

*"The challenge of how to develop stronger people skills needs to be faced by both business schools in the education of their degree program students and by corporations and firms in their management development activities."*

Petersen (1990), a retired chairman and CEO of Ford Motors Company, agreed with Mintzberg and remarked:

*"The element that is still not well-instilled as I might wish is the importance of people skills in being a successful manager. Most schools still stress individual performance. .... Many management school graduates have a hard time*

*adjusting to organizational reality. They are long on analytic skills and short on implementation skills. The best solution in the world is worthless unless you can get others to support it. We call this malady 'paralysis by analysis'."*

A KPMG partner put the obvious most this way:

*"The higher up the organisation you go, the less relevant technical knowledge becomes. It is important for your first couple of promotions, but after that, people skills are what counts."*

An Ivy League management or business school graduate reported (1993):

*"I can't believe it. I went for my second interview with a company last week. I spent the first half-day participating in simulation exercises with ten other job candidates. They videotaped me playing the role of a salesman handling an irate customer, a new director of personnel putting down a revolt by the "old guards" and a plant manager trying to convince people of the need to install a radically new production process. Boy, was I unprepared for that!"*

It is not surprising that a Harvard graduate would write a book entitled "what they did Not Teach you at Harvard." Equally, it is not surprising that in a 1987 survey of 110 CEOs of Fortune 500 firms in the U.S., 87 percent were satisfied with the level of the competence and analytical skills of business graduates; 68 percent were satisfied with the conceptual skills of the graduates; but only a more 43 percent of the CEOs were satisfied with the graduates' management skills; and worst, only 28 percent were satisfied with the graduates' interpersonal skills.

The message behind the above findings and observations is clear. From all perspectives, management competence in personal, interpersonal, and group skills is critical prerequisite for effectiveness and success in management. Strong analytical and quantitative skills are definitely important and necessary for effective management, but they alone are not sufficient. Successful managers must be able to work effectively with other people. Unfortunately,

interpersonal and management skills have not always been a high priority for B-school students and aspiring executives. This situation needs to be reversed through sound collaboration of all stakeholders and collaborations in the management education, training, and development industry. ■

*To be continued in part II*

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## THE STATUTORY AUDIT – UNDERSTANDING THE LEGAL DUTIES AND RESPONSIBILITIES OF THE AUDITOR - Part I

B. Omane-Antwi

### Abstract

The objective of this paper is to discuss, in a holistic manner, the legal duties and responsibilities of the statutory auditor (accountant). The headline on accounting failures of the early twenty-first century involving Enron, WorldCom, Adeptia, Tyco, and many others is reason enough to study in depth the core legal duties, responsibilities, and liabilities of the Statutory Auditor. The Auditors' legal liabilities in most countries can be categorized under the following headings: liability under legislation (either civil or criminal) and liability arising from negligence under common law.

Accountants have historically played an important role in the detection and deterrence of fraud; but fraud is much more than numbers. It involves complex human behaviours such as greed and deception factors that are difficult to identify and quantify. Unfortunately, the duties and responsibilities of statutory auditors have become the subject of interest to the investor community in the light of the spate of corporate collapses in recent years. These scandals have widened the expectation gap of the public about accountants. Their integrity has been truly dented. The calls for tighter controls over the profession are being spearheaded by President George Bush of the USA.

The profession is indeed in a quagmire. There is the need for swift remedial action to redeem its image. Sadly, not many people (even the educated) understand the core legal duties, responsibilities, and liabilities of the statutory auditor. This paper is an attempt to draw on decided cases in the United Kingdom (since there are very few or no decided cases in Ghana) to explain the legal duties, responsibilities, and liabilities of the statutory auditor. Again, because of Ghana's colonial history, it is an undisputed fact that Ghana's political, economic, legal, business, and educational systems are largely structured and

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*Testing can show the presence of errors, but not their absence. - E. Dijkstra*

based on the British system. This is evidenced in the extensive use of British cases as precedents in Ghana's law courts.

This article is in two parts. Part II will follow in the next issue of the Journal.

## **The Auditor's Duty of Care**

### **Introduction**

Auditing involves the conduct of independent examination of the firm's accounting related records. The audit exercise involves the use of generally accepted auditing standards to gather sufficient competent evidential matter in an effort to issue an opinion on the "true and fair" nature or otherwise of the audited financial statements. The "opinion" is contained in the Audit Report on the audited financial statements.

A Chartered Accountant within the meaning of the Institute of Chartered Accountants 1963 (Act 170) of Ghana and appointed as auditor under the (Ghana) Companies Code 1963 (Act 179) is said to be a statutory auditor (an independent accountant).

Section 124 of the (Ghana) Companies Code 1963 (Act 179) requires directors of a company to ensure the preparation and furnishing of shareholders and debenture holders, at least once a year, with a profit and loss account and balance sheet, directors' report, and an auditor's report. The company will not be deemed to be keeping proper books of accounts if it does not keep such books as are necessary to give a "true and fair view" of the company's affairs. Under section 133 of the Companies Code, the auditor's report should contain statements on the matters mentioned in the Fifth Schedule. Paragraph 4 of the Fifth Schedule obliges the auditors to state whether, in their opinion the balance sheet, and the profit and loss account prepared by management present "a true and fair view" of the financial state of the company. Post 1963 financial accounting requirements have added cash flow statement to the above requirement.

A certified copy of the company's balance sheet,

profit and loss account, and the auditors' report, inter alia, is to accompany the annual return of the company. The annual report and other documents registered with the Registrar of Companies are available for inspection by the public or any person who wishes to do so upon the payment of the requisite fee.

In their statutory role, under section 136 of the Companies Code 1963 (Act 179), auditors stand in a fiduciary relationship to the members of the company as a whole. They are required to act in such a manner as faithful, diligent, careful, and ordinarily skilful auditors would act in the circumstances.

### **The Expectation Gap Conundrum (The Image of Statutory Auditors)**

Fraud has always been a major concern to the accountancy profession and businesses. However, it has never been more so than today. Fraud and the crimes that it finances, including mass terrorism is receiving unprecedented worldwide attention now.

From being widely viewed by the public as a victimless, white-collar crime of relatively little importance, fraud is now seen for what it is – a disease that can ruin lives, destroy even multinational companies, damage investor confidence, and destabilize society. Fraud is a disease that has to be prevented and, where found, totally eradicated.

As must be expected and like all other professions, accounting practitioners are always seen glorifying the image and the practice of auditing. However, the truth is that some cases of willful deceit, and criminal negligence or recklessness on the part of some statutory auditors have led to several instances of celebrated massive frauds such as the famous "South Sea Bubble". In this case, the prospectus of a company was painted in terms more flowery words or much than the circumstances genuinely justified. This scandal immediately drew the attention of the profession to the need for some form of control. In view of the many scandals and fraud cases, the accountancy profession started by breaking new grounds in



relation to the in-depth assessment of the legal liability of the statutory auditor. It started to seek legal advice to address the possible liabilities for negligence under the common law i.e. general liability and/or liability to third parties; statutory liability i.e. civil and/or criminal; and reliance on information from third parties.

The accountancy profession then commenced the issuance and enforcement of Regulatory Measures in Accounting Standards, Auditing Standards' Recommended Practices, etc. All of these are with the view to measuring the performance of practitioners with standards the profession has set itself for the proper and competent conduct of their professional duty.

The celebrated or classic case of *Re Kingston Cotton Mills Limited (1896)* and *Re London and General Bank (1895)* advise that what is reasonable skill and care in any particular case depend on the circumstances of the case. This was vividly echoed by judge Lopez in the *Re Kingston Cotton Mills limited* case. He stated that: – "Auditors (the practitioners of the profession) are not 'grey hounds' but are mere 'watch dogs', however, if anything arouses their suspicion, they should probe it to the bottom." This indeed is the test of reasonable care and skill which unfortunately is not described in any statute. However, by implication, it is accepted as the "auditor's duty to perform the work required of him by statute and any additional work required by the client. It is also accepted by the accountant as part of his brief, with the skill and care that a reasonably competent accountant will employ" (Solicitor Michael Pugh).

Today, at every august programme or ceremony organized by accountants, the key speakers continue to appeal to accountants to redeem their image – the corrupt image that has bedeviled the accountancy profession, especially in the year 2002 – "the SCANDALOUS 2002". Indeed, the year 2002 will go down in history as accountants' "tumultuous and scandalous year" – "The accountancy profession's annus horribilis."

The Enron collapse, the WorldCom fiasco, the Mytravel accounting scandal, the Pamalat saga and many more were terrible corporate frauds and

failures with professional accountants in the centre of all of these scandals and corporate failures.

In Ghana, on a daily basis, there are shocking revelations of corruption in low and high places everywhere. All the instances of corruption are usually blamed on accountants. The managers of the economy and business of the country have become highly involved in corruption. The question that we want to pose now is whether or not all the scandals and corrupt practices can be rightly blamed on the statutory auditor.

The answer is 'Yes' and 'No'. We can conveniently say that 'Yes', there are some bad nuts – indeed morally bankrupt and corrupt statutory auditors in the system. On the other hand, we can say 'No', because there are equally very good and sharp statutory auditors in Ghana. These auditors have upheld the moral tenets of the profession. They exercise reasonable due care and skill, honesty, integrity, independence, and accountability in the discharge of their duties.

The sour point is that in Ghana, sound corporate governance exists only in very few registered companies. These are mostly the foreign or multinational companies operating in the country. It is said that a sound understanding of good corporate governance – organisational transparency, disclosure, and accountability – is essential for maximising an organisation's performance and enhancing its reputation and system of controls.

### **Statutory Auditors' Rights and Duties**

For the purpose of performing their roles, auditors are accorded certain rights. The first pertains to unimpeded access to all information. Thus, they have a right of access at all times to the company's books, accounts, vouchers and other documents relevant to their work. They may require from the company's officers such information and explanations as they think necessary and relevant for the performance of their duties as auditors. An officer, who provides misleading information exposes himself to criminal penalties. Auditors also have the legal right to receive notices and other communications relating to any general meeting,

to attend that meeting, and to be heard on any part of the business, which concerns them as auditors.

The auditor therefore plays important roles in modern corporate governance by providing a critical service of independent monitoring of the financial state of the company. The audit is a pragmatic process by which accountability of directors to shareholders can be guaranteed.

"In determining whether an auditor has fulfilled his duty, the courts rely on the accepted auditing standards to decide whether there has been a breach of duty" (Woolf, J., 1987). In *Lloyd Cheyham & Co Ltd v Littlejohn & CO* (1987), the plaintiff bought a 50% shareholding in a company. The decision to invest was largely influenced by the audited accounts of the company, which were audited by the defendants. The defendants knew that the accounts would be relied on by the plaintiffs in their assessment of the prospects of the company. The company wound up shortly after the plaintiffs' investment. Plaintiffs sued the defendants for breach of duty. The court held that, in determining whether there was a breach of duty "compliance or non-compliance by the auditor with the relevant professional standards was a key issue."

The Ghana National Auditing Standards (GNAS) issued by the Institute of Chartered Accountants (Ghana) (2001), states on page 9 that:

*"Auditors who do not comply with Auditing Standards when performing company audit and other audits in Ghana make themselves liable to regulatory action by the professional standards and Ethics Committee which may include the withdrawal of registration, and hence eligibility to perform company audits. All Committee pronouncements and, in particular, Auditing Standards are likely to be taken into account when the adequacy of the work of auditors is being considered in a court of law or in other contested situation."*

The rationale for the company audit was explained as follows by Lord Oliver in *Caparo Industries Plc v. Dickman* (1990):

*"... The primary purpose of the statutory requirement that a company's accounts shall be audited annually is almost self-evident.... It is the auditors' function to ensure, so far as possible, that the financial information as to the company's affairs prepared by the directors accurately reflects the company's position in order, first, to protect the company itself from the consequences of undetected errors or, possibly, wrongdoing (by, for instance, declaring dividends out of capital) and, secondly, to provide shareholders with reliable intelligence for the purpose of enabling them to scrutinise the conduct of the company's affairs and to exercise their collective powers to reward or control or remove those to whom that conduct has been provided."*

He went on to reject the argument that the UK Companies Act (1985) reflect a wider commercial purpose, namely to enable those to whom the accounts were addressed or circulated to make informed investment decisions, for example to sell or buy shares. This perception of the limited purpose of the accounts and audit required by the UK Companies Act (1985) has been echoed in a series of subsequent cases. *Hobhouse J. in Berg Sons & Co. Ltd V. Mervyn Hampton Adams* (1993), expressed the purpose of the statutory audit more starkly as:

*"... To provide a mechanism to enable those having a proprietary interest in the company or being concerned with its management or control to have access to accurate financial information about the company. Provided that those persons have that information, the statutory purpose is exhausted. What those persons do with the information is a matter for them and falls outside the scope of the statutory purpose. Such matters do not fall within the scope of the duty of the statutory auditor."*

This perception has been the foundation for the rejection of claims in tort by shareholders and parties, other than the company itself, against auditors based on alleged negligent audits.

### **Contractual Duties**

The duties of an independent accountant or auditor



will primarily depend upon the contract between him and his client, the company, not the members as individuals. This will regulate the nature and extent of his task and the standard of its performance.

Thus, in *International Laboratories Ltd v. Dewar* (1993), Robson J.A. stated thus:

*"It cannot be doubted that the measure of the responsibility of auditors depends on the terms of the employment in the particular case. That the relation did exist here is a fact though regard must be had to its exact terms. The defendants were appointed auditors at the shareholders' meeting only on one occasion .... when the terms of appointment were general. There was discussion during the argument as to whether the audit was to be merely the statutory audit under the relevant company statute. I think the Court will have to ascertain the duty and obligation of the defendants from the correspondence by which their work was defined and that the limit of the statutory requirement will not prevail against the understanding."*

It is particularly important to establish the nature of the task, for example, whether it is an audit or some more limited accountancy function. The extent of investigations required will be much greater in the case of the former than in the case the latter. It is prudent for an accountant to record his precise instructions in writing to his client. Many professional negligence claims against accountants culminate from disputes over the precise scope of the particular engagement.

### **Duties Independent of Contract**

There can no longer be any doubt that, in common with other professional persons, an accountant generally owes a duty of care in tort to his client quite apart from any contract between them. Denning, L.J., so concluded as long ago as 1951 in his dissenting judgment in *Candler v. Crane, Christmas & Co.*

Denning, L.J.'s judgment dealt in some detail with the types of statements in respect of which professional accountants owed a general duty of care and the persons and transactions to which that

duty extended. As to types of statements, he considered that accountants were not liable for:

- (a) Casual remarks made in the course of conversation; nor for:
- (b) Statements made outside their work; nor for
- (c) Statements not made in their capacity as accountants.

Accountants are, "in proper cases" apart from any contract in the matter, under a duty to use reasonable care in the preparation of their accounts and in the making of their reports. As to the persons to whom accountants owed a duty of care, Denning L.J. said:

*"They owe the duty, of course, to their employer or client; and also I think to any third person to whom they themselves show the accounts, or to whom they know their employer is going to show the accounts, so as to induce him to invest money or to take some other action on them. But I do not think the duty can be extended still further so as to include strangers of whom they have heard nothing and to whom their employer, without their knowledge may choose to show their accounts. Once the accountants have handed their accounts to their employer, they are not, as a rule, responsible for what he does with them without their knowledge or consent... The test of proximity in these cases is: did the accountant know that the accounts were required for submission to the plaintiff and use by them."*

Turning to the nature of the transactions to which accountants' general duty of care extended, Denning, L.J. similarly confined them to transactions for which the accountants knew their accounts were required. On the facts of *Candler*, the plaintiff initially invested £2,000 in reliance upon the accounts prepared for him by the defendant accountants and a further £200 two months after entering the company's service as a working director. Denning, L.J. concluded that the defendant accountants' duty of care extended to the former £2,000 but not to the latter £200. Nevertheless, he was conscious of the problem of indeterminate liability: when he said, "I can well

understand that it would be going too far to make an accountant liable to any person in the land who chooses to rely on the accounts in matters of business”.

Denning L.J.'s judgment was approved by the House of Lords in *Hedley Byrne & Co. Ltd v. Heller & Partners Ltd.* (1964) and also expressly approved in *Caparo* (1990).

Similar principles have been followed in a number of US cases in the U.S.A. For example, in *Credit Alliance v Arthur Anderson & Co* (1985), it was held that to be liable, the auditors must be aware that the financial statements were to be used for a particular purpose and that third parties would rely on them. Practice however varies among the States of U.S.A. For example, in a New Jersey case, *H Rosenblum Inc v Adler* in 1983, it was held that auditors could be liable for ordinary professional negligence to any foreseeable relying party. This so called New Jersey Rule is adopted in many US States.

### **Fiduciary Duties**

An accountant owes fiduciary duties to his client. It was held in the Australian case of *Morton v. Arbuckly* (No. 2) (1919) that an auditor's duty was a duty 'uberrimae fidei' and of complete and full disclosure of all facts properly coming within the ambit of the inquiry he was conducting. Examples of an accountant's fiduciary duties would be a duty not to disclose confidences or to use his position to make a secret profit.

### **Duties to Third Parties**

The 1980s witnessed major changes in the prevailing orthodoxy as to the test for establishing a duty of care and as to the circumstances for recovery of economic loss, financial or pecuniary loss unrelated to physical injury or damage to property, under the tort of negligence. At the beginning of the period, the dominant approach, as reflected in *Anns v. Merton London Borough Council* (1978), was to seek a single general principle, centered on the concept of reasonable foresight, which might be applied in all circumstances to determine the existence of a duty

of care. This tended to be plaintiff oriented and encourage a surge of tort-based claims against professionals, including accountants. In the mid-1980s, however, that approach was repeatedly eschewed in a series of appellate authorities and support given to a more analytical approach formulated around established paradigms. Cardozo C.J. in *Ultramares Corporation v. Touche* (1931) expressed his concern about the risk of imposing “a liability in an indeterminate amount for an indeterminate time to an indeterminate class”

The caution is particularly apposite in the case of accountants since the range and number of persons who may suffer loss consequent upon negligent performance of certain engagements by them are very large. For example, in the case of a negligent report by an auditor on a company's accounts, the range may include existing shareholders of the company, potential investors, i.e. future shareholders, banks and trade creditors, all of whom may have relied upon the report.

The 1980s surge of tort claims against accountants can now be seen to have met its Stalingrad in the decision of the House of Lords in *Caparo Industries Plc v. Dickman* (1990). Here the case was resolved by reference to a tripartite test for the imposition of a duty of care in a particular situation: foreseeability of damage, proximity of relationship, and reasonableness. Proximity focuses on the closeness and directness of the relationship between the parties. It involves description of circumstances from which, pragmatically, the courts conclude that a duty of care exists.

The starting point for assessing the merits of a third party's claim against accountants, including auditors, is the decision of the House of Lords in *Caparo Industries Plc v. Dickman*. Previous case law demonstrated a gradual broadening of the test for a duty of care and the consequent expansion of the range of third parties to whom accountants might incur liability as a result of errors in financial statements, especially arising from the performance of the audit function. *Caparo* has repulsed that trend and severely restricted the circumstances in which liability may be incurred by accountants to third parties based on the tort of



negligence.

The claim in the case of Caparo arose out of the takeover in 1984 of Fidelity Plc by Caparo Industries Plc, both listed companies on the Stock Exchange. The case was brought against two of Fidelity's directors and the auditors of its accounts for the year ended 31<sup>st</sup> March 1984. In early March 1984, a press release was issued forecasting a significant profits shortfall. Over that month, Fidelity's share price fell sharply. In May 1984, the auditors reported upon the accounts giving a clean certificate to the effect that they were properly prepared and gave a true and fair view of relevant matters. The next day, Fidelity's directors announced profits that fell far short of predictions. On June 8, Caparo began to buy Fidelity's shares. The accounts were sent to the shareholders on June 12, 1984, but Caparo was not registered as a shareholder until later nor did it attend Fidelity's annual general meeting on July 4, 1984 when the auditors' report was read and the accounts adopted. Two days later, Caparo had acquired 29.9 percent of Fidelity's issued shares. In September, it made a bid for the remaining shares and subsequently acquired them, some compulsorily.

Caparo maintained that the accounts were inaccurate and misleading, in particular in overvaluing stock and undervaluing after-sales credits, with the result that there was in fact a loss of £400,000 instead of reported profits of £1.3m. It alleged that its share purchases subsequent to the sending of the accounts to shareholders were made in reliance on those accounts and that if it had known the true position, it would not have purchased them or made the bid at the price paid or at all. It commenced proceedings against the two directors alleging deceit and against the auditors alleging negligence. It contended that the auditors, in carrying out their functions in April and May 1984, owed a duty of care to investors (in the sense of existing shareholders) and potential investors, including Caparo. In support, it maintained that the auditors:

- (1) Knew or ought to have known of:
  - (a) The press release in early March;

- (b) The slide in the share price from 143p on March 1 to 75p on April 2

- (c) Fidelity's need for financial assistance; and

- (2) Ought to have foreseen that Fidelity was vulnerable to a takeover bid and that bidders such as Caparo might well rely on the accounts in assessing a bid and suffer loss if the accounts were inaccurate. An order was made for the trial of a preliminary issue: whether, on the alleged facts, the auditors owed a duty of care to Caparo:

- (a) As potential investors in Fidelity, or

- (b) Shareholders in Fidelity as from June 8 and/or 12, 1984, in respect of the audit of the relevant accounts.

The judge at first instance, Sir Neil Lawson, held that the auditors owed no duty of care to Caparo in either capacity. While recognising that auditors might owe statutory duties to shareholders as a class, he concluded that there was no common law duty of care owed to individual shareholders such as to enable one to recover damages for loss sustained by him in acting in reliance on inaccurate audited accounts.

On Caparo's appeal, the Court of Appeal, by majority (Bingham and Taylor L.J. O'Connor L.J. dissenting in part), allowed the appeal. The Court was unanimously of the view that the requisite relationship of proximity was not established between potential investors in a company and its auditor. Bingham L.J. and Taylor L.J. concluded that it was established between existing shareholders and the auditor. Thus if an individual shareholder sustained loss by acting in reliance on negligently prepared accounts, whether by selling or retaining his shares or purchasing additional shares, he was entitled to recover in tort. O'Connor L.J. disagreed and rejected a duty of care in that case also.

The House of Lords took the same view as

O'Connor L.J. and the judge at first instance and restored the latter's decision. This outcome followed application of the tripartite test for a duty of care, a detailed review of reported cases against accountants including auditors arising from like circumstances and an evaluation of the perceived purpose of the audit provisions in the UK Companies Act 1985. The main speeches were delivered by Lords Bridge and Oliver.

As to the test for a duty of care, Lord Bridge reviewed relevant authorities and concluded that the salient feature of all these cases is that the defendant giving the advice or information, was fully aware of the transaction which the plaintiff had in contemplation, knew that the advice or information would be communicated to him directly or indirectly, and knew that it was very likely that the plaintiff would rely on that advice or information in deciding whether or not to engage in the transaction in contemplation. In these circumstances the defendant could clearly be expected, subject always to the effect of any disclaimer of responsibility, specifically to anticipate that the plaintiff would rely on the advice or information given by the defendant for the very purpose for which he did in the event rely on it. In addition, the plaintiff, subject again to the effect of any disclaimer, would in that situation reasonably suppose that he was entitled to rely on the advice or information communicated to him for the very purpose for which he required it.

The situation is entirely different where a statement is put into more or less general circulation and may foreseeably be relied on by strangers to the maker of the statement for any one of a variety of purposes which the maker of the statement has no specific reason to anticipate. To hold the maker of the statement to be under a duty of care in respect of the accuracy of the statement to all and sundry for any purpose for which they may choose to rely on it is not only to subject him in the classic words of Cardozo C.J. in *Ultramares v. Touche* to 'liability in an indeterminate amount, for an indeterminate time, to an indeterminate class': it is also to confer on the world at large a quite unwarranted entitlement to appropriate for their own purposes the benefit of the expert knowledge or professional expertise attributed to the maker of the statement.

Hence, looking only at the circumstances of these decided cases where a duty of care in respect of negligent statements has been held to exist, I should expect to find the 'limit or control mechanism' ... imposed upon the liability of wrongdoer towards those who have suffered economic damage in consequences of his negligence' as an essential ingredient of 'proximity' between the plaintiff and the defendant, that the defendant knew that his statement would be communicated to the plaintiff, either as an individual or as a member of an identifiable class, specifically in connection with a particular transaction or transactions of a particular kind (e.g. in a prospectus inviting investment) and that the plaintiff would be very likely to rely on it for the purpose of deciding whether or not to enter upon that transaction or upon a transaction of that kind.

The "limit or control mechanism" was similarly expressed by Lord Oliver. The vulnerability of Fidelity to a take-over bid and the probability of reliance on the accounts by a potential bidder were expressly rejected as factors establishing the necessary nexus of proximity.

The auditing provisions in the UK Companies Act (1985) were particularly invoked in support of Caparo's argument that the auditors owed it a duty of care qua a potential investor shareholder. These provisions were reviewed by Lord Oliver. However, the House of Lords rejected the argument. Lord Bridge expressed the position as follows: "No doubt, these provisions establish a relationship between the auditors and the shareholders of a company on which the shareholder is entitled to rely for the protection of his interest. But the crucial question concerns the extent of the shareholder's interest in the company's proper management and in so far as a negligent failure of the auditor to report accurately on the state of the company's finances deprives the shareholders of the opportunity to exercise their powers in general meeting to call the directors to book and to ensure that errors in management are corrected, the shareholders ought to be entitled to a remedy. But in practice, no problem arises in this regard since the interest of the shareholders, e.g. by the negligent failure of the auditor to discover and expose a misappropriation of funds by a director of



the company, will be recouped by a claim against the auditors in the name of the company, not by individual shareholders."

Lord Oliver said:

*"... The purpose for which the auditors' certificate is made and published is that of providing those entitled to receive the report with information to enable them to exercise in conjunction those powers which their respective proprietary interests confer upon them, and not for the purpose of individual speculation with a view to profit."*

Caparo was considered in *James McNaughton Papers Group Ltd v. Hicks Anderson & Co* (1991) and *Morgan Crucible & Co. Plc v. Hill Samuel Bank Ltd*, two later decisions of the Court of Appeal.

The claim in *James McNaughton Papers Group Ltd v. Hicks Anderson & Co.* arose out of the agreed takeover of a company, MK, by the plaintiff company. In the course of the takeover negotiations, draft financial statements were provided by the defendants who were MK's auditors. Also at a meeting between the chairman of the plaintiff company and a representative of the defendants, the latter confirmed that MK was breaking even or doing marginally worse. The plaintiff proceeded with the acquisition but subsequently discovered errors in the accounts. It sued the defendants for negligence and was successful at first instance. The judge held that in providing the draft financial statements and in making the relevant statement, the defendants owed the plaintiff a duty of care. On appeal, however, the defendants succeeded on the basis that in the particular circumstances, they did not owe such a duty. Factors material to this conclusion included the following:

- (a) The accounts were merely drafted accounts, which the plaintiff was not entitled to treat as final accounts;
- (b) They nonetheless demonstrated that MK was in a poor state;
- (c) The transaction was one between

experienced businessmen and the plaintiff had its own accountancy advisers; and

- (d) The relevant statement was very general and it was not possible to attribute to the defendants knowledge that the plaintiff would rely on it without any further inquiry or advice.

*McNaughton* is very much a case on its own fact but it demonstrates that even in a context in which the defendant accountants may have a third party in specific contemplation as a person who may rely on information provided by them, analysis of the particular circumstances may prompt negation of a duty of care. Moreover, it contains a useful analysis by Neill L.J of matters which are likely to be of importance in most cases in deciding whether or not a duty of care exists. The matters are analysed under six heads:

- (1) The purpose for which the statement was made;
- (2) The purpose for which the statement was communicated;
- (3) The relationship between the adviser, the advisee, and any relevant third party;
- (4) The size of any class to which the advisee belongs;
- (5) The state of knowledge of the adviser; and
- (6) Reliance by the advisee.

Alleged misrepresentations made in the course of negotiations for the acquisition of companies are often the subject of claims against accountants.

The claim in *Morgan Crucible & Co. Plc v. Hill Samuel Bank Ltd* (1991) arose out of the contested takeover of another public company (FCE) by the plaintiff company (MC). The conduct of the takeover were subject to the then current version of

the UK City Code on Takeover and Mergers. The defendants were the merchant bank, which advised FCE auditors and directors of FCE in the course of the takeover. In the course of the takeover battle, circulars were issued by the chairman of FCE to its shareholders and these were also issued as press releases by the defendant merchant bank. Thus, they were made available to MC's advisers as required by the City Code. The circulars referred to FCE's financial statements for previous years which had been audited by the defendant's auditors and one made an optimistic profits forecast for the forthcoming year. The latter circular included two letters. The first was from the auditors to the effect that the forecast had been properly compiled and on a basis consistent with FCE's usual accounting policies. The second was from the merchant bank to the effect that the forecast had been prepared after due and careful inquiry. MC increased its bid, FCE's chairman recommended acceptance and the bid succeeded.

MC contended that the relevant financial statements and forecast were inaccurate, misleading, and negligently prepared. MC also claimed that if it had known the true position, it would not have made the bid and not have acquired FCE. As the claim was originally formulated, it was alleged that the defendant's auditors and the directors were responsible for the financial statements and that both they and the merchant bank were responsible for the forecast, and that in putting those documents in to circulation they owed a duty of care to MC as a person who could foreseeably rely on them. Following the House of Lords decision in *Caparo*, that contention was doomed to failure. Hence MC sought leave to amend its claim so as in effect to restrict the claim to representations made after the launch of the bid. The issue arose as to whether, assuming the facts alleged were true, the proposed amendments disclosed a reasonable cause of action. Hoffman J. at first instance held that they did not. He concluded that the case was distinguishable from *Caparo* and that the necessary relationship of proximity was established on the assumed facts. Such facts were that in making the relevant representations, the defendants were aware that MC would rely on them for the purpose of deciding whether or not to make an increased

bid, and intended that they should (this being one of the purposes of the defence documents and representations contained in them) and MC did rely on them for that purpose. The case was subsequently settled out of court and thus never proceeded to a full trial.

*Caparo* was also applied in resolving the claims of the third claimant, Hillsdown, in *Galoo Ltd v. Bright Grahame Murray* (1994). The defendant's auditors, BGM, were sued by three companies, Galoo, Gamine, and Hillsdown. Gamine, owned all the shares in Galoo. The defendants were auditors of the first two companies from 1985 to 1991. In 1987 Hillsdown acquired 51 per cent of the shares in Gamine for a price based on Galoo's profits as shown in Galoo's and Gamine's audited accounts for 1986.

Between 1987 and 1993, Hillsdown made large loans to both Galoo and Gamine. In 1991, under a supplementary share purchase agreement, it increased its shareholding in Gamine by 44.3 per cent. In 1992 the companies sued BGM alleging that Galoo's and Gamine's audited accounts for 1985 to 1989 and their draft audited accounts for 1990 were inaccurate in that Galoo's stock and work in progress were materially overstated. The companies alleged that in auditing such accounts BGM were negligent and in consequence they had sustained loss. BGM were sued by both Galoo and Gamine in contract and tort and by Hillsdown in tort. The Court of Appeal, upholding the judge at first instance, struck out the case since it was alleged that BGM knew of Hillsdown's purchase of shares in Gamine and that the 1986 accounts were required for the purchase of calculating their price. Moreover BGM had sent the 1986 accounts to Hillsdown under cover of a letter which represented that the accounts were accurate. However, Hillsdown's other claims were struck out. Hillsdown's claims for loss resulting from making loans to Gamine and other moneys paid, including under a supplementary share purchase agreement, were held to be deficient. Thus it was not alleged that BGM knew that Hillsdown would rely on the audited accounts for the purpose of making such loans and payments or that BGM intended that Hillsdown should so rely.



### Third Party Claimants other than Equity Investors

While the context of Caparo was a claim by an equity investor, it is plain from the judgment that the ratio decidendi of the case extends also to other third party claimants, in particular banks, trade creditors, and guarantors. This is exemplified by two first instance English cases, Huxford and others v. Stoy Hayward & Co. (1989), and AL Saudi Banque and others v. Clark Pixley (1990). In the latter case, the plaintiffs were shareholders and directors of a company which went into receivership. They were also guarantors of the company's indebtedness to various banks and trade creditors. The defendants were a firm of accountants. The defendants were initially appointed by one of the banks to report on the company's viability when, owing to financial difficulties, it exceeded its overdraft limit. Two reports were prepared by the accountants and later gave advice to the company and directors. The company's difficulties finally led to the appointment of a receiver by the bank, the sale of the company and loss incurred by the plaintiffs. Peoplewell J. held:

1. The first two reports were prepared pursuant to a contract to which the sole parties were the bank and the accountants and the accountants owed no duty of care to the plaintiffs, whether as shareholders, directors, or guarantors arising therefrom;
2. Whereas subsequently a contractual relationship was established between the accountants and the plaintiffs qua directors such as to give rise to a duty of care both in contract and in tort to them in that capacity in respect of advice given, nevertheless the accounts did not owe them a duty of care in their capacity as guarantors. The claim failed in any event because no breach of any duty or loss caused by any alleged breach were established.

Millet J.'s earlier judgement in *AL Saudi Banque and others v. Clark Pixley* (1990), was expressly

affirmed by the House of Lords in *Caparo*. The plaintiff banks had advanced monies to a company on the security of bills of exchange accepted by the company's customers in its favour and then negotiated by it to the banks. The company was ordered to be compulsorily wound up. It had an estimated deficiency of £8.6m. The plaintiffs contended that a large part of the company's business was fraudulent and that bills of exchange provided by its two largest customers were worthless and not supported by any underlying business transactions. The defendants were the company's auditors.

The plaintiffs claimed damages for alleged negligence (firmly denied by the defendants) in auditing and reporting on the company's accounts. They maintained that they:

- (a) Granted new facilities to the company; or
- (b) Renewed, continued, or increased existing facilities in reliance on the accuracy of the company's audited accounts and the defendants' reports.

On a trial of a preliminary issue as to whether the defendants owed a duty of care to one or more of the plaintiffs, Millet J. held that they did not and the claim thus failed. He distinguished between those banks which were not already existing creditors at the relevant balance sheet date and those which were. As regard the former, he considered that their position was directly analogous to that of potential investors in *Caparo*.

It followed that the ratio of that case applied to deny a duty of care owed them. As regards the banks who were existing creditors at the relevant balance sheet date, he rejected the contention that their position was analogous to existing shareholders and held that no duty of care was owed to them also: "... their position is not at all comparable with that of shareholders. They played no part in appointing the defendants as auditors. The defendants were under no statutory obligation to report to them and they did not do so. They did not supply copies of their reports to them, nor did

they send them to the company with the intention or in the knowledge that they would be supplied to them. Clearly to hold that a duty of care was owed to them would be going further than can be supported by any existing English authority. Indeed, he considered it was precluded by authority. The fact that the relevant banks were of a small and limited class and known to the plaintiffs did not establish the necessary ingredient of proximity. In particular, it was necessary to show knowledge of an intention that the information would be supplied to the banks and that was not established". Millet J. also observed that "to hold otherwise in relation to a claim for losses arising from advances subsequent to the audited accounts would not be just and reasonable since it would expose the auditors to an indeterminate liability. Thus the loss would be measured by the amount of the advances which would have been unknown to them and unforeseeable".

Millet J. added. "I would not for my own part, unless constrained by authority, extend the duty of care to a prospective lender, unless the amount or at least the scale of the proposed deal was known to the defendant." In light of Caparo and the express approval therein of Millet J.'s judgment in A1 Saudi Banque, earlier decisions and dicta which suggest a duty of care owed by accountants and auditors to banks and creditors in the absence of a contractual nexus between them must be viewed with caution. ■

*To be continued in Part II*

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## Credit

The paper has undergone the kind review of Mr. Philip D. Dosoo; LLB, LLM of Trustee Services Limited.

However, I accept the responsibility for every word – right or wrong.

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*A conference is a gathering of important people who singly can do nothing, but together can decide that nothing can be done.*

*Fred Allen*

## RESPONSIBILITY FOR CORPORATE DEBTS IN GHANA: A CONCEPTUAL PERSPECTIVE

Benjamin Mordedzi

### Abstract

This paper analyses the corporate entity theory and the lifting of the corporate veil in Ghana. Two major principles form the basis of the analysis. First, a company is a separate legal entity with the powers of a natural person of full capacity. Secondly, members of the company usually have limited liability. The paper notes that there are many inroads into these principles. In some situations, the Companies Code 1963 (Act 179) enforces corporate debts and liabilities against the company. In other situations, the Companies Code enforces the company's debts and liabilities against corporate officers who knowingly allowed the commission of wrongful acts. This paper therefore concludes that, under the Companies Code, a company is both a separate corporate person and an economic entity. To this end, the courts can treat the acts of corporate officers as either those of the company itself or those of the officers themselves. This paper also urges the courts to abandon lifting the corporate veil and suggests that the courts should admit remedies based on well-known business principles in agency, contract, conveyance, industrial law, insolvency, tort, and trust.

### Introduction

The corporate form of business has existed in Ghana since 1907 when the colonial government passed the Companies Ordinance (Cap 193). Today, the Companies Code 1963 (Act 179) regulates the activities of companies in Ghana, except those that require special legislation, such as banks and insurance businesses.

Companies are very important institutions in Ghana's economy. They promote economic growth and development by providing opportunities and encouragement for investment. This enables people to invest their surplus funds

into viable ventures. Furthermore, companies provide the people with goods and services that they need. Companies also pay taxes on the profits they earn. They therefore generate income for the country. Similarly, companies offer employment to the people. This reduces unemployment and raises the standard of living of the people.

Section 32 of the Interpretation Act 1960 (C. A. 4) recognises companies formed under the Code as artificial persons. In addition, they have separate legal existence. They operate through natural people in accordance with the provisions of section 132 of the Companies Code. Under the law, whenever these natural persons carry out any activity in the usual manner in which the activity takes place, the activity is binding on the company as if the company carried it out itself. However, corporate officers can hide behind the corporate status and commit offences, violate legal provisions, or operate the company for their exclusive and personal benefits. This paper therefore appraises some circumstances under which the courts in Ghana will ignore the corporate entity theory, lift the veil of incorporation, and enforce the obligations of the company against its officers.

### The Corporate Entity Theory

The corporate entity theory creates a mental picture of a separate personality for the company. The principle of separate legal existence of a company dates back as far as 1897. This principle, established in *Salomon v. Salomon & Co. Ltd* [1897] A. C.22 states that a company is a legal person, separate and distinct from its owners. Section 14 (d) of the Companies Code reaffirms this principle. The decisions in the Ghanaian cases of *Appenteng & others v. Bank of West Africa Ltd. & others* [1961] G. L. R 196 and *Owusu v. R. N. Thorne Ltd. & another* [1966] G. L.R. 90 also confirm the principles laid down in the *Salomon's* case.

The separate identity of a company enables it to own or transfer property, enter into a contract, or sue. In addition, third parties can sue the company in its own name. Furthermore, the corporate entity theory enables the company to possess exclusive

rights and obligations. These rights and obligations belong to the company alone. Therefore, third parties cannot enforce corporate rights against the members, directors, officers, or agents of the company personally. The company can borrow money for its business. It can also be a member of any other body corporate. Besides, the liability of the members of a company is usually limited. The members cannot be personally liable for the obligations of the company. Thus, creditors cannot sue members, except in winding up where it can be proven that they owe the company.

The concept of the separate existence of the company offers advantages to the company, shareholders, and directors. It enables the company to acquire rights and incur liabilities of as a natural person. Further, the existence of the limited liability concept enables the company to issue securities with limited rights of participation in the profits by members. The existence of limited liability also enables the members to spread risks in different lines of business. For the directors, officers, and agents of the company, the separation of ownership from management enables them to exercise their duties in good faith for the benefit of the company.

### Corporate Officers

A company, as an artificial person, acts through natural persons. A company therefore uses officers in its daily activities. According to Bondzi-Simpson (1998), an officer of a company is any person appointed or regularly employed to carry out the affairs of the company.

Section 2 of the First Schedule of the Companies Code recognises the director, secretary, or employee of the company as an officer of the company. Others are a receiver and manager appointed under a power contained in any instrument, or any liquidator of a company appointed in a voluntary winding up. Section 2 (3) of the Criminal Code 1960 (Act 29) lists the following persons as officers of a company: chairman, director, trustee, manager, secretary, treasurer, cashier, clerk, auditor, and accountant. Also included in the list are persons provisionally or temporarily charged with performing any duty or



function in respect of the affairs of the company.

Though Section 2 of the First Schedule of the Companies Code recognises certain persons as corporate officers, it also does not recognise some other persons as officers of a company. The persons who are not recognised as officers of a company under the Companies Code include receivers who are managers and receivers and managers appointed by the Court. Others include liquidators appointed under the provisions of the Bodies Corporate (Official Liquidation) Act 1963 (Act 180) and auditors of the company. Though these persons are not officers of the company under the Companies Code, it appears that they can be held liable under the Criminal Code for crimes committed against the company.

Corporate officers have varied responsibilities. They may have express, implied, or apparent authority to bind the company. Their authority derives from the provisions in section 14 of the Bodies Corporate (Official Liquidation) Act 1963 (Act 180) and the decision in *Pioneer Construction Products Ltd v. Faddool* [1974] 1 G. L. R. 76. Besides, corporate officers have fiduciary duties to the company. This view was expressed in *Cudjoe v. Conte Ltd.* [1964] G. L. R. 28.

Sections 203, 205, 206, and 207 (1) of the Companies Code lay down the duties of corporate officers. Examples include the duty:

1. to act within one's authority and within the powers conferred by the company;
2. to take reasonable care in managing the affairs of the company;
3. to avoid conflict of interest and duty;
4. to keep proper accounts;
5. not to make secret profits or take bribes; and
6. to act with loyalty and in good faith for the benefit of the company.

## Liability of Corporate Officers

The officers of a company are agents of the company. Under the law of agency, the acts of the agent bind the principal if they are performed within the actual, usual, or apparent scope of the agent's authority. Consequently, company officials are, normally, not personally liable for the debts of the company. Thus, a company becomes liable for the actions of its officers who act within the scope of their authority. However, in some circumstances, a creditor can persuade the court to disregard the corporate entity concept and hold corporate officers personally liable for the company's debts. If the court agrees and punishes corporate officials, instead of the company, then the court has lifted the corporate veil.

## Lifting the Corporate Veil

Gower (1992) and Bondzi-Simpson (1998) give many reasons for lifting the corporate veil. The court lifts the corporate veil in order to give a judgement against one or more of the corporate officers. In Gower's (1992) view, lifting the corporate veil gives third parties the opportunity to identify the shareholders of the company, the shares they hold, and their beneficial interests in those shares. Third parties are also able to identify the company's officers and to decide whom to deal with. They are also able to examine the company's Regulations so that they know the extent of the company's powers and what the company can do or cannot do. Lifting the corporate veil also gives opportunity to third parties to determine the capital structure of the company and the manner the company obtained its capital. In addition, they are able to see the financial statements of the company and to decide whether to rely on it or not.

The courts may also appoint inspectors to investigate the company's affairs. This entitles the inspectors to go behind the company's register. The consequences of lifting the corporate veil include civil liability of individuals, penalty liability (usually by way of fines) of individuals, tax liability, and disregard of transactions entered into by the company.

Some of the circumstances in which the courts may

lift the corporate veil in Ghana include:

- (a) Unlawful business by a guarantee company (company limited by guarantee)
- (b) Starting the company on a "shoestring" (or under-capitalisation)
- (c) Trading without members
- (d) Improper payment of dividends
- (e) Wrongly describing the company
- (f) Fraudulent trading in winding up
- (g) Committing tax offences

### Unlawful Business by Guarantee Company

The Regulations of a company authorise the company to carry on specific activities. The company cannot change these activities unless it follows the guidelines specified in section 26 or 231 of the Companies Code.

Section 10 (1) of the Companies Code prohibits a guarantee company from engaging in profit-making ventures. Section 10 (2) of the Companies Code holds all officers and members of a guarantee company who are aware that the company is engaged in a profit-making venture liable for the company's obligations arising from such ventures.

The restriction in section 10 (1) of the Companies Code prevents corporate officers from using the guarantee company for fraudulent activities. In addition, it prevents corporate officers from evading the minimum capital requirement stated in section 28 (1) of the Companies Code.

Though individuals cannot form guarantee companies as profit-making ventures, Gower (1961) and Mills (1993) have argued that guarantee companies can generate income from profitable activities. Gower (1961) claims that:

"A guarantee company will not be precluded, for example, from running a school or concert hall even though its revenue exceeds its expenditure

provided that the profit is ploughed back and used for the purposes of its non-profit making objects". The view that guarantee companies can generate income from profitable activities supports the decisions held in *National Deposit Friendly Society v. Skegness U. D. C.* [1959] A. C. 293 and *Guinness Trust v. West Ham Borough Council* [1959] 1 W. L. R. 233. In these cases, the courts held that corporate officers are not liable if a guarantee company, engaged in a profit-making business, ploughs back the profit into its non-profit-making activities. In such a circumstance, the corporate entity theory remains a fact.

### Under-capitalisation of a Company

The basic accounting equation states that the value of an entity's total assets is equal to the value of its total owner's equity and liabilities. This means that the value of total assets should be sufficient to pay the owner and creditors of the business when the need arises. However, the company may not have enough assets to pay its owners and creditors because it is under-capitalised.

For a company to be under-capitalised, its stated capital must fall below a certain minimum amount. Unfortunately, the Companies Code does not fix the minimum capital that a company must raise when it wants to register. However, the Registrar-General determines from time to time the minimum capital that the subscribers to a company's Regulation must raise for the issue of Certificate to Commence Business.

Section 28 (1) of the Companies Code prevents a company from carrying on any business, exercising any borrowing powers, or incurring any debt until it has the statutory minimum capital. The subscribers to the Regulations, the first directors named in the Regulations, and any director of the company after the company started business are jointly and severally liable for the company's debts and liabilities when the company breaches the minimum capital requirement. Liability arises every day the default continues. As stated in section 29 (2) of the Companies Code, liability arises if:

- (a) In the first directors' case, they were named



with their consents

- (b) The officers knew that the statutory minimum capital was not obtained before the company incurred its debts and liabilities
- (c) The officers did not exercise due diligence to prevent the offence

According to Barnes, Dworkin and Richards (1991), under-capitalisation is not in itself unlawful. However, they contend that it may amount to fraud if the objective is to avoid the foreseeable claims of creditors.

The restriction in section 28 (1) of the Companies Code seems desirable because it ensures that the company has a reasonable minimum level of stated capital. This will in turn ensure some minimum financial substance to give protection to shareholders. It will also act as a deterrent to fraudulent trading and thereby give adequate protection to the minority members of the company.

In spite of the protection given to third parties under section 28 (1) of the Companies Code, it may be difficult to properly enforce the restriction in the section at the time the company is incorporated. The reason is that the under-capitalisation of the company can only be detected when the financial statements have been prepared according to sections 127 to 131 and Parts I, II and III of the Fourth Schedule of the Companies Code. In the case of new companies, this is usually eighteen months after the incorporation. For existing companies, it is at least in every calendar year at intervals of not more than fifteen months. Within these periods also, the Registrar-General might have already issued the Certificate to Commence Business to the company.

Until the financial statements have been prepared and audited, members do not lose the privilege of limited liability. In addition, the court does not prevent the company from trading. Further, the officers can rely on the provisions in sections 27 (1) and 28 (1) of the Companies Code to escape liability. This is possible if the officers can prove

that they committed the offence to get the company incorporated, or to obtain subscriptions, or payment for the company's shares.

It also appears from section 29 (2) of the Companies Code that the first directors can escape liability if they can prove that their appointment took place without their consents. In addition, the officers can escape liability if they can also prove that they took all reasonable and practical steps to prevent the default. Personal liability will also not arise if the officers can demonstrate that they honestly believed that the company met the minimum capital requirement before it incurred the debts and liabilities. In all these instances, the corporate entity theory and the powers of the company remain a reality and corporate officers are not liable for contravening section 28 (1) of the Companies Code.

#### Trading Without Members

Section 8 of the Companies Code limits the minimum membership of a company in Ghana to one. Similarly, sections 124 and 149 (2) of the Companies Code require the directors of a company to report to shareholders and debenture holders in general meeting on how efficiently they have managed the affairs of the company. Consequently, directors cannot run the company without members.

It is illegal for a company, under section 38 of the Companies Code, to carry on business without members for more than six months. Directors who contravene this section are jointly and severally liable for all the debts and liabilities, which the company incurred during the period.

The intention of section 38 of the Companies Code is to ensure that there are shareholders in the company. This will prevent the directors from running the company fraudulently. However, the inference from section 38 of the Companies Code is that directors who knowingly allow the default can escape liability for the company's liquidated damages unless the default continues for more than six months. Besides, it appears that the directors can, before the expiration of the sixth month, admit new members and escape liability. Thus, within

the six-month period, the corporate entity concept remains intact and the company is liable for its debts.

### **Improper Payment of Dividends**

Section 71 (1) of the Companies Code prevents companies limited by shares from paying dividends. However, such companies can declare dividends when they abide by the conditions in sections 73 and 293 of the Companies Code. These conditions are:

1. the companies can pay their debts after the payment of the dividends
2. the amount of the dividends do not exceed the balance on the income surplus account at the time of paying the dividends.

Section 71 (2) (a) of the Companies Code prescribes the penalty for paying illegal dividends. If the company pays dividends contrary to section 71 (1) of the Companies Code, the directors must return the amount paid with interest at the rate of five percent per annum. In addition, section 72 (1) of the Companies Code does not allow a company limited by guarantee to pay dividends to its members. Where it defaults, every officer is liable to a statutorily determined fine.

Though dividends may be declared under sections 73 and 293 of the Companies Code, shareholders do not have the right under section 71 (1) of the Companies Code to the automatic receipt of dividends. Shareholders can only receive dividends when the company declares dividends or when the company is being wound up. In addition, section 73 (1) of the Companies Code restricts dividends declared to the amount, which the directors recommended. In effect, section 71 (1) of the Companies Code seeks to encourage the company to accumulate capital for investment rather than return its stated capital to members. In addition, it prevents the company from becoming insolvent because it has no fixed or circulating capital.

On the illegal payment of dividends to

shareholders, it appears that the directors are only liable where they know or ought to have known of the improper payment of the dividends. Directors can therefore escape liability if they proved that the offence was committed without their knowledge. Thus, section 72 (2) (b) of the Companies Code makes the shareholders, instead of the directors, liable where the directors are not able to restore the improper dividends to the company within twelve months after paying them.

### **Wrongful Description of Company**

Section 121 (1) (c) of the Companies Code requires a company to have its name accurately mentioned in legible characters. The name of the company should be at the head of all business letters, invoices, receipts, invoices, and other publications. It must also be in all negotiable instruments or orders for goods, services, and money. It is an offence under section 121 (4) of the Companies Code for an officer to sign or endorse on behalf of the company any negotiable instrument or orders for money, goods, or services without accurately describing the name of the company. Where an officer contravenes this section, the officer is personally liable to discharge the debts incurred unless the company pays them.

Under section 15 (1) of the Companies Code, every company must have a name but the last word of a company limited by shares should be "Limited". The word "limited" is misleading because the liability of a company cannot be limited for the company's own debts. Consequently, the corporate entity concept is illusory when the company's liability is limited for its debts. However, it appears from section 121 (4) of the Companies Code that the liability of the officers of the company who contravene section 121 (1) (c) of the Companies Code is a secondary liability. It arises only if the company itself cannot pay its debts and liabilities. Again, it appears that the officers of the company can escape liability if it is possible to establish the identity of the company. Thus, the conclusion is that, the corporate entity theory is not a fiction when the company is wrongly described.



## Fraudulent Trading in Winding Up

Fraud is a dishonest method by which one party gains an unfair advantage over another. Tucker and Henkel (1992, p.:231) defined it as 'the intentional misrepresentation of a material fact that causes a party to enter into a transaction and thereby suffer a monetary loss'. The decision in *Re William C. Leitch Bros. Ltd.* [1932] 2 Ch. 71 is that a company carries on a fraudulent business if the company continues to trade and to incur debts at a time that the directors know they cannot pay the creditors' debts. In *Hardie v. Hanson* [1960] 105 C. L. R. 451, the Court held that the intent to defraud must be express, actual, or real. It should not be constructive, imputed, or implied.

Companies cannot, under section 246 (2) of the Companies Code, continue to trade in winding up unless it is necessary for the winding up itself. Corporate officers who fail to disclose that the company is being wound up commit an offence and they are liable to a statutorily determined fine. In addition, section 26 of the Bodies Corporate (Official Liquidation) Act 1960 (Act 180) prevents companies in official winding up from carrying on business with the aim to defraud the company's creditors or for any fraudulent purpose.

Although section 246 (2) of the Companies Code retains the corporate status and the powers of the company in winding up, it seems that the loss of the right to trade (if not for the benefit of winding up) is itself a loss of the corporate status. This is because the aim of a non-guarantee company is to undertake profit-making ventures. Similarly, where a company contravenes section 26 of Act 180, the court may declare that the persons who were knowingly parties to the fraudulent business shall be personally liable. Thus, persons who are aware that the company is carrying on business fraudulently in winding up lose the privilege of limited liability. In addition, the liability is without limitation for any of the company's debt or other liabilities as the court may direct.

In spite of the measures to safeguard the interest of creditors in winding up, section 246 (2) of the Companies Code has limitations of its own. Applying the decision in *Re Patrick and Lyon Ltd.*

[1933] Ch. 786, creditors, liquidators, or contributors who want to rely on section 246 (2) of the Companies Code must discharge the heavy burden of proving fraud. In addition, corporate officers are not held liable for the company's debts and obligations in winding up unless a creditor, liquidator, or contributor applies to the court. Again, liability does not arise when the company carries on fraudulent trading before winding up. Consequently, when companies trade in winding up, the liability of corporate officers becomes a secondary liability: the corporate entity theory remains a fact.

## Committing Tax Offences

Companies and company officials can variously be held to commit tax offences. These tax offences are in sections 148 to 153 of the Internal Revenue Service Act, 2000 (Act 592). They include failure to comply with tax regulations, failure to make returns, and obstructing the Commissioner or the Commissioner's agents. Other offences are the non-payment of tax within the prescribed period, making incorrect returns or statements, giving false statements and returns, and aiding and abetting.

Under section 139 of the Companies Code, the company itself is deemed to have acted if the people who have control of the company and exercise the company's powers instigate or carry out those activities. Consequently, section 140 of the Companies Code holds the company vicariously liable for the wrongful acts of its officers, which they committed within the scope of their employment. However, the corporate status is set aside whenever the company commits a tax offence. Under section 154 (1) of Act 592, all company officers are treated as also having committed the same tax offence.

Civil and criminal proceedings may be brought against the officers of a company when the company commits a tax offence. Under section 154 (2) of Act 592, every officer of the company is jointly and severally liable with the company where the company commits a tax offence. The penalty for committing a tax offence is a heavy one. It may either be a fine or imprisonment or both (sections 148-153, Act 592). In order to escape

liability, section 154 (3) of Act 592 requires directors and officers to prove that the offence was committed without their knowledge. In addition, they can escape liability if they are able to prove that they exercised due diligence to prevent the commission of the offence.

## Conclusion

The decisions in *Appenteng* [1961] G. L.R. 196, *Owusu* [1966] G. L. R. 90, *Aboagy v. Tettevi* [1976] 1 G. L. R. 217, and *Vambaris v. Altuna & another* [1973] 2 G. L. R. 41 support the view of Gower (1961) about the corporate status of the company. Thus, corporate officers are not subject to penalties unless they knowingly authorised or permitted the default. However, the most critical challenge facing the corporate entity theory in Ghana is whether the courts have been or should be lifting the corporate veil.

It seems that the courts have not been lifting the corporate veil in Ghana at present. The decisions of the Court of Appeal and the Supreme court respectively in *Dolphyne v. Speedline Stevedoring Co. Ltd. and another* [1995-96] 1 G. L. R. 532 support this view. In this case, the Circuit Court lifted the corporate veil in favour of the applicant for fraud against the respondent. However, on appeal, the Court of Appeal reversed the decision of the trial Circuit Court. Not satisfied with the decision of the Appeal Court, the applicant appealed to the Supreme Court but the Supreme Court upheld the decision of the Appeal Court.

According to Gower (1961), if a breach occurs but it is not wilful or persistent, then the court should draw the company's attention to the breach and its possible consequences. In addition, Gower suggested that the company takes steps to prevent the re-occurrence of the breach. Unfortunately, Gower did not provide safeguards for remedying willful and persistent defaults. In addition, Gower did not suggest remedies against companies that fail to take steps to prevent the re-occurrence of the breach.

In line with section 216 of the Companies Code, the courts may abandon the doctrine of lifting the corporate veil. Instead, they should admit

remedies only according to well-known business principles such as in agency, contract, conveyance, insolvency, master and servant relationship, tort, and trust.

The issue of lifting the corporate veil may be of special concern to incorporated SMEs and all other private incorporated business entities which do not have competent or functioning boards and other officers or agents. ■

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*Business is a combination of war  
and sport.*

*André Maurois*

## CONVERGENCE OF CORPORATE GOVERNANCE SYSTEMS: A CRITICAL REVIEW

Kofi B. Kukubor

### Abstract

The apparent convergence of international systems of corporate governance has become important to developing countries. It is gradually being accepted that formal convergence is taking place at ownership and board structure levels. Corporate behaviour seems to be converging at functional levels. The convergence at these levels is powerfully being driven by internationalisation of equity markets, regulatory mechanisms, and international investors' desire for corporate governance systems which are best fit for corporate efficiency, and shareholders' wealth and corporate value maximisation. In 2001, participants at the West Africa Regional Conference on Corporate Governance recommended, among other things, that "there is the need to customize international corporate governance principles to suit the challenges of the African sub-region" so as to attract foreign direct investment. This paper reviews this recommendation by examining the historical evolutions of the two traditional corporate governance systems, and the factors driving towards convergence. In addition the present state of corporate governance practice in Ghana is examined. It is argued that, the existing regulatory mechanisms should be reviewed and strengthened to adequately respond to global corporate governance practices (law and enforcement). It would be prudent to promote and allow market forces to evolve to best practice rather than customization.

### Introduction

Corporate governance has recently assumed high level academic and business status. It has also triggered legal arguments in Ghana and the international community as well. The reason is that it concerns how shareholders' (indeed all stakeholders') investments in firms are being

managed by corporate boards and executives. Fundamental economic changes, such as the creation of a single European market, the renewed interest for international investment, the financial crisis in Asia, and conspicuous corporate scandals such as Enron, Polypeck, Parmalat, Schneider, Metallgesellschaft and recently Daiwoo, to mention a few, have drawn attention to the weaknesses in the corporate governance systems. This has resulted in the question of which corporate governance system is best fit for corporate efficiency and shareholders wealth or corporate value maximisation. As global competition for investment capital intensifies, it is not only countries that can boast of strong and investor-protective corporate governance structures that would gain a competitive advantage, but countries perceived to have adopted the best corporate governance systems would also gain it.

### Understanding Corporate Governance

The meaning of corporate governance is diverse and sometimes controversial, depending on the corporate system the person is inclined to. The definition of corporate governance is either centred on shareholder or stakeholder orientation. Some schools of thought have argued that corporate governance must concern matters between shareholders and management; others are of the view that it is an issue that concerns all people (stakeholders) having some relationship with or interest (direct or indirect) in the firm.

Hopt (2002) encapsulated the necessary ingredients of corporate governance in the following terms:

“Corporate governance relates to the internal organisation and the power structure of the firm; the functioning of the board of directors in the one-tier and two-tier systems; the ownership structure of the firm; and the interrelationships among management, board, shareholders, and other stakeholders, in particular the company's workforce and its creditors.”

### Theory and Importance of the Firm

To fully comprehend the importance of corporate governance, it is fundamentally necessary to understand why firms exist in the first place. According to Coase R, (1937) firms exist so as to minimise costs. Coase considered these costs as, the cost of negotiating and concluding contract for each exchange on the market. By establishing a company and allowing entrepreneur to direct resources, marketing costs are saved. An organisation is therefore viewed as a product of a series of organisational innovations intended to economise transaction costs. Thus, reduction in transaction costs provides moral justification for firms to exist on the basis that transaction cost economisation is socially valued, and the corporation serves affirmative economic purpose. Pettet (2001) states that the transaction cost theory encapsulates the main tenets of the economic analysis of corporation law; that corporation law exists invariably to reduce transaction costs.

In addition, a firm has no power of fiat, or disciplinary action different from ordinary market contracting between two people. The relationship between the owner of a company and its employees is that of agency relationship. Agency relationship emerges where one or more persons contract another person(s) to perform a service on their behalf which is accompanied with delegation of decision making authority. In consequence, separation of ownership and control arise. Attempt to align the interests of the agent to that of the principal gives rise to agency costs. Jensen M & Meckling (1976) categorised these costs into:

- (i) monitoring expenditure, by the principal,
- (ii) bonding expenditure by the agent, and
- (iii) residual loss.

Property rights theory is of the view that, contracts are incomplete in relation to the use of assets. The question of which party has the right to decide the gaps in the contract was therefore answered as the owner (shareholder) of the asset since he has the residual control rights. These theories are not



comprehensive. They have their criticisms. However, they are useful in understanding the concept of corporate law. However, finding solution to the agency problem has led to different corporate governance systems.

## **The Corporate Governance Systems**

### **Anglo-American**

#### *Shareholder/Contractual Orientation*

The objective of the firm is to maximise profit for shareholders' wealth. However, the managers of the firm may pursue other contrary objectives such as maximising their own salaries, particular investment project, etc. The contractual theory elevates the shareholder to the single most important regulator over management. This theory arguably gives much power to shareholders to make decisions that affect management. Posner (1977) states that separation of ownership and control is efficient and indeed inescapable, given that for most shareholders the opportunity costs of active participation in the management of the firm would be prohibitively high. Nevertheless, reliance only on shareholders for corporate control is increasingly being recognised as not a solution to the divergence of interest between management and shareholders. It has been argued that this theory is not an efficient governance mechanism. One other weakness against the primacy of the shareholder control is the detriment caused to minority shareholders.

Contractual and free market theories are underpinned by market forces for corporate control. Hostile takeover is considered by 'contractarian' theory as an important device for reducing monitoring costs. The takeover bid is said to have produced a beneficial by-product, which serves as an incentive for managers to operate in a way that will ensure that shareholders wealth is maximised. However, Cheffins B, (1997) argued that, the contractual theory in creating its own efficient policing in the free market is not necessarily viewed to be credible, as it does not operate systematically. Law Society of Scotland's

memorandum on the 13<sup>th</sup> Directive on Takeovers, 1989, further states that the selection of takeover targets is not accurately correlated with levels of performance and there is no evidence that takeovers improve company performance and share value.

### **Outsider System**

This system is a typical Anglo-America style of corporate governance. It is characterised by relatively widely dispersed share ownership and high turnover. There is also a portfolio orientation among shareholders with delegation to management to rely on their own discretions to operate the firm. This means that ownership and management are effectively separated. In addition, the outsider system promotes good rates of return on shareholders' investments and deep trading facilitates greater shareholder liquidity. Shareholders can also reduce their risk through diversification. Management is provided with greater flexibility as to the type and source of capital in the market system. This results in developing an enabling environment for management entrepreneurship. In the Business Week of 25 January, 1999, the increased investment and development of the United States of America's (USA's) technology industry was argued to have been the product of this corporate governance system. Furthermore, the difficulty in information asymmetries has been argued to have yielded benefits such as immunity of shareholders and outside directors to management capture and guarantees of objective analysis of management information.

However, this system has been argued to have negative impact on long term capital investment necessary for international competitiveness. One other weakness of the outsider system is that, widely dispersed shareholders prevent collective action which inhibits close monitoring of management performance. The lack of close monitoring leads to managers pursuing their own agenda to the detriment of shareholder value. For example, managers build large empires by investing in uncompetitive returns, and sacrificing shareholder value even as they cause the firm to

apparently expand. Corporate scandals that occurred in Enron, Polypeck and Parmalat are some typical examples to this effect. The market system attempts to address these deficiencies through hostile takeovers and derivative lawsuits against management self-dealing. The USA is legally inclined towards derivative action for breach of fiduciary duty whereas, the United Kingdom (UK) provides little or no incentive to such plaintiffs, but has a more robust takeover market.

The outsider system is also characterised by stringent legal and regulatory constraints on equity holdings by commercial banks. This has resulted in low involvement in the capital market by the banks. This constraint however, has encouraged dispersed ownership. As stated by Coffee (1999) the outsider system has negatively contributed to short-term relationships between the financial institutions and the corporate sector. However, recent developments in the UK and the USA have seen a sharp increase in proportion of equity held by financial institutions. According to OECD report of February 1998, institutional investors have become the largest equity holders in both the UK and the USA. These changes however did not impact on institutional shareholder activism.

## **Continental Europe and Japan**

### *Concession Theory*

One other major theory that did not receive much attention in the Anglo-American is the concession theory. This theory is embedded in the public law concept. Dine J, (2000) states that, the state has the right to ensure that the company is properly operated according to notions of equity and fairness. Nolan R, (1998) bemoaned the fact that, in England, the relevant elements of public law has not been used to further the understanding of how the private law might control discretionary powers vested in the board of directors. Despite the fact that Forsyth C, (1996) critically examined and proposed the ultra vires doctrine by using Brown-Wilkinson formulae, the loud sounds from the drums of economic and legal 'contractualism'

buried this theory and coerced judges and lawyers to shy away from the ultra vires doctrine

The company is viewed as a 'nexus of contracts.' Regulations are therefore be required to ensure that the market remains perfect. So long as the company is not viewed as an instrument of social policy and there remain imperfections in the market, there will be divergence of societal and company interests. Conversely, Friedman M, (1970) argued that businesses subject to 'social responsibility other than making maximum profit for shareholders' may be torn between the interests of shareholders and society.

### *Stakeholder Orientation*

Corporations have responsibilities to other stakeholders (stakeholders may include employees, suppliers, customers, creditors, and other social constituencies) other than shareholders. Accordingly, it is imperative that shareholders take account of other stakeholders in order to promote the development of long-term relationships. The difficulty however is what impact stakeholders can have on the economic growth of the firm and how the firm can attain those wide and diverse objectives of stakeholders. This difficulty has led to a narrower definition of a stakeholder. Blair M, (1995) defined stakeholders as those who have contributed firm-specific assets to the firm. The new stakeholder approach is considered to be a natural extension of the shareholder model as it is consistent with both transaction costs and incomplete contract theories of the firm. However, one major problem with the stakeholder approach is finding the right mechanism that will draw out firm specific investments on the part of various stakeholders. It is therefore assumed that the shareholder model tends to provide a clear guideline in facilitating the measurement of corporate efficiency and performance.

### **Insider System**

This system is characterised by concentrated ownership or voting power and multiplicity of



inter-firm relationships. It is common with Continental Europe notably Germany, and Japan. Familial control, especially in Germany, and cross shareholding in Japan at both horizontal and vertical levels are dominant features of the insider system. According to Fanto J, (1998) the largest blockholders in continental Europe are families and individuals followed by financial institutions. In Japan, 50 per cent of all listed companies belong to the "keiretsu." The "keiretsu" owns at least a quarter of all issued share capital. Furthermore, as at 1999, 64 per cent of large firms in Germany own majority shares and in France, the rate is 59 per cent.

Cross shareholding in Japan is intended to secure business allies, secure funds during funds scarcity, and generate business stability. The majority blockholder has the incentive to both monitor and to influence decision making process. Collective action problem, which is common with outsider system, is minimised. There is a cheaper intervention in case of management failure due to coalescence of voting power in fewer hands. Similar to the market system, management board is left to plan and operate the business while supervisory board appoints and control the management board (two-tier board). The lessened information asymmetry enables investors to invest more patiently. Coupled with longer time horizon, it gives freedom to managers to invest in long term projects and further create firm-specific investments in human capital.

However, the internal agency cost in blockholder system constrains effective monitoring. The heightened oversight incentive has been argued not to have necessarily resulted in sharp oversight management investment policy. It has been further posited that too much influence over management often leads to lack of objectivity and freedom to make long term investment. These often end up in the pursuit of growth in market share rather than optimal rate of return on shareholder wealth. In addition, loyalty is extracted in the form of private benefit such as self dealing or insider trading. Furthermore, the legal regime under this system does not protect minority shareholder rights and therefore promote lax securities regulation.

Furthermore, the trading market is thin and less transparent. Firms therefore, encounter restricted range of alternatives in search for finance.

## **Some Historical Evolutions of Corporate Governance**

### *Rent Seeking*

Political coalition within a country may maintain an existing rule even if it seems apparently inefficient. History of hostile takeovers in the US and UK has not been accepted well in Continental Europe and Asia, hence efforts were made to chill hostile takeovers of firms incorporated in their jurisdictions. Corporate governance systems have not evolved without political undertone. Admittedly, as stated by Gordon Smith D, (1996) there has been chronicled increase of institutional activism in the US in the past years. However political intervention forced corporate ownership to remain fragmented and restrict the financial institutions from blockholding. Thus, the market system is politically and ideologically contingent and not simply the product of the market forces only.

In Japan, the "keiretsu" came into existence in the 1950s. The intention was to avoid the consequences of anti-monopoly laws imposed by the US after World War II. Olson M, (1982) states that group coalition could block efficiency-enhancing reforms even if it contributes to national decline. For example, Japan was unable to adopt needed reforms in its banking systems during the Asia financial crisis. Though these are gradually changing, transparency in the Japanese financial market continues to be a hindrance to investment.

The power of labour is stronger in continental Europe and Japan than the Anglo-American systems. The European corporate law has long protected labour. For example, the policy of 'codetermination' in the German Corporate Governance Code requires that for corporations having 500 or 2000 employees, the supervisory board should constitute employee representatives

of one third or half respectively. This is so rooted in the German legal system that their interests lie in minimising job loss than profitability. The 1997 hostile takeover bid by Krupp for Thyssen triggered national protests in Germany which was a result of the codetermination policy. This situation has not experienced any dramatic change over the years. The US has similar system in 'Rust Belt' jurisdiction to prevent job loss. However the Delaware jurisdiction allow for reincorporation to a more hostile takeover friendly states.

### *Path Dependency*

Variations in corporate governance reflect the evolution of economic systems. Whether by historical accident or political compromise, the initial direction of the economy dictates its future path to a particular system. As argued by Roe M J, (1994) the development of relatively small scale financial intermediaries in the US and UK was partly due to tradition which was sceptical of shareholder concentration and power. For example the Banking Act of 1933 or the Glass-Steagall Act grew out of a depression-era notion that the USA financial house can best be kept in order if bankers and brokers stay in separate compartments. Much smaller to their European and Japanese counterparts in proportion to domestic Gross National Product, financial institutions were dwarfed especially in the US due to distrust in concentrated power. This distrust is what has resulted in the Glass-Steagall Act of 1933 in the US.

As stated earlier, political compromises have also led to a lifetime employment in Japan and 'codetermination' in Germany. The beginning of the economic evolution in Germany and Japan for example, saw heavy reliance on debt and growth, the optimal governance solution will unlikely be shareholder profit maximisation. Therefore, where path dependency determines the issue of financial structure, invariably, governance structure becomes dependent variable.

Considering the path of dependency theory, the convergence towards a single system determined

by market forces seems unlikely. However, it is argued that a functional convergence that is sufficient to achieve competitive equivalence and maintain the local firm's cost of capital at basically comparable level may be attained with least resistance.

### **Towards Convergence: Market Forces or Regulation?**

The German Stock Corporation Act, 1965, secs. 76 and 95 make it mandatory for the task of management and supervision to be separated. The management board (Vorstand) is responsible for managing the company and the supervisory board (Aufsichtsrat) advises, appoints and dismisses members of the Vorstand. Functionally, the UK and the German boards perform similar functions. The Hampel Report (Committee on Corporate Governance 1998, Summary No. 10) however recommended one-tier board for the UK. There is a fundamental homogeneity of board split up in both systems. In the UK for example, a movement towards independent/outside directors on the board with a special function of control, is a distinct and a novel separation of management and control in the market system of corporate governance, (Cadbury Report 1992, 4.9: Code of Best Practice No. 1.20). Furthermore, the Cadbury Report has recommended the separation of functions of the CEO and the Chairman of the board. The difference in the two systems is that whiles the German two-tier board (and also in the US through the Sarbanes-Oxley Act 2002) is established by law, the UK adopted the code approach. One significant change that could not be realised in German boards is the deregulation of the mandatory size of the board which is largely determined by codetermination policy.

Significant areas of homogeneity are the use of committees composed of outsiders for remuneration, auditing, nomination, transparency and reporting, improvement of internal control, and limitation of board seats for members. The standard of conduct of directors in both systems remains largely similar. Duty of care is determined by evolving business judgement rule in both systems. Enforcement of duty of care remains



problematic in the UK. The questions of how an objective standard can meet the twin requirements of 'incentivising' the director to fulfil the functions of his role, without imposing liability for risks which are outside his control remain problematic. Riley C, (1999) argued that, too close a scrutiny of business decision may inhibit legitimate risk taking. At the other end, directors may avoid taking risky decisions and so miss out on opportunities which are essential for a successful dynamic business. This situation makes outside directors ineffective which consequently creates room for 'free riding.' The German system is not also immune from this problem due to cross shareholdings and reciprocal votes.

Incentivising directors through the use of stock options in the UK and USA has increased. According to Holderness et al (1998), managerial ownership amounted to 12.2 per cent of total equity in 1995 for NYSE companies. There is also an increase in institutional investors which used to be more prevalent in the Continental Europe. In addition, the deregulation of the banking system in the US (i.e. the abolition of The Glass-Steagall Act 1933 and the Bank Holding Company Act, 1956) would, in the long term, free the banks in playing more active roles in the corporate governance system, just like their counterpart in Continental Europe.

Takeover bids are self regulatory in the UK by the Panel with its City Code of 1968, on takeovers and mergers. In Germany, the German Insider Trading Guidelines of 1970, which was criticised for its lack of transparency has been replaced by the German Takeover Code 1995 (as amended 1997). This is in line with European Insider Trading Directive of 1989. Nevertheless, the neutrality principle and mandatory bid elements of the Takeover regulation has not yet been incorporated into the German Law. However, the German takeover Code of 1995 has at its core these two elements. Other European countries have successfully adopted the UK self regulatory system.

Accounting regulations and auditing of financial statements are further areas to examine in the search for convergence. The German balance

sheet law is said to be creditor friendly. Hidden reserves continue to dominate the balance sheet of the German banks and insurance firms. However the attraction to New York Stock Exchange (NYSE) of German firms e.g. Daimler-Benz, and the increasing number of other European firms, in order to get listed in the US to facilitate capital raising, has forced Germany to fashion out its legislation to conform to internationally accepted standard. For instance, Kapitalaufnahmeerleichterungsgesetz – KapAEG of 20.4 1998; Federak Gazzette 1998 1 707 section 2 subsection 2 No.2b stipulates that the balance sheet should comply with 7<sup>th</sup> European Directive. Furthermore, to keep up with international competition, the German board in 1997, lifted the role of the statutory auditor to supervisory board level. This corresponds with both US (Sarbanes-Oxley Act 2002) and the UK (The Combined Code 2000 Section 1 D.3) systems. It could therefore be argued that, national corporate laws facilitate corporate systems harmonisation. For example, the Sarbanes-Oxley insider trading prohibition affects not only US companies. The Act applies to all companies required to file periodic reports with the Security Exchange Commission (SEC). Companies that seek access to the US capital markets are also affected by this Act.

### The European Union Effort

Article 54(3)(g) of The Treaty of Rome requires all European Union (EU) member states to coordinate laws that will seek to protect shareholders and the dealings with the firm. The purpose is to ensure that laws enacted in Europe should be of same standard. It lends support to the idea that firms based anywhere in the EU can carry on business through the medium of a company incorporated under the Companies Act (1985) of UK. When that happens, countries corporate governance laws with the exception of tax will begin to be similar. The competition to attract companies like the US experience (Delaware) may also become a part in the European Union. The flexible regulation of business operation which is common in the US may motivate EU governments to pass laws that will attract firms and thereby change some of their

corporate governance laws.

The 7<sup>th</sup> European Directive is also a feather in the cap of EU harmonisation of corporate governance systems. The Fourth and Eight European Union Directives have achieved modest success in harmonising the auditing practices in Europe. The European Commission Report in 1996 largely collated the Cadbury Report and other codes within the EU in order to fashion a more acceptable and binding Directive which will harmonise auditing regulations and practices in Europe.

### **Legal Requirements of Corporate Governance in Ghana**

The legislations governing corporate governance practices in Ghana include the Companies Code 1963 (Act 179), the Securities Industry Law 1993 (PNDCL 331) as amended in 2001, and the Ghana Stock Exchange Listing and Membership Regulations. These provide regulatory framework for the establishment and operations of companies and the practice of corporate governance. The Securities Industry Law and the Regulations of the Ghana Stock Exchange ensure shareholders' rights and the transfer of shares. They also provide for shareholders access to information and participation in decision making.

The Companies Code made provisions that regulate the internal governance of businesses registered in Ghana either as public limited liabilities or as private limited companies. The public limited liability companies are permitted to raise equity or share capital from the general public. Their outstanding shares may be listed for trading on the stock exchange. In contrast, private limited liability companies are not permitted to raise equity from the general public. Consequently, their shares are held by a limited number of shareholders and cannot be listed or traded on the stock exchange.

The provisions in the Companies Code are designed to ensure that corporate entities do not create room for management or majority shareholders to cheat other investors or minority

shareholders. In addition, the Companies Code deals with such important matters as the practices and constitution of board of directors of a company; qualifications of participating managers; methods for ensuring accountability to shareholders; the powers and duties of directors; issues of conduct on the part of directors that constitute conflict of interests; remedies for a breach of duty by a director; regulations designed to protect the stated capital of the company; authority of the Registrar General to register all companies and to ensure compliance with the provisions of the Code through such means as investigations, requests for information, and appointment of inspectors, etc.,. The Registrar General is further empowered to initiate judicial proceedings to wind up a company and to bring judicial proceedings against the board, a director, former director, officer, or any third party of the company.

### **Discussion**

Forces driving the convergence need to be comprehensively and rigorously examined. Relative share prices and the role of multiple foreign listings are direct explanations of convergence in corporate governance. Furthermore, the rapid internationalisation of the world's most important financial markets provide a compelling impetus for change in and convergence of corporate governance. It is significant to note that the convergence is as a result of different corporate governance systems reacting to the same set of international challenges such as high stock prices; rapid technological change; internationalisation of capital markets; growing importance of institutional investors across the world; and increased interaction and unification of regional blocks. With these developments, governance systems come to converge over time.

For Ghana to position herself for international capital inflows for investments, the investors would have to have confidence in the country's corporate governance system. It will therefore be presumed that the corporate governance laws and practices must be seen to be similar to the existing global and



tested ones. Customisation of corporate governance principles to suit only local needs may not be beneficial to the country in the long run.

Ghana's Companies Code has not brought corporate governance practices in Ghana to the reasonably accepted standards expected by the law. Evidence suggests that the governance provisions of the code are most often violated. The reason being that the clearly out-dated (1963) Companies Code no longer provides adequate legal framework which is responsive to the dynamics of modern day global business operations and corporate governance systems. Self-dealing by corporate management and insiders is rife in Ghana because of lack of enforcement of relevant laws; lack of well developed local capital market; excessive government interference in the operations of state-owned companies; and ignorance of shareholders about their rights and obligations are some of the factors that weaken Ghana's corporate governance system.

The initial direction of Ghana's political philosophy and economic path dictate the nation's current corporate governance. The history of corporate governance in Ghana is embedded in the socialist ideology of state owned enterprises or the notion of state ownership of businesses. Despite the implementation of the divestiture and privatisation programmes and the significant changes in the ideological context of state-owned enterprises from the socialist concept to the new free market ideology, the pattern of corporate governance for state owned enterprises in Ghana remains practically unchanged. Corporate governance under this system is characterised by politics, patronage, and populism which are largely accountable for the continuing under-performance of state owned companies, colossal financial losses, and corruption. Unfortunately, the practice of corporate governance in the state enterprises has also negatively affected the private sector. According to Kwasi Prempeh H., (2002), the "habits of governance learned in the state enterprises sector, have spillover effects on the nature and quality of governance in the private sector and national government".

In order to adopt and implement effective and globally relevant corporate governance systems, the country's economic path would have to be clearly defined by government. The situation where government states an economic path, but in practice implements a different economic ideology, is not only confusing to industry but negates on effective corporate governance system of accountability.

External controls on corporate governance practices are dependent in part on the existence of well-developed capital markets. In essence, companies that are perceived to have poor corporate governance are punished in the capital market with low share price and high interest on borrowings. Ghana's capital market is not sophisticated enough for shareholders to exercise effective external control through low share price. In addition, the majority of the companies in Ghana fall under the private limited liability category and are therefore immune from the measures of the capital market. The problem is further compounded by the weak administrative enforcement of the Companies Code by the Registrar General. This leaves the Code to rampant and wide abuse.

The banks should be encouraged and monitored to enforce rigorous and sound lending practices. This would ensure that borrowers maintain sustainable debt-equity ratios as well as comply with all the governance provisions of the Companies Code. This measure will address under-capitalisation of private companies and the other problems related to debt-ridden corporate balance sheets. It is therefore of much importance for banks to establish constantly updated clients' databank in Ghana to facilitate quick due diligence and access to company information the newly enacted Credit Bureau law would go a long way in this regard.

Furthermore, there should be established a well coordinated collaborative effort within professional and regulatory organisations such as the Private Enterprise Foundation, the Ghana Chamber of Commerce, the Association of Ghanaian Industries, the Ghana Stock Exchange, the Institute of Directors etc., to promote good

corporate governance. This can be done through education and fora as well as some punitive measures for members who have poor corporate governance record. ■

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*You are not here merely to make a living. You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand.*

*Woodrow Wilson*

## E-BUSINESS IN THE GHANAIAN TOURISM INDUSTRY

Robert Ebo Hinson

### Abstract

**Purpose:** Ghana's tourism sector is hypothesized to be a major economic growth catalyst. The role of e-business in improving the fortunes of Ghana's tourism sector cannot be overemphasised. This exploratory study sought to generate a preliminary understanding of the benefits of e-business to tourism firms in Ghana and also to ascertain the commitment of top management to e-business development in Ghanaian tourism firms. **Design/Methodology/Approach:** The study was exploratory and adopted a small scale survey approach. Data was collected by final year undergraduate students in the University of Ghana Business School from 60 tourism firms in Ghana. Presentation of findings is by simple descriptive statistics.

**Findings:** The Research revealed that 56% of Managing Directors of Ghanaian tourism organizations are e-business champions. Advantages of e-business to tourism firms are distributed nearly proportionately across various firms' improvement parameters such as improvement in marketing management (14%) as well as improvement in process management (13%). Also reported were improvements in marketing communications (12%), human resource management (10%), as well as improvement in distribution (9%). Other benefits reported were improved logistics management (8%), efficient financial management (8%) as well as e-scouting (4%).

**Research Implications:** This study is the first in a series of studies that will investigate website use, Internet use, and e-commerce usage in Ghanaian tourism firms. This first study, therefore, provides some basis for hypothesis formulation in the upcoming studies alluded to earlier.

**Limitations:** The Study is exploratory and therefore does not make any generalisable claims. It is only useful as an initial eye-opener to e-business issues in Ghana's tourism sector.



**Originality/Value:** One of the few studies focussing on e-business adoption in the tourism sector in West Africa, in spite of the growing importance of the tourism sector.

## Introduction

### E-Business in the Global Tourism Sector

Tourism is one of the fastest growing industries the world over. According to the UNWTO (2007), Africa has, for two years in a row, been voted the fastest growing continent for tourism. In the past 30 years, the tourism industry has been influenced by three major waves of information and communication technology (ICT): the Airlines Computer Reservation System (CRS) in the 1970s, the Global Distribution System (GDS) in the 1980s, and the Internet from the mid 1990s onwards. The latter, in fact, seems to have had the strongest impact on the tourism sector. ICT and Internet usage research in respect of the tourism industry has been conducted from user perspectives (Law, Leung and Wong, 2004 ; ) and from tourism provider perspectives (Raymond 2001, Anckar and Walden 2001, Buhalis and Main, 1998).

It would seem that the tourism industry has been fairly proactive regarding the adoption of new technologies (e.g. global distribution systems). Recent advances in telecommunications, networking databases, data processing, and electronic marketing provide many new opportunities for tourism business and are significantly impacting on traditional tourism business models. The use of information and communications technology (ICT) adds value to tourism services and products and supports the development of industry networks and clusters. ICT/E-business has the ability to impact the whole tourism value chain (e.g. information on destination, accommodation, transportation, package tours and services) and affect process management and service delivery in the global tourism sector.

The adoption of ICT in the tourism industry is transforming the role played by tourism actors such as travel agents, tour operators, conference organizers, booking agents, etc. ICT systems

provide detailed up-to-date information on the availability and prices of products and could also contribute to increased sales volume and profits. The application of ICT in the tourism industry is inevitably leading to a process of disintermediation and contributing to industry restructuring and innovation. This paper sets out to explore in a preliminary fashion, the uses to which players in Ghana's tourism sector are putting e-business/ICT. The first section of the paper highlights the utmost importance of e-business in the global tourism sector, whilst the second section of the paper stresses the increasing pivotal role of tourism in improving the economic fortunes of Africa. Section three of the paper discusses the potential for e-business development in Ghana's tourism sector. Section four of the paper dwells on management commitment and benefits of e-business usage for tourism firms. Section five and six showcase the study objectives and methodology adopted for the study; whilst sections six and seven conclude out the paper appropriately with the presentation and discussion of the study findings, as well as indications for future research.

### Tourism as an African and Ghanaian Growth Catalyst

All across the African continent, it would seem that tourism is perceived to be a major economic growth enabler. Countries like Kenya, Tanzania, The Gambia, Egypt and several other African countries have long thrived on the economic gains made from the tourist trade. The Sunday Times of South Africa (15<sup>th</sup> June, 2006) noted that that South African tourism industry saw a 19.7% year-on-year increase in the 2<sup>nd</sup> quarter of 2005 in total foreign direct spending. The same report noted that the South African government was targeting 7 million foreign visitors (tourists) in 2006; and more profoundly that while South African gold mines generate \$5 billion in revenue, tourism generates \$8 billion in revenues.

In a country like Ghana, there have been several announcements by policy makers on how Ghana intends to improve its international competitiveness and economic fortunes using tourism as a central catalyst. Tourism has been identified as one of the three most important socio-

economic activities and the fastest growing sector of the economy. Tourism has become the largest 3<sup>rd</sup> foreign exchange earner for Ghana after the traditional exports of cocoa and gold. It contributes over 16% of annual total foreign exchange revenue. From 1992 to 2002 tourists arrivals in Ghana increased from 213,316 to 482,643 with a corresponding increase in receipts of 166 million US Dollars to 519.57 million US Dollars in 2002. Based on this trend, the Ministry of Tourism and Modernisation of the Capital City (MOTMCC) has projected tourists arrivals of 1 million with accompanying receipts of 1.5 billion US Dollars and 300,000 jobs to be created by 2007 under the Ghana Five-Year Tourism Action Plan. With the exception of a few multinational businesses in Ghana's hotel sub-sector, and a few travel and tour agencies, all tourism enterprises in Ghana are small and medium sized enterprises (SMEs). The prevalence of SMEs in Ghana's tourism sector is consistent with Dieke (2003) who observes that the African tourism sector is mainly populated by small and medium enterprises.

There are several examples of public and private sector initiatives in Africa that are specially geared towards attracting more tourists or visitors to Africa. In a pre-research chat with Pak Wo Shum, CEO of Travel King (Ghana's leading corporate travel provider) he acknowledged the importance of tourism to Africa's development and noted that one of the key success factors for companies operating in the tourism sector is the ability to incorporate electronic practices into the management of the tourism business. It is no secret that globally, the major players in the international tourism business are increasingly technology-based. They engage in a fair amount of electronic business in order to meet their corporate and strategic goals. E-business in the tourism sector is important because it has the potential of improving the productivity of firms operating in the tourism sector. Given the importance of e-business to Ghana's tourism sector, the study seeks to investigate, in an exploratory fashion, issues surrounding e-business practices among Ghanaian tourism firms.

## **Tourism in Ghana and the potential for E-business development**

For the purposes of this study, we will adopt the e-business definition of Hinson and Sorenson (2006). E-business in this study will therefore be taken to mean the "use of information and communications technologies in all activities of a firm both internally and in relation to its outside partners". E-business is also defined by Hinson and Sorenson (2006) as "the application of information and communication technologies (in online and offline format)" to execute or facilitate the execution of organisational functions like financial management, marketing management, strategy leverage, production management, information systems, logistic management, customer relationship management, and human resources management".

The tourism industry in Ghana consists of many companies dabbling in various activities, ranging from tour operators to cafés and restaurants. The companies are SMEs and the types of enterprises that comprise the tourism industry are: tour operators, travel agents, tourist guide services, airlines, transportation bureaux, restaurants and cafés, hotels and guesthouses, museums, historical sites and buildings, sports and recreational sport services, nature reserve services, tourism education and training institutions, local tourist offices, and craft industries (European E-business Market Watch). It is important to note that even though these classifications are essentially European, they mirror the Ghanaian tourism situation. Within the discourse on the information society and the e-economy, ICTs are seen as major tools with the potential to fundamentally change business behavior and company strategies. The Internet has provided a new economic environment in which virtual business can be conducted. Many tourism businesses could develop their Internet capacities and benefit from the tremendous potential the Internet offers.

## **Management Commitment, Perceived Benefits, and E-business Usage**

I.T. innovations are useful for the development of small tourism firms; the world over. E-business



adoption could lead to reduced costs and improved customer service. The problem with e-business adoption however is that in almost all cases, top management of small tourism firms may feel that the cost of implementing e-business is too high. Additionally, top management may also feel as if there is too huge a lag time between initial e-business investments and when e-business eventually pays off by means of improvements in organisation productivity.

Top management of tourism firms would normally comprise individuals with authority to make strategic decisions (Aghaunor and Fotoh 2006). Aghaunor and Fotoh (2006) further declare that top management could develop a clear cut e-business/e-commerce vision and cascade signals to every part of the organization about the importance of e-business/e-commerce adoption. IT innovations like e-business will be more likely to succeed if the political environment within the tourism firm has norms that are predisposed to change (Tolbert and Zucker, 1983). Additionally top management support has been identified as a key predictor in the acquisition and diffusion of innovations (Orlikowski, 1993). Top management involvement in understanding e-business issues is critical for the mobilization of an organisation's stakeholders in an e-business direction (Epstein, 2004). Given the critical nature of top-management commitment to e-business development, one of the focal points of this research project is the investigation of top management commitment to e-business in Ghanaian tourism firms.

E-business/e-commerce deployment offers benefits to small firms in several ways. E-business is helping to foster productivity enhancement and cost reduction (Wenninger, 1999), higher customization (Choi and Winston, 2000), and improvements in organisation learning (Collins et al, 2003). The benefit of e-business to tourism businesses is an issue that has been reported on in contrasting terms, in the literature. Scholars like Braun (2004), Danielle and Mistilis (1999), and Hollick (2003) have noted that "despite all the benefits that can be achieved by ICT, many small and micro-tourism businesses have failed to embrace ICT and the Internet."

On the converse, scholars like Collins et al (1993), Mitchell (2003), and Louvieris and Lockwood (2002) maintain that Internet access is on the rise amongst small tourism businesses; tourism businesses are using the internet and ICT for active learning. They believe that the use of online environments and flexible learning can boost opportunities for the development of e-commerce and e-business skills. Given the contrasting views of perceived benefits and usage of e-business amongst tourism firms, this paper has adopted as two of its main investigative parameters; the issues of perceived benefits of e-business and e-business usage levels.

### **The Research Gap and Study Objectives**

The WTO in Africa Report, 1996-2003 ([www.world-tourism.org](http://www.world-tourism.org)) states on page 2 that:

*"Africa, with an estimated 29 million arrivals in 2002 is expected to increase its market share from 2.5% to 5.0% by 2020, representing an increase of 48 million in absolute terms. It is therefore up to Africa to ride this upward trend and to maximize economic benefits of tourism by diversifying its tourism products and concentrating even more on developing ecotourism, multiplying community-based tourism development projects, and making better use of new information and communication technologies, which have become essential in today's world."*

The importance of ICTs, e-business, e-commerce, and Internet applications in improving tourism productivity cannot be over emphasized. E-business and technology research carried out in respect of tourism has included work done in the United Kingdom (Wood 2001), United States (Tierney 2000), Taiwan (Wan, 2002), Canada (Hudson and Lang, 2001), and Greece (Vrana and Zafiropolous, 2006). Internet and e-business research that relates to the tourism industry has also been conducted from a strategic perspective research (Buhalis, 1998 and Baines, 1998) and from a value chain perspective (Wynne et al, 2001).

Research on e-business technology and Internet applications focussing specifically on West Africa

have dealt with the exporting sector (Hinson and Sorensen, 2006; Hinson 2005, Hinson and Abor, 2005), the education sector (Hinson and Amidu 2006, Hinson 2006) banking sector (Hinson, Ofori et al and Ayitiah, 2006; Hinson and Abor, 2004) and from e-commerce perspective (Saffu et al, 2006). Focussed research on e-business/online activities of African countries and African tourism operators has been carried out by scholars like Mzumbe 2005; Opoku and Hinson 2006, Ndayishimye and Habiyakare, 2005; Wagner and Van Belle, 2005. No research has been carried out to date that focuses on Internet/E-business practices in Ghana's tourism sector; and therefore this exploratory study is positioned to begin to fill that gap.

The objectives of this study are therefore threefold:

- (a) An ascertainment of the commitment of top management of tourism firms in Ghana to e-business.
- (b) An ascertainment of the perceived e-business benefits from tourism in Ghana's tourism industry.
- (c) The level of e-business usage in Ghana's tourism sector

### Methodology

Given the exploratory nature of this research, a small scale quantitative research design was deemed appropriate for investigating the research issues under consideration. This research was concerned with obtaining preliminary insights into top management's commitment to e-business and the perceived e-business benefits amongst tourism players in Ghana. We also investigated e-business usage levels amongst the tourism firms sampled for the study. The research exercise was focussed on generating initial insights for formulating hypothesis, for a national study or practices of Ghanaian tourism operators. In a pre-research chat with the officials of the Ministry of Tourism and Diaspora Relations in Ghana, it was revealed that the major contributors to Ghana's tourism fortunes were tourism players from the hospitality industry (including hotels, guest houses, restaurants, etc),

travel and tour establishments (including land tour agencies, travel agencies, car hire services, etc), and recreational establishments (including night clubs, theme parks, marine and water base recreational facilities etc). The objectives of the research were explained to the officials of the Ministry. Given the exploratory nature of the research, they were asked to recommend twenty firms each which are operating in these three tourism sectors identified and which are situated in the capital city of Accra. The reasons for limiting the respondents to Accra were informed by two main reasons:

1. It would have been a logistical nightmare to conduct a nation-wide study. Given the exploratory nature of this research, a nation-wide study was deemed superfluous.
2. This research was exploratory and therefore an Accra-based study would assist in generating new ideas about construct and measurement methods for a later quantitative oriented nation-wide study of e-business practices in Ghana's tourism sector.

We adopted a convenience sampling technique.

In all, 60 tourism players were contacted to participate in the research. These 60 firms were equally chosen (20 each) from the hospitality, travel and tour, and recreational establishments. All 60 questionnaires were returned, of which 43 of them were deemed useable. The data collection instrument was a 50 item questionnaire which was designed in line with the research objectives of the study, namely:

- (a) Benefits of e-business to tourism operators in Ghana
- (b) Role of top management in facilitating e-business adoption by tourism operators in Ghana.

The questionnaire was pilot tested on 15 respondents (5 each from the hospitality; travel and tour; and recreational establishments). This was to ascertain the reliability as well as the generalisability of the instrument in use. Analysis of



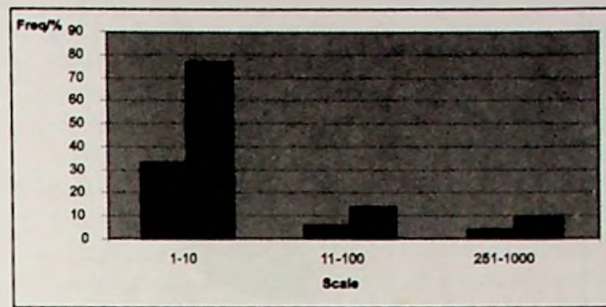
results from the pilot study indicated that the coefficient (Cronbach) alpha reliability for the data collection instrument was .96. This confirmed that the instrument used to measure the attributes of interest were reliable. It also meant that the items in the data collection instrument were thoroughly understood by respondents and could measure the constructs under study. The generalisability of the instrument was therefore confirmed. A seven-point likert scale was adopted for the questionnaire with items ranging from strongly agree to strongly disagree.

Data collection was led by the researcher because he has considerable experience in Internet-related ICT, and e-business research issues. He was assisted by 30 final year (bachelor of science in administration) students at the University of Ghana Business School. The research assistants were schooled in the art of interviewing and data collection. To ensure the highest level of data integrity, we restricted the interviews to only marketing or ICT managers in the various tourism firms because in a pre-research screening, it was ascertained that they possessed the best ability to deal with issues of e-business adoption.

### Presentation and Discussion of Findings

Tourism organisations in Ghana mainly employ between 1 and 10 employees. This represents 77% of the total range of employees across the various organisations. Only a few employ between 11 and 100 (14%) or 251-1,000 (9%) employees as presented in figure 1. Majority of the firms (77%) employ a maximum of 10 employees lending credence to the fact that a majority of the respondent firms were small firms. In small firms, the owner/managers wield tremendous amount of influence in deciding on major investment decisions. It was therefore decided to investigate the pre-disposition of top management/managing directors (of these small tourism firms) to e-business adoption and their willingness to commit resources to e-business development.

**Figure 1: Size of Organisation by Employees**



According to Table 1, top management of Ghanaian tourism organisations agree to e-business utilization (86.1%). Additionally, it appears top management have realized benefits in utilising e-business and have therefore supported e-business deployment initiatives. According to Table 2, 72.2% of top management in Ghanaian tourism firms agree to commit financial resources to e-business development.

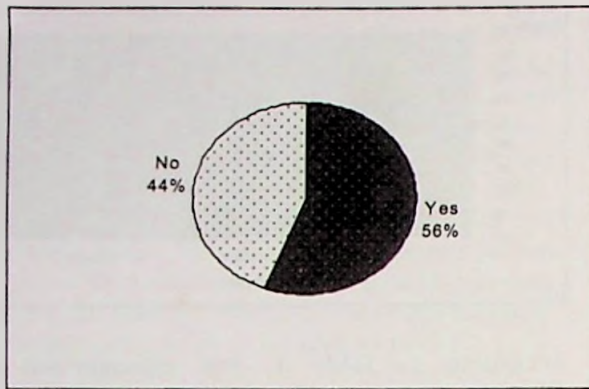
**Table 1: Is Top management agreeable to e-business utilization?**

	Frequency	Percent
Strongly agree	20	46.5
Agree	15	34.9
Somewhat agree	2	4.7
Don't know	4	9.3
Somewhat disagree	-	-
Disagree	2	4.7
Strongly disagree	-	-
Total	43	100

**Table 2: Comment of Top Management to Devote/Commit Financial Resources to E-business Development.**

	Frequency	Percent
Strongly agree	18	41.9
Agree	11	25.6
Somewhat agree	2	4.7
Don't know	12	27.9
Somewhat disagree	-	-
Disagree	-	-
Strongly disagree	-	-
Total	43	100

**Figure 2: Is your MD an E-business Champion?**



The effectiveness and success of any organisational policy is by far determined by the extent of top management commitment to the policy. According to Figure 2, 56% of Managing Directors of Ghanaian tourism organisations are champions of e-business. This was encouraging to the extent that this finding could provide a basis for total e-business use by these firms in the near future. Most of these organisations have no policy document on e-business. According to Table 3, only 18.6% have a written policy on e-business. However, it is hoped that management of these tourism firms will push towards institutionalizing e-business by beginning to develop policies to guide organization-wide e-business deployment and use. This finding about the importance of ICT/e-business for Ghanaian tourism firms is inconsistent with Law and Jogaratnam (2005). They found in a study of IT applications in Hong Kong hotels that "hotel decision makers do not seem to realize the importance of IT for the purpose of developing business strategies."

**Table 3: Does a Written E-business Policy Exist in Your Organisation?**

	Frequency	Percent
Yes	8	18.6
No	35	81.4
Total	43	100

According to Table 4, a relatively significant number (51%) of tourism organizations do not have websites.

**Table 4: Uses of Company's Website**

	Frequency	Percent
Advertising	11	24
Public Relations (PR)	5	11
E-commerce	2	4
Direct marketing	8	18
Display product catalogue	2	4
Information about corporate brand	3	6
Information in product brand	5	11
Strategic differentiator	3	7
As part of total communication strategy	6	14
Total	43	100

According to Table 4, the major uses to which Ghanaian tourism firms put their websites were advertising (24%) and direct marketing (18%). Websites were also used as part of a total communication strategy (14%). The least use to which websites were put was the passing out of information about the corporate brand (6%).

The significance of the responses to marketing communications (website for advertising, PR, direct marketing, passing out information about corporate and product brands) is that tourism firms in Ghana seem to understand that the Internet is a useful marketing communication, integral to getting them to establish a global presence. It was also refreshing to note that 14% of the respondents understood that having a web presence only represents part of a total marketing communications strategy. Online communications must be closely aligned with brick and mortar activities. Only 7% of the respondents understood that a web strategy could be used as a strategic differentiator in helping to position the firms internationally. The implication of this finding is that even though there seems to be an appreciation of websites, a clearly formulated strategic web plan was missing in all of the firms interviewed. A total of 11% of the firms have e-commerce enabled websites. However, this only means that they receive requests for business via the internet but payment still has to be made offline since Ghanaian tourism firms are unable to handle credit card transactions. This finding about combining online and traditional channels in e-



business is consistent with Law Leung and Wong (2004) who found in a study on the impact of the international travel agencies that online and traditional channels can co-exist.

**Table 5:** Advantages of E-business To Tourism Firms In Ghana.

	Frequency	Percent
E-scouting (research)	2	4
E-commerce	4	9
Improved logistics management	4	8
Improvement in financial management	2	6
Improvement in human resource management	4	10
Improvement in marketing management	6	14
Improvement in knowledge management	4	9
Improvement in information management	3	6
Improvement in distribution	4	9
Improvement in marketing communication	5	12
Improvement in process management	6	13
Total	43	100

It is interesting to note that the advantages of e-business to tourism firms are distributed nearly proportionately across various factors such as improvement in marketing management (14%) as well as improvement in process management (13%). Also reported were improvements in marketing communications (12%), human resource management (10%), E-commerce (9%), knowledge management (9%), as well as improvement in distribution (9%). Other benefits reported were improved logistics management (8%), efficient financial management (8%) as well as e-scouting (4 %). Not surprisingly, the greatest benefits of e-business to Ghanaian tourism firms are in the area of marketing management (14%). This finding further buttresses the marketing communications benefits (12%) accruing to some tourist firms in Ghana by virtue of their websites. The improvement in marketing practices by virtue of e-business is consistent with Aksu and Tarcan (2002) who made similar findings in a case study of

the Internet and five star hotels in Turkey. It is important to note that astute marketing management for these tourism firms (must in addition to improvements in marketing communications) also means improvements in people/human resources management, process management, distribution management, and knowledge management. These marketing management attributes scored the highest (10%, 13%, 9%, 9%). The improvement in process management is consistent with Martin (2004) who found in a study on "Internet Impacts in Small UK Hospitality Firms" that "small hospitality firms have adopted the Web and used it; as a result, they have changed business processes."

Unfortunately, only 4% of the firms studied use e-business as a vehicle for conducting research. This is an area of weakness that must be improved upon. Interestingly the Internet is used as a source of locating knowledge (hence the appreciable scores on people and knowledge management) for improving the skill level of firm employees, but not for researching information that could be fed into strategic decision making.

### Conclusions and Implications for Future Research

We conclude that e-business is delivering some benefits to Ghanaian tourism firms, but the understanding of e-business/ICT issues still remains at an operational level. E-business needs to be viewed as a strategic resource for improving the competitiveness of Ghanaian tourism firms.

Firms in Ghana's tourism sector need ICT/e-business planning skills infusion to place e-business at the centre of their organisational strategies. The Ministry of Tourism and Modernization of the Capital City is in the process of constructing a world-class tourism school in Ghana and e-business should be a part of that school's curriculum. In the meantime, focussed case studies must be carried out to further corroborate the findings of this exploratory study and then a nation-wide study will be conducted to reach more generalisable research conclusions. Ghana is big on tourism and Ghana is also big on ICT. The talk about making tourism and ICT major catalysts in Ghana's economic drive should not

remain mere rhetoric. E-business should be brought to life in a very forceful manner in Ghana's tourism sector. ■

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## RE-DENOMINATION OF THE CEDI: ESSENTIAL ISSUES AND CHALLENGES

Paul Onyina Adjei

### Abstract

In the last quarter of 2006, Ghana decided to re-denominate its currency, the cedi, in July 2007. This generated a lot of arguments and debates in the country. The exercise was seen as waste of scarce resources.

Many people did not even understand the term. It is therefore important to attempt a write up that perhaps will try to answer some of the questions on the re-denomination of the cedi.

The study takes a look at what re-denomination is all about and the extent to which some countries had redenominated their currency over the years. A review was made of similar exercises in Zimbabwe, Turkey and Romania in recent times. The conditions needed for a smooth re-denomination and the prevailing economic conditions in Ghana are analyzed here. The paper also looks at the history of re-denomination in Ghana and the way forward for a smooth exercise.

### Introduction

The announcement by the Governor of the Bank of Ghana about the re-denomination of the cedi added another term "re-denomination" to the monetary, business and public domain in the country. Before that announcement, the term was somehow alien to most people in the country. The narrowest definition of re-denomination is, a simple conversion of a value expressed in one currency unit to another using a conversion factor."

In a broader sense, re-denomination is the process whereby a country's currency is recalibrated due to the effects of significant inflation and continued currency devaluation. As prices rise steadily over a long period of time, economic values are expressed in larger figures which move into millions, billions, trillions, quadrillions and so on.

It is therefore evident that, re-denomination is undertaken to address certain economic problems that a country has encountered or encountering.

In the case of Ghana, the **cedi** (currency in circulation **prior to July 2007**) is the currency unit which will be recalibrated to be equivalent to the **Ghana Cedi** (currency in circulation from July 2007) which will be circulated. Nevertheless, re-denomination exercises go beyond that.

### Statement of the Problem

Money, according to Colander (2004), is a highly liquid financial asset that is generally accepted in exchange for other goods, is used as a reference in valuing other goods, and can be stored as wealth. Money makes trade possibly easier and faster. However, in Ghana, the old current notes in circulation place a heavy deadweight burden on the economy in a lot of ways. The associated problems include high transaction costs at all places; general inconvenience; high risks involved in carrying loads of currency for transaction purposes; increased difficulties in maintaining accounts, and statistical records and ensuring compatibility with data processing software; and the strain on the payment system with special reference to ATMs.

There are alternative measures of money which include  $M_1$ , (currency in the hands of the public, checking account balances and traveler's checks),  $M_2$  ( $M_1$  plus savings deposits, small-denomination time deposits, and money market mutual fund shares), and  $L$  (beyond  $M_2$ ), Colander (2004). These definitions of money do not include credit cards because as he puts it, they are essentially pre-arranged loans, but they include financial assets which are also affected by re-denomination in terms of value.

It has been argued by McConnell and Brue (1996) that money, which they called currency and checkable (chequeable) deposits, should have intrinsic characteristics which will give them value if they are not backed by gold or other precious metals. It is these characteristics that make money to function effectively in an economy. It should have some attributes which will enable it to function well so as to avoid the deadweight burden. Some of these characteristics are: money

should be acceptable and durable to reduce printing cost. Apart from these, money should be homogeneous in that the various denominations should only differ with the serial numbering.

Other attributes of money are that it should be highly divisible and portable. Considering its divisibility, while the (old) cedi was divided into various units, the question we should ask ourselves is, are all the units being used? When was the last time anyone used coins such as the 5 cedis, 10 cedis or 50 pesewas? Your guess is as good as mine. On the portability of the cedi, nobody can argue that the cedi is not portable.

McConnel and Brue argued that the value of money, like the economic value of anything else, is a supply and demand phenomenon. They argued that money derives its value from its scarcity relative to its utility. This means that for money to function effectively in an economy, it should be scarce.

There appears to be a problem with scarcity of money. When you cash € 30 million from a bank, is it portable? Can you conveniently check the money at the counter? If all the €30 million is in two thousand cedis denomination, what will be your reaction? What if it is in one thousand cedis denomination? It will be extremely large and the deadweight burden will become so high that it will erode the attributes of money. On the accounting system how can you deal with the following?

- 1,000, 000, 000 - one billion (9 zeros)
- 1,000, 000, 000, 000 - one trillion (12 zeros)
- 1,000, 000, 000, 000, 000 - one quadrillion (15 zeros)
- 1,000, 000, 000, 000, 000, 000 - one quintillion (18 zeros)

The concluding remark here is that, notwithstanding the role that money plays in an economy, people may lose trust in the use of money with time as shown above. In such a situation, re-denomination when undertaken in a timely manner will solve this problem so that people will not lose the trust they have in the currency. These are some of the issues that should be considered before re-denomination is

undertaken and which will be discussed in this write-up.

### Style of Presentation

After the introduction in **Section One** and statement of the problem, we will take a look at re-denomination at the international level through the experiences of some countries. **Section Two** takes a critical look at three countries that have redenominated their currency in recent years. The countries are Zimbabwe, Turkey and Romania.

**Section 3.0** looks at a brief history of re-denomination in Ghana and attempts to survey the state of the economy by looking at some selected macroeconomic variables which are required to be considered for effective re-denomination. The expected problems and benefits outlined in the conclusion in Section Three. The last section, section four, will look at the way forward for a smooth implementation of the exercise based upon which we will advocate strategies for enabling the success of the exercise.

### International Experiences of Re-Denomination

In this section, we look at the re-denomination experiences of some countries around the world. History has shown that world-wide, about 70 operations of re-denomination have been undertaken by other countries since 1960. These operations varied from removing one zero (14 instances) to removing six zeros (9 instances). Nineteen countries have redenominated on one occasion, while ten have redenominated twice. Bolivia, for instance has redenominated twice in 1963 and 1987. In other cases, re-denomination operations followed each other rather quickly, as in the case of Peru in 1985 and 1991 and Brazil in 1993 and 1994, Table 1 shows the countries that have redenominated and the year re-denomination took place as well as the number of zeros that were dropped.

**"There Is No Change In Value  
...The Value Is The Same!"**



**Table 1: History of Re-denomination**

Country	No. of Operations	Years of Operations	No. of Zeros dropped
Brazil	6	1967, 1970, 1986, 1989, 1993, 1994	18
Argentina	4	1970, 1983, 1985, 1992	13
Israel	2	1980, 1985,	9
Bolivia	2	1963, 1987,	9
Peru	2	1985, 1991,	6
Turkey	1	2005	6
Azerbaijan	2	1992, 2006	6
Ukraine	1	1996	5
Poland	1	1995	4
Romania	1	2005	4
Mexico	1	1993	3
Iceland	1	1981	3
Zimbabwe	1	2006	3

Source: Business and Financial Times; Feb. 26, 2007 and Zim Observer, 2<sup>nd</sup> Aug 2006.

From Table 1, Argentina, for instance, has redenominated four times in 1970, 1983, 1985 and 1992. Perhaps, Brazil has a remarkable experience with re-denomination having redenominated six times in 1967, 1970, 1986, 1989, 1993 and 1994. It will be observed that Brazil undertook a series of re-denominations of her currency within a year; this may be because the problems that were to be solved by the earlier exercise could not be solved. This means that, before the exercise is carried out, some conditions will have to be critically analyzed and met.

Branson (1989) stated that the rate of growth of potential output is related to the rates of growth of labour and of productivity. These growth rates can only be achieved if there is macroeconomic stability in the country. Unstable macroeconomic variables are the result of an unstable economy. Hence, it is the prevalence of such unstable conditions that call for repeated re-denomination, as indicated in the table. It is clear from the above that, in some cases, re-denomination can backfire.

It is at this point that we need to ask ourselves what these unstable factors are, in order to be sure that we will not be involved in repeated re-denomination.

In most cases, the frequent operations of re-denomination exercises mean that there exists high inflation and associated factors such as a high exchange rate regime and a high interest rate that led to an unstable macroeconomic environment. In such cases, the zeros rebuild quickly. In the case of Zimbabwe, the exchange rate for the British pound sterling was Z\$ 105,000,000 to £1 and after the exercise it was reduced to Z\$ 10,000 to £1 while inflation was over 1000%. Romania also redenominated to necessitate a transition phase in preparation for its integration into the European Union. The country eventually adopted the Euro as its domestic currency.

### The Zimbabwean Experience

In August 2006, Zimbabwe re-denominated her currency following the Reserve Bank of Zimbabwe's (RBZ) announcement on 26<sup>th</sup> July 2006 that the country was going to re-denominate her currency.

The announcement continued that the Reserve Bank of Zimbabwe (RBZ) was considering dropping three zeros from the nominal value of the Zimbabwean dollar and would eventually issue a new currency to ease some of the calculation and accounting problems created by hyperinflation. The inflation rate in the country as at July 2006 was about 1,200%.

Some of the problems Zimbabweans were facing at the time included lengthy strings of zeros that clogged software, hand-held calculators, cash registers, and gas pump meters as Zimbabwe's annual inflation rate neared 1,200%. Businesses had to routinely deal with sums in hundreds of millions or billions, while corporate investments and national budgetary accounts were measured in the trillions. Taking a cue from similar operations carried out in recent years in Argentina and Brazil in their successful battles against inflation, Zimbabwe thought they could also be successful.

After the announcement, Harare Economist James Iwona warned that eliminating zeros would not eliminate underlying macro-economic problems or issues, such as massive budget overruns, that drove Zimbabwe's high inflation. James Iwona studied the requirement of the stability of macro-economic variables such as inflation that is a necessary condition for an effective re-denomination. Rapid inflation is the result of money growth. This had been the view of Dhliwayo (1996) when he said that, in terms of monetary developments, Zimbabwe, over the years 1980-1991 (over a decade after independence), adopted a cautious monetary policy which was a contributing factor to keep the economy fairly stable and keeping inflation low (Jebuni et al. (1991) and Sowa and Kwakye (1993). Dhliwayo's view had been confirmed by Dornbusch et al (2001) who argued that inflation is a monetary phenomenon in the long run. They cautioned that no major inflation can take place without rapid money growth but rapid money growth will cause rapid inflation.

Despite the short notice given, the policy was carried out as scheduled on the 1<sup>st</sup> day of August 2006. The following is an extract from the *Zim Observer* on Wednesday, 2<sup>nd</sup> August 2006, a day after the re-denomination started:

*"Zimbabwe was plunged into complete pandemonium on Tuesday, (1/8/06) a day after the Zimbabwean Reserve Bank Governor, Gideon Gono, rolled out new financial measures in response to the country's record inflation. Gono devalued Zimbabwe's currency by 60 percent and rolled out an ambitious plan to slash three zeros from the currency. New bank notes were released which traded for the next three weeks alongside the existing bearer cheques which were being phased out by August 21. The re-denomination of old notes, carried out more simultaneously with the introduction of a new array of 13 bank notes ranging from one cent to Z\$100,000, closely following a major devaluation, left consumers, businesses, and bankers alike in confusion."*

It is worth noting that, in the Zimbabwean case, Economists downplayed the benefit of the currency

re-denomination, saying it would merely make life a bit easier for consumers over-burdened with banknotes. There was widespread criticism of the RBZ for failing to plan and consult widely on the new measures. Some banks closed down as Zimbabweans hurried to trade the old currency.

There were several reports of scenes of "complete pandemonium" across the country. Politicians and businessmen alike said that, these scenes were a clear indication that there was very little consultation and planning for this huge exercise. Major firms closed for the day to sort themselves out before reopening. Others refused to accept cheques and the "old currency" which technically then became illegal tender. Others simply continued trading as if nothing had happened.

Everywhere, the business community was trying to sort out what to do - close their accounts, take stock, get balances from the bank and then reopen with a new set of accounts and data on their computers. It must be noted that it took only three weeks (1<sup>st</sup> to 21<sup>st</sup> August) for the exercise to be carried out.

From the above, it was expected that, the exercise was going to make it easier for the prevailing problems to be managed. However, with unstable macroeconomic conditions, it was very difficult to carry out the re-denomination exercise. The reason was that, it would take a short time for the economy to slip back to the old problem since the previous conditions persisted. In the case of Zimbabwe, we could conclude that there was little or no consultation and education on the exercise. As such, when it was going on, people did not know what to do and there was widespread confusion. In May 2007, inflation in Zimbabwe was between around 2000%. However, by July 2007, the inflation in Zimbabwe had reportedly shot to around 7,700 percent. Another re-denomination of the Zim dollar may be required; however it will not yield conclusive results unless the underlying macroeconomic conditions are stable.



## The Turkish Experience

In the case of Turkey, as at December 2004, it was expected that effective 1 January 2005, the Republic of Turkey would re-denominate its currency by dropping six zeros. Turkey's currency was to be renamed the "New Turkish Lira" and "New Kuruş", with one hundred New Kuruş equal to one New Lira. The intention of the authorities was that the term "New" would eventually be dropped. Turkey also made announcements concerning rounding, references to old lira in legal documents, and Turkish tax. Information about the re-denomination was published by the Central Bank of the Republic of Turkey and was made available in English ahead of time.

According to the Economist (26 August 2004), Turkey was the 50<sup>th</sup> country to pursue re-denomination in recent years. It was argued that the move would make accounting or financial calculations easier. The reason for the exercise included the country's ability to lower inflation to 11% in 2004, from 53% in 2001.

Following consultations with the Turkish counsel, Ahmed Pekin of Pekin & Pekin, and their New York and English counsel at Allen & Overy LLP, the International Swaps Derivatives Association (ISDA) understood the following:

- No plans existed to eliminate any Turkish lira rates or rate panels.
- No changes were to be made to the days on which Turkish banks and settlement systems were scheduled to be open.
- No plans existed to re-denominate any outstanding Turkish bonds.

At the time, it was clear that many ISDA members had already begun taking steps to prepare their systems to receive New Turkish Lira, and, in the case of outstanding trades, to adjust for the re-denomination. Other members could take similar steps in this regard and notify their counterparts to inform them of the re-denomination, if they had not already done so.

It is seen here that Turkey planned long ahead of time; as such there were no scenes of pandemonium as was in the Zimbabwean case. There was sufficient planning period for all stakeholders to make inputs into the policy.

## The Romanian Experience

It was announced ahead of time that starting 1 July 2005, Romania would "revalue" its legal tender, the *leu* (plural "*lei*"). The fixed conversion rate between the old *leu* (ISO code ROL) and the new *leu* (ISO code RON) was 10,000 ROL to 1 RON, rounding up or down to the nearest hundred ROL (RON second decimal). This shows that long term preparations were made to give a smooth transition to the re-denomination exercise.

In the Romanian example, the term "revalue" of the *leu* was used interchangeably with re-denomination. Nonetheless, a careful study of the exercise shows that it was a re-denomination, for the RON 1 (new currency) = ROL 10,000 (old currency).

One new *leu* was divided into 100 subunits named *bani*. The re-denomination laws were made available in English on the official website of the National Bank of Romania.

Implementation of the new currency was done according to the following schedule:

- July 1, 2005: on introduction of the new *leu* (RON), all account balances, credit and debit, were converted to RON and all banking transfers, accounting documents and supporting payment instruments, starting on this date, were performed and drawn up only in RON;
- July 1, 2005 – June 30, 2006: Double posting of prices, both in old and new *leu*, including forex exchange rates were allowed. The exchange rates were expressed with four decimals, without any rounding;
- December 31, 2006: Until that date both the

old and new *leu* were accepted for cash payments. There was no time limit for exchanging ROL notes and coins for RON notes and coins at the National Bank of Romania branches performing cash operations and at the credit institutions authorized to perform such operations by order of the National Bank of Romania Governor (par. 4, article 2 of Law no. 348/2004 as amended).

The re-denomination was not to eliminate current Romanian legal tender but was instead designed to simplify domestic monetary transfers and calculations. Furthermore, the re-denomination was seen to be a necessary transition phase in preparation for Romania's integration into the European Union and the country's eventual adoption of the Euro as its domestic currency.

The re-denomination was not to affect outstanding money market transactions involving the old ROL. In order to ensure legal certainty and continuity of outstanding contracts, the re-denomination laws provided that the conversion should take place automatically by virtue of law, *i.e.* without the need for agreements or contractual amendments to existing documentation. As regards payment instruments and trade bills issued before July 1, 2005 in old currency and payable after this date, the conversion was made on the settlement date, at the same fixed conversion rate. The principle, as stipulated in the re-denomination laws, may be applied by counterparts to any other outstanding transactions.

It should be noted that on June 30, and July 1, 2005 banks, credit institutions and State treasury units were closed for business in Romania in order to permit them to reconfigure their systems for the re-denomination. In accordance with the law, re-denomination had to conform to the laws of the land. Hence, there was a change of Section 4.3. of Annex A to the 1998 FX and Currency Options Definitions (September 25, 2000 version) stating the national currency of Romania which was to be changed to RON effective July 1, 2005.

## History of Re-Denomination in Ghana

One question we need to ask ourselves is whether or not Ghana has ever re-denominated her currency? The answer is yes. We may say the currency was redenominated in some time past. Briefly, it can be stated that there have been previous re-denomination exercises. We should also be clear in our minds that, as the Governor of the Bank of Ghana (BoG) said, this new policy is neither a "revaluation" nor a "devaluation", but people may decide to subjectively label it. However, re-denominations the world over have been branded as just technical, since it is just the issuance of new currency in the form of decimalization as it occurred in Ghana in 1965. This was the change of currency from the pound, shilling, and pence (penny) to the cedi and pesewa.

There was a second "change of money" after the change from pounds to cedis after two years. The only reason for the second money change was just to remove Dr Kwame Nkrumah's portrait from the Ghana currency in 1967. After this, the Bank of Ghana also issued additions to the old currency in 1972 and 1973. There was issuance of new currency notes in 1978 (100 cedis was exchanged for 70 cedis) up to 50 cedis. Between 1983 and 1991 the highest currency note had reached 5,000 cedis under the PNDC and later the NDC regimes. Significantly it was in 2002, when the ruling NPP government introduced the 10,000 cedi note with portraits of the "Big Six", while the 20,000 cedi note bore the portrait of Dr. Ephraim Amo a respected musicologist.

## State of the Economy and Conditions for Successful Re-Denomination

There are a lot of gains that accrue to a country which undertakes a re-denomination of its currency in the context of strong economic foundations of stable macroeconomic variables. Contrary to this, the result is failure when it is implemented under a high inflation regime and unstable macroeconomic variables. In such situations the zeros will rebuild very fast and it will require another re-denomination exercise which will be another cost to the nation.



The 2002 edition of "The State of the Ghanaian Economy", the University of Ghana's Institute of Statistical and Social Research's (ISSER) annual publication stated among others that:

"The year 2002 saw a mixed performance from the economy of Ghana. Indeed, a number of macroeconomic targets-set at lower levels than in previous years - were attained. Thus, while overall growth was as programmed and sectoral growth targets were nearly all on target, a number of unstable underlying conditions were also observed. The most disturbing was the slippage in the fiscal sector, leading to significant increases in domestic borrowing. Furthermore, while inflation was lower than what the economy was used to, it went above the target rate, largely in the last quarter of the year. The most important achievements in the management of the economy came in the area of tax administration".

This gives ample indication of the state in which the economy was. After that year, there was an improvement in the economy so far as the macroeconomic indicators were concerned. For instance, inflation was about 10.5% by December 2006 from 40.5% at the end of 2002. It would not be wrong to conclude that a solid foundation had been laid for further improvements. The Table 2 below depicts selected macroeconomic variables of Ghana from 2000 to 2006.

**Table 2: Selected Macroeconomic Indicators of Ghana from 2000 to 2006**

	2000	2001	2002	2003	2004	2005	2006
Inflation	40.5	21.3	15.2	23.6	11.8	14.9	10.5
Exchange rate charges*	49.2	5.4	13.9	5.2	2.2	2	3.7
Interest rate	38.8	27.0	24.8	18.1	16.4	-	-
GDP Growth	3.7	4.2	4.5	5.2	5.8	5.8	6.0
Minimum Wage**	4.2	5.5	7.15	9.2	11.2	13.4	16.0

Source: Budget Statements of 2006 and 2007

\* % appreciation against the US dollar  
(The cedi was devalued against the US\$)

\*\*the minimum wage is in '000 cedis per day. It is now 19,000 cedis per day.

All other figures are in percentages.

It could be seen that in 2000, all the selected indicators were not development friendly. Inflation was at 40.5% which made planning a problem. There had been a rise and fall in the rate of inflation every other year. Generally, the rate of inflation has fallen over the 2000-2006 period. The lowest rate experienced was 10.5 percent 2006 in December. The declining rate of inflation is also confirmed by Jackson and Amuzu (2005). Perhaps we need to control inflation as was the case before 1964 as reported by Jebuni et al (1994).

A critical analysis of the above variables shows that, there is currently a relatively stable macroeconomic environment and this suggests that the re-denomination of the cedi within this environment will have a lot of benefits to the economy as a whole. The following are the perceived benefits for the Ghanaian economy:

- Simplification of financial transactions and arithmetic calculations
- Making efficient use of computer and accounting systems and software
- Reduction of the costs and overall risks of carrying large volumes of notes
- Re-introduction of the culture of using coins in Ghana
- Preparation of Ghana to join the West Africa Monetary Union as in the Romanian example
- Reduction of money (supply) circulating outside the banking system
- New business developments, e.g. vendor machines, unmanned automatic toll gates, etc.

These directly and indirectly are in line with the examples we discussed above.

## Arguments against Re-Denomination

Ever since the announcement to re-denominate the cedi came, people have raised a lot of arguments against the policy. Some of these arguments are that it is a waste of resources and time; that is, why waste a lot of money on a process that could alternatively be used for other development projects. What even gave such argument-credence was the inability of the Governor of the Central Bank to immediately articulate the cost of the exercise when he was being questioned in Parliament. It was assumed that the re-denomination would cost the country huge sums of money and so people were of the view that the money could be used for something else. However, it must be noted that, there is a cost involved in doing anything under the sun. Later, the Governor informed the nation that the exercise will not cost beyond the past routine replacement costs of damaged old cedis.

The country will be joining the West Africa Monetary Zone (WAMZ) and will be using the ECO soon, this may cost us. So, in this case, why do we spend money on re-denomination for us to join the WAMZ a short time later? On this argument, the experience of Romania shows that it will be better for the currency to be redenominated to become stronger and stable among our partners.

Another argument is that the economy is stable and the re-denomination exercise need not be undertaken. The stable economy in the view of such people does not require the re-denomination of the currency. What they have forgotten is that, there is a huge transaction cost involved in doing business with the banks at the counter.

There is also the conversion problem argument. Here the argument is that how are we going to take care of debts, dues, donations, utility bills (already most people do not understand how they are billed- with a lot of inconsistencies), agreed prices and others. This is an argument that all and sundry need to take a second look at especially where there may be rounding off of decimals. We will present re-denomination of bonds later and this should address these fears.

## Arguments for Re-Denomination

Despite the above criticisms, others think that the re-denomination is a good decision since the time spent at the bank when withdrawing or depositing huge sums of money will reduce nationwide. This will go a long way to reduce transaction costs at the banks.

There is also the case where large sums of money are needed to buy a little thing; this is going to be a thing of the past. The exercise is also going to ease all calculation problems of financial figures and the use of ATM cards will be enhanced. The "pulling of notes by cheats" when dealing with large sums of money will be reduced. Previously, it was difficult to accurately check such huge sums. We will all agree that it will be easier and more convenient to use the new currency; this is fairly obvious.

The argument that quoting prices in foreign currencies will cease to continue is a laudable one. We are all witnesses to instances where prices of items in the country are quoted in US dollars. Even house rents are quoted in dollars depending upon where the house is located in the city. The reason given is that the cedi continues to devalue day in day out. If the economy is now stable and for that matter the cedi is stable, then there will be no need to quote local prices in dollars. This however may not be attributable to re-denomination, but rather to sustainable sound macro-economic policies.

## The Way Forward

We will now attempt to discuss the steps to be taken for a smooth re-denomination. The following will be discussed: the re-denomination Act and how to treat bonds and debts. The issue of public education on the re-denomination exercise will also be considered.

### Re-Denomination Law (Act)

The first thing we needed to do is to pass a bill into law in Parliament so that the re-denomination exercise will have a legal backing. This was work required of the legislature. Parliament has the appropriate competence and handled the process very well.



## **Bonds and Debts**

The narrowest definition of re-denomination is a simple conversion of a value expressed in one currency unit to another, using a conversion factor. For example, a bond with a national currency (cedi) unit value of 29,890 could be re-denominated as a bond with a Ghana cedi (GH ¢) value of GH¢ 2.98 (i.e. 29,890/10,000) where the conversion factor = 10,000. Holding values of too many decimals might prove technically difficult. It is, therefore proposed that the re-denominated amount be rounded to the nearest two decimal places, thus the original 29,890 would become GH¢ 2.98. This kind of re-denomination will be made possible by the regulation enacted.

One likely consequence of re-denominating debt is that the amount of outstanding debt in the new GH cedi will not be a whole number. Whilst redenominated debt should be fungible with new GH cedi issues, its non-round form could present difficulties for trading and settlement. Clearly there will be costs for traders and settlement providers; however, the international and national clearing systems should be prepared to meet the requirements of any re-denomination process selected by the government, and the markets are more than capable of rising to the challenge of trading in non-round lots.

In addition to re-denomination, it is open to issuers to consider re-nominalisation mechanisms to change the nominal value of their bonds to round GH cedi values. The advantage would be a homogeneous pool of GH cedi securities delivering enhanced liquidity. Moreover, the trading and settlement inconvenience that bonds with non-round nominal values would generate should be avoided. However, re-nominalisation would materially change the economic value of a bond and therefore would require the agreement of bondholders, and possibly some form of compensatory payment, which could have tax and reinvestment risk implications. It might also be necessary to issue new bond certificates or amend existing ones. In either case the issuer would have to absorb significant costs, in addition to the logistical problems or managing such operation.

Another option for issuers might be to make exchange offers. To guarantee success, investors would require incentives to take up such offers. Thus the advantages to issuers of increased liquidity and reduced funding costs would be balanced against the administrative costs, which could be large, and the need to provide investors with a financial incentive to take up the offer.

## **Choice of Re-Denomination Method in the Security Market**

There are various ways to re-denominate bonds in circulation. To a great extent, the choice of method depends on practical issues concerning securities registration and settlement in connection with trading. Apart from the technical considerations, other criteria for the choice of method need to be considered by bond holders. Additional factors are the methods chosen by bondholders based on the experience from the present euro area member states. The experience from the present euro area member states shows that it is important to make a decision on the re-denomination method as early as possible in order to provide a firm basis for subsequent preparations.

### **The Various Methods**

Overall, the following options may apply to conversion from the cedi units to GH cedis and the subsequent rounding of the resulting figure.

#### *Conversion:*

The "bottom-up" method – For each security code each investor's bond holdings per safekeeping account are converted from old cedi to GH cedi. The "top-down" method involves conversion from cedis to GH cedis on the basis of the minimum denomination of the individual bonds.

#### *Rounding:*

The following will be how the rounding up is expected to be done: Rounding should be done to the nearest GH cedi, or possibly for larger amounts, decimals beyond two decimal places should be to the nearest GH pesewas. According to the "bottom-up" method, conversion from cedi to

GH cedi will be made on the basis of each investor's total holdings of a given bond.

Using the "top-down" method, the total outstanding in the individual bond series are broken down by the number of bonds based on their minimum denomination. Each bond is re-denominated and the resulting amount in GH cedi is rounded either to whole cedi or pesewa units.

### Risks

In addition to the above issues, the following are also to be seriously taken account of by the authorities for a smooth exercise. They are risk issues that merit serious consideration.

1. **Macroeconomic slippages** – The success of the exercise and its sustainability depends on the maintenance of macroeconomic stability through prudent monetary and fiscal policies. Slippages in three policies could derail the process and depreciate the currency. In association with these policies, the authorities need to put in place measures that improve production, income, and employment.
2. **Dollar Equalization Effect** – At the time that the exercise takes place, it is expected that the GH cedi will be stronger than the US dollar in terms of exchange rate. There may be a tendency towards the equalization of the two currencies on a par basis and this could easily place an upward pressure on prices.
3. **Money (supply) Outside the Banking System** – The monetary authorities should take advantage of the exercise to reduce the amount of currency circulating outside the banking system by encouraging the public to open accounts at the banks. Information on the accounts should not be used for other purposes, such as tax assessment; else it will cause a reduction in confidence and encourage people to keep money outside the banking system.
4. **Stocks of Cedis held Externally** – Already

the news of the exercise has had an impact across Ghana's borders where traders are changing the existing old currency into foreign exchange, thereby causing the cedi to depreciate against some other currencies. The monetary authorities may choose to ignore this phenomenon as it should be temporal, because there is likely to be a reverse flow into holding the new currency. This could cause the new currency to appreciate against the corresponding foreign currency.

### Operational Measures during the Exercise

The following are also suggested measures that could be operational to ensure a successful re-denomination exercise.

1. **Opening of Accounts** – The public should be encouraged to open bank accounts to facilitate the process of physical and numerical conversion, as well as mop money circulating outside the banking system.
2. **Support to Rural Communities** – Special measures should be taken to facilitate outreach to remote rural communities and also help them to convert the old to the new currency. This will help reduce fears of people taking advantage of the exercise to cheat rural communities.
3. **Debit Cards** – The banks should be encouraged to issue electronic debit cards that could facilitate transactions and help reduce the pressure on handling physical cash.
4. **Advocacy regarding Money and Security Markets** – The public should be encouraged to hold and trade in bonds and financial securities in order to increase the financial depth of the monetary system.

### Educating the People – Public Education

The most important thing to do to avoid problems in the pending re-denomination exercise is educating the people. All segments of the



population (more especially in the rural communities) need to be educated on the way the exercise will be carried out. If the people do not understand the policy, this could easily lead to confusion as was the case of Zimbabwe. The Central Bank Officials have to come out with relevant educative materials that will help people understand the process to the end. This should be done in such a way that both illiterates and literates will have no problem in understanding the conversion factor. This will go a long way to help the re-denomination exercise to be smooth and avoid problems.

### Conclusion

From the examples of the countries that we have discussed above, we can conclude that various reasons were given for the re-denomination of the currencies of these countries. Zimbabwe for instance was trying to win a battle against inflation and to ease some of the calculations and accounting problems created by the hyperinflation. There was little consultation and education, which could be argued, contributed to the confusion that erupted after the re-denomination.

The Turkish experience suggested that the move made calculations easier while it was based on the condition of a successful management of inflation from 53 percent in 2001 to 11 percent in 2004. There were a series of consultations and education to the extent that the exercise was translated into even English for people to understand the exercise ahead of time. This led to a smooth re-denomination of the Turkish currency.

In the case of the Romanians, there was also information ahead of time with the necessary translation made in English for non-Romanians to understand the exercise. The reasons given for the re-denomination were designed to simplify domestic monetary transfers and calculations. Furthermore, it was seen to be a necessary transition phase in preparation for Romania's integration into the European Union and the country's eventual adoption of the Euro as its domestic currency.

From the above, the conclusion for re-denomination processes by these countries yielded the control of inflation, the ease of calculations and accounting problems, and in one case, preparation for monetary integration. Howe and Rasmussen (1982) have agreed that with rising inflation the cost of capital for utilities has increased significantly and that this is not unique to public utilities. Inflation affects capital budgeting as well. This has been proved by Baah-Nuakoh (2003). In his studies of the Ghanaian economy, he found out that the declining growth rate of the manufacturing sub-sector is an obvious manifestation of the problems which accompanied the rapid liberalization of trade and exchange rate coupled with financial reform and its attendant high interest rate hence high cost of capital.

It must be noted that many enterprises have in the past suffered from lack of credit, resulting from high interest rates, leading to their collapse (Jackson and Amuzu (2005). High inflation leads to high cost of capital and slows down growth in the economy.

This means that rising inflation has a series of consequences for a country. In the light of these facts, we have shown how these reasons as given above are applicable to Ghana in our attempt to re-denominate the cedi.

We have discussed how re-denomination was undertaken in some countries, and how it was carried out. We have also seen how if the policy is not implemented well, it could result in problems which could defeat the laudable, aim of the exercise. ■

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## STRATEGIC PLANNING AND SMEs

Captain Sam Addaih (Rtd.)

### Abstract

*Do small enterprises need strategic planning? What should be the horizon of such a plan, given the high mortality rate of new ventures often postulated in the literature?*

*A small business is not necessarily a little big business, so the elaborate corporate strategic planning process may not be strictly applicable to small enterprises. Consequently, within the constraints of their "smallness" what approaches to strategic planning can entrepreneurs use that will represent a middle ground of planning paralysis and no planning at all?*

*This paper critically evaluates the importance and benefits of strategic planning to SMEs. It suggests that if planning is tailored to the appropriate stage of development of a typical small enterprise, then the few that may evolve as they grow could be developed into a strategic plan that provides direction for future growth.*

### Introduction: The Value of a Strategy

Many owners and managers of businesses routinely plan their personal day-to-day operations, but do not believe that strategic planning applies to them. "Mention strategic planning, and they think of elaborate, bound documents resting on bookshelves in the offices of large companies, or of detailed plans used in project management" (Sandberg, Robinson, and Pearce, 2001:13). That is the fallacy. No business is too small to require sound strategy, and few strategies are so simple that they need not be developed into a strategic plan.

According to Robinson and Pearce (2003), a strategy spells out three elements that are essential to any business:

1. Goals it intends to accomplish

2. The policies or rules that guide its decisions, and
3. The actions intended to accomplish its goals.

A firm's strategy should serve as its logic for competing – a coherent encapsulation of its products and services, the markets and types of customers it serves, and the benefits it derives. From this logic comes the firm's decisions on how to position itself against rivals, which markets to focus, and which opportunities to pursue.

A strategy should also summarise the firm's logic for organising – an identification of key activities and how they will be carried out to realise the logic for competing. From the logic for organizing comes decisions on which activities are critical to the firm's success; how the tasks required by these activities should be grouped into jobs; and what criteria are appropriate in evaluating the performance of those jobs. Tight integration of the logics of competing and for organizing lays the foundation for the firm's competitive advantage – the basis of its superiority over rivals in serving a particular market or market segments.

Thurston (1983) argues that executives in smaller businesses can take various approaches to planning, ranging from informal and unwritten to the formal and written. The best approach depends on variables such as:

- Administrative style
- Officers' abilities, and
- Business complexities

To plan effectively, business executives must assess company strengths and weaknesses, business and personal objectives, and implementation approaches. Any formal approach to planning involves certain risks including emphasis on process. The most prevalent variable influencing the outcome of formal planning is how well the planning is done. "How well" is not the same as "How much." Companies with modest planning effort seem to benefit, provided that the effort is sound. The relevance of planning to a

particular company situation, not the degree of formality, is the key (Thurston, 1983).

### Planning for Small Businesses

Waddel (1988) posits that routinely embedded in formal planning systems are four principles that are the minimum requirements for planning in small business.

The first principle is obtaining information about the industry, markets, and competitors. Conditions change, new competition emerges, technology advances, and markets shift. To survive, the small businessperson has to be flexible. Knowing what to change, how to change, and when to reposition products in the market come from scanning the business environment.

Second principle is that information simmered with reflection leads to strategy. The strategy that all businesses seek – and this is doubly important for small firms – is one that provides a sustainable competitive edge, such as price, quality, design features, service, or some combination. The third principle is that the strategy must focus the company on executing its competitive edge. Focus begins with how the company wants to be seen by its customers, its image in other words. Owners of successful small businesses are definite about their image. The final principle for successful small companies is that there must be budget for sales, expenses, and capital expenditures. A good budget is a financial representation of strategy and plans.

Waddel advises that these four principles can be followed without a formal planning process. Yet having timely, relevant information, creating the opportunity for reflection, focusing on a competitive edge, and putting meaning into a budget are just as essential for a small business, as they are for any big corporation (Waddel, 1988).

In a research to find out whether there was a relationship between planning and performance in small firms, Rue and Ibrahim (1998), concluded that the literature strongly supports the argument that planning is a key issue. Planning increases the success rate and it also affects the level of performance.



Even though, there is not yet an established theory on the actual differences regarding performance between formalized and non-formalized planning for SMEs, the researchers found out that firms with structured planning procedures outperform firms with non-structured planning procedures. In addition, they concluded that formal planning results in a wider variety of strategic decision-making. They also found that structured planning processes are more thorough and are associated with improved performance as measured by growth of sales (Rue and Ibrahim, 1998).

### **Planning Satisfaction in Small Firms**

Steiner (1979) provides a thorough conceptualization of strategic planning. According to Steiner, planning is an attitude and a process concerned with the future consequences of current decisions. Formal strategic planning links short, intermediate, and long-range plans. Strategic planning does not attempt to make future decisions, even forecast future events. It need not replace managerial intuition and judgment with massive, detailed set of plans.

Langley (1988) also provided support for the benefits of SME planning by identifying four roles of formal strategic planning:

- Public relations role
- Information role
- Group therapy role
- Direction and control role

In the public relations role, formal strategic planning is intended to impress or influence outsiders. The information role provides input for management decisions. The group therapy role is intended to increase organizational commitment through involvement of people at all levels of the organization in strategic planning. Finally, the direction and control role is fulfilled when plans serve to guide future decisions and activities toward consistent ends.

According to Roach and Allen cited in Kargar and

Parnell (1996), the strategic planning process is the product of best minds inside and outside the corporation. The process considers future implications of current decisions, adjusts plans to emerging business environments, manages the business analytically, and links, directs, and controls complex enterprises through practical, working management system.

There are three frequently cited reasons why top managers pursue changes in strategy (Parnell, 1994). First, a change in strategy may appear attractive if the desired performance levels are not being attained by the organization. In many cases, top managers may believe that a change in strategy will improve the ability of the business to generate revenues or profits, increase market share and/or improve return on assets or investment. Many studies have concluded that declining profitability is the most common catalyst for strategic change (Webb and Dawson, 1991).

Second, an environmental shift may necessitate strategic change to maintain alignment. Such shifts may result from changes in either the macro environment (for example, new regulations, social forces, demographic changes etc.) or the industry environment (for example, new competitors, changes in competitor strategies, etc.). Changes in competition and technology necessitate a change in the knowledge base within the organization if it is to survive. According to the population ecology perspective, the environment determines which organizations will survive and which ones will not. New firms better suited to the changing environment constantly replace existing ones. Competitors constantly struggle for existence by seeking to procure additional resources. As such, strategic change can be seen as a means to access additional resources and survive in a turbulent environment (Kargar and Parnell, 1996).

Third, strategic change can enhance effective resource utilization. Barney (1991), a proponent of the resource-based perspective, has noted that competitive advantage often occurs from such organizational attributes as informational asymmetries, culture, resource accumulation, and minimisation of transaction costs. Hence, as organisational, human, and capital resources

evolve, changes in strategy become necessary to fully utilize the resources available to the organization.

Resource shifts necessitating strategic change are more prevalent in some organizations than in others. Organizational performance, age, and length of tenure of the founding entrepreneur influence the degree to which a funding strategy endures and thus, the prospects of strategic change (Boeker, 1989).

### **Benefits and Costs of Strategic Change**

There are three potential benefits of strategic change that are commonly cited in the literature. First, strategic change can enhance the strategy-environment fit. For example, Calingo (1989) found that low cost leadership strategy is most successful in price sensitive markets, whereas the product or service differentiation strategy is most successful when consumers perceive great differences among product offerings.

Second, strategic change can open up new dimensions of competitive advantage untapped by competitors. These first mover advantages result from the willingness of an organization to enter a new market or develop a new product or service prior to competition (Kargar and Parnell, 1996).

Finally, the strategic change can improve an organization's ability to adapt by forcing healthy changes within the business. The initial pain associated with change may be offset by the emergence of a lean, rejuvenated organization with fresh focus on its goals and objectives, limiting the creativity and potential contributions of its members.

Regardless of the potential benefits, Kargar and Parnell (1996) posit that four potential costs may be incurred as a result of a strategic change. First, strategic change increases perceived risks; a change in any key strategic environmental, or organizational factors requires that the business develops a new formula for success suited to the change. Second, change can disrupt the strategy-culture alignment. Although the organizational culture may be changed to reflect and support the

change in strategy, the period of time required to do so is likely to take several years. Thirdly, measures required to implement a change in strategy may necessitate outlays of capital. Finally, strategic change may result in consumer confusion as they begin to alter their perceptions of the organization's products and services.

Even when strategic change results in a successful new product or service, there is no assurance that this success can be maintained. Indeed, competitors may distort consumer perception and reap the benefits of the initial strategic change. For example, many consumer goods companies implement an "imitation strategy." As a result, many consumers purchase the imitation product thinking it is the original. If the consumer dislikes the product, this dissatisfaction can be transferred to the original product. If the consumer likes the product, the consumer may realize that the product is an imitator and transfer the positive association to the original product. Either scenario can prove costly to the originator (Kargar and Parnell, 1996).

The relationship between planning and performance in small firms bears significantly on strategic management research and practice. The planning literature appears to suggest two key themes: First, planning should be an integral part of the strategic management process. The benefits of planning can outweigh the costs. Most critically, one's competitors will likely enjoy the benefits of planning. Therefore, to ignore planning is to relegate a source of competitive advantage to disadvantage.

The second theme is perhaps most critical. Effective planning, not just planning, appears to be positively associated with organisational performance. In other words, organizations that plan effectively are more likely to achieve higher performance than those that do not. The key here is effective planning. Ineffective planning appears to have no predictable or consistent association with performance. Going through the motions of planning provides no great insights or benefits; it may actually result in a depletion of resources and lower quality decisions. Thus, a strong emphasis placed on planning is only justified when it is focused on effective planning.



## Small-Scale Planning

Strategic planning is a dynamic process. It implies change but change need not translate into expensive programmes. A useful distinction can be made between first - order and second-order changes. According to Moyer (1982), a small-scale planner, using operating plans to improve present operations, is effecting first-order change. The firm is simply doing better what it did before. Strategic planning, however, implies second-order change. Strategic planning for the firm's future is one of the most exciting business concepts in practice today. It is normally an ongoing detailed formulation of plans showing how well-defined objectives can be accomplished. This process requires a constant time commitment that often causes small business managers to defer this activity, given the pressures of the day-to-day business (Kirk and Noonan, 1982).

However, Shuman and Seeger (1986) would argue that strategic planning techniques used to guide the affairs of large businesses are not appropriate for smaller businesses. They advised that many such techniques cannot be used in smaller businesses at all because of the differences in scale of operations; few appear to account fully for the limited resources (including time) of the typical small business. None explicitly includes the personal characteristics of the important people in the business so that the strategy reflects their strengths and weaknesses and satisfies their personal needs and objectives.

In a classic Harvard Business Review article titled "A Small Business is not a Little Big Business," Welsh and White (1981) observed that a traditional assumption among managers had been that small businesses should use essentially the same management principles as businesses, only on a smaller scale. Underlying that assumption has been the notion that small companies are much like big business but with lower sales, smaller asset base, and fewer employees. Welsh and White argue that the very size of small businesses creates a special condition, which they refer to as "resource poverty". This distinguishes them from their larger counterparts and requires quite very different management approaches.

According to the authors, resource poverty results because of various conditions unique to smaller companies. For one thing, small businesses tend to be clustered in highly fragmented industries – wholesaling, retailing, services – that have a lot of competition which are prone to price-cutting as a way to build revenues.

A good plan is not enough in itself to save a firm, but it can increase the chances for survival. Small firms that display a higher level of formal planning tend to show higher performance in terms of growth rates. However, as Welsh and White (1981) have noted above, "small businesses are not little big businesses." According to Kirk and Noonan (1982), the ability to understand and deal with their limitations and to capitalize on their advantages is the essence of strategic management.

## Some Basic Limitations

A look at some of the limitations affecting small business can be helpful to the strategist. Failure to understand these limitations will lead to a plan that cannot be executed.

Financial resources are the foundation of any strategic plan. Kirk and Noonan (1982) identify four sources of funds for smaller firms: debt, equity, depreciation, and net profit after tax. The inability of small business to tap a balanced mix of these sources leads to the condition Welsh and White call "resource poverty." Debt is an essential source of funds for small business. Most available debt financing tends to be short-term. Outside of the owner's personal wealth, and that of relatives, friends and other associates, there is no general equity market for small businesses. Small businesses generally tend to have a small fixed-investment base; thus depreciation is not normally a significant source of funds. Net profit after tax is the source upon which small businesses must rely for a large part of their funds. Consequently, every effort should be made to maximise profits.

Extreme sensitivity to an internal cash flow imbalance is a constant problem for small business strategic planners. Internally, funds are generated by net profits after tax and by depreciation, and consumed by periodic increases in working capital

and capital investment. Thus, as a business grows, it commits more funds automatically to receivables, to inventories, and to such other areas as plant and equipment. This relationship can be more clearly expressed as follows:

- $\text{Internal Cash Flow} = \text{Net Profits After Tax (Z)} + \text{Depreciations (D)} - \text{Changes in Working Capital (W)} - \text{Changes in Capital Investment (I)}$

It is easy to see that if net changes in W and I exceed Z and D, outside financing in the form of debt or equity must be secured to continue operations. Given that (1) a large percentage of businesses consume cash that they generate; (2) a new product on the average has negative cash flow for about five years; and (3) external sources for funds are extremely limited, small businesses are subject to a never-ending cash flow crisis.

In addition, small businesses tend to have limited product and service lines targeted for specific groups or geographic locations. The decline of one or two products may produce severe negative consequences.

Limited people resources also plague most small businesses. Entrepreneurs have that special ingredient that allows them at the outset to handle a variety of functions. But, in time, other human resources become necessary, and the inability to draw from a large, trained pool of talent can be devastating.

Good market information is usually scarce. Information is the cornerstone of effective strategic planning. Small firms have little organized data collection on markets and competitors; information on these subjects is usually either unavailable or unreliable.

Finally, friends who provide capital may be a burden. They frequently tend to take a personal interest in the business. Such assistance is seldom constructive but is often destructive.

## Some Basic Advantages

Having gained an understanding of small business limitations, the small business strategic planner should concentrate next on the advantages.

Some of the basic advantages of SME strategic planning include:

**Flexibility:** Flexibility is one of the most essential of these advantages. The Strategic Window concept states that "there are only limited periods during which the fit between the key requirements of a market and the particular competencies of a firm competing in that market are at an optimum." Small businesses have the ability to move first, while their counterparts in big business sometimes are bogged down with a bureaucracy of red tape and a painfully slow decision-making process. They do a little analysis and thereafter take a plunge because by the time an opportunity is investigated fully, it may no longer exist (Bhide, 1994).

**Customer Focus:** Business opportunities exist for those who can produce products and services desired by customers. If a business can make its products or service especially attractive, its prospects will brighten considerably. Good customer service can be provided by a business of any size. However, small firms have a greater potential than larger businesses for achieving this goal. If properly managed, entrepreneurial firms can serve customers without struggling through layers of bureaucracy or circumventing corporate policies that tend to stifle staff initiative. In many cases, customers are personally acquainted with the entrepreneur and other key people in the small business (Longenecker et al, 2000). These small businesses tend to be in close touch with their communities and customers. They can do more individualized jobs than big firms can. They thereby attract customers on the basis of speed, specialty products, quality, and personal service rather than solely on the basis of price. "While competitive prices and reputation for honesty are important, an atmosphere of friendliness makes people feel good about patronizing SME businesses and makes them loyal customers" (Megginson et al, 2003:14).



**Integrity and Responsibility:** The future is particularly bright for firms that add excellent product quality and good customer service to a solid reputation for honesty and dependability. Customers respond to evidence of integrity because they are aware of ethical issues. Experience has taught them that advertising claims are sometimes not accurate, and that businesses sometimes fail to stand behind their work or claims. If a small business is consistently ethical in its relationships, it can earn the loyalty of a skeptical consuming public.

**Comprehensive Learning Experience:** A small business provides employees with a variety of learning experiences not open to individuals holding more specialized jobs in larger companies. Along with performing a grater variety of functions, small business employees also have more freedom to make decisions, which can lend zest and interest to their work experience. As a result, small businesses train people to become better leaders and managers and to develop their talents and energies more effectively (Megginson et al, 2003).

#### Stage Of Development and Strategic Planning

A firm's stage of development has long been postulated as a contingency factor of major importance for strategic planning. "The most fundamental variable in determining an appropriate business strategy is the stage of the product life cycle" (Hoffer, 1975). Research, therefore suggests that the effectiveness of a firm's strategic process is contingent on its stage of development. Cooper, cited in Robinson and Pearce (1984), offers a simple typology of the stages of development through which small firms progress:

1. The "start-up" stage, including the decision to found a firm and position it within a particular industry using a particular competitive strategy.
2. The "early-growth" stage, when the initial product-market strategy is being tested. The owner/manager tends to maintain direct contact with all major activities, and stabilization of the firm's sales pattern often

occurs.

3. The "later-growth" stage, often characterized by multiple sites for retail and service businesses and by some diversification for manufacturing firms.

Studies of strategic planning behavior in small firms suggest that small firms do not engage in systematic planning. According to Pearce and Robinson (1984), in order to address these perceived shortcomings in small business planning, a prescriptive literature evolved that emphasized the importance of "outsiders" as valuable and often necessary assistants to owner/managers in fulfilling their planning responsibilities. Among such outsiders are consultants, lawyers, accountants, bankers, and board of directors, whose time and expertise help to compensate for the lack of the same on the part of the owner/manager, thus, making a more effective planning effort possible. In a major study, Robinson (1982) found significant improvement in profitability, sales growth, employment, and productivity for firms engaging in "outsider-based" strategic planning. Robinson and Pearce concluded that outsiders are important to SMEs for several reasons:

- They compensate for lack of full-time planning staffs of the SME;
- They improve the quality of decision-making and the likelihood of continued, systematic planning; and
- They make up for lack of formal planning skills of the owner/manager.

The authors argue that improvement in effectiveness obtained by small firms that engage in strategic planning is not contingent on the stage of development. The stage of development, they reiterate, may play a contingency role in terms of strategic planning intensity, but not in terms of the process.

At Stage One, strategic planning is principally directed at enabling the firm to improve its ability

to gain a foothold in the marketplace (sales growth). Thus, this stage appears to be a trade off between sales growth and profitability in stage one. At Stage Two, strategic planning concentrates on the firm's growth (sales and organizational size) as it seeks to become an established viable competitor. After growth is achieved, strategic planning in Stage Three SMEs emphasise growth, stabilization, and profit improvements to insure the firm's long-term viability and markets (Pearce and Robinson, 1984). ■

## Conclusion

In conclusion, the rules of competitive game of business have changed dramatically. To be successful, small businesses can no longer do things the way they have always done them. Fortunately, successful small business owners have at their disposal a powerful arsenal to cope with the ever-increasing uncertain environment: the process of strategic planning.

The goal of developing a strategic plan by the SME, therefore, is to create for the small company a competitive advantage: the aggregation of factors that sets the small business apart from its competitors and gives it a propitious position in the market. From a strategic perspective, the key to business success is to develop a unique competitive advantage, one that creates value for customers and is difficult for competitors to successfully imitate.

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*The ultimate measure of a man  
is not where he stands in moments of comfort and convenience,  
but where he stands at times of challenge and controversy.  
- Martin Luther King, Jr.*



**ENTREPRENEURSHIP  
AND  
SMALL BUSINESS  
MANAGEMENT  
CONTEMPORARY PERSPECTIVES**

**Capt. Sam Addaih (Rtd)**



## CREATING WEALTH THROUGH MUTUAL FUNDS

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Wealth creation and poverty reduction have been proposed as effective antidotes to poverty. While the former may be described as preventive, the latter is more curative. Investment is a key player in wealth creation and one of the investment channels through which wealth can be created is Mutual Fund investment. What is the case for Mutual funds? Is it a potent alternative for wealth creation? Why should investors continue investing in mutual funds, notwithstanding the southbound trajectory of all Ghanaian mutual funds this year?

A mutual fund is an investment company that pools money from many individuals and invests in different forms of investments, according to the fund's stated objectives. There are different kinds of mutual funds including:

**Balanced funds:** A fund that invests in a balanced portfolio of equities, debt securities and money market instruments, with the objective of providing reasonable returns with low to moderate risk (Example: NTHC's Horizon Fund).

**Growth or equity funds:** Invests primarily in stocks (Examples: Databank's Epack, SAS's Fortune Fund, and HFC's Equity Fund, Anidaso Fund).

**Fixed income funds:** These invest in debt securities like bonds, debentures and mortgages that pay regular interest or in the case of preference shares pay regular dividends. The objective is to provide investors a regular income stream with low risk.

**Money market funds:** Short-term mutual funds. Investment in a variety of short-term investment instruments including commercial paper, treasury bill, banker's acceptances.

There are diverse investment vehicles [investment in shares, treasury bills commercial paper and mutual funds], but what is the case for mutual funds - why should investors create wealth through mutual funds?

One of the merits of investing in a mutual fund is the lowering of risk- an attractive component for wealth creation. An investor who holds just one investment is vulnerable to a high level of risk. Mutual funds however, spread that risk among many different securities, limiting the potential of one security's negative performance eroding returns of the entire portfolio. Risk is therefore reduced through diversification.

**Diversification:** Mutual funds are a convenient and affordable way of gaining access to a wide range of investments that might be very difficult and time-consuming to purchase and manage individually. Because mutual funds typically hold diverse investments, they offer a degree of diversification that would be difficult to achieve if you invested in individual stocks.

**Professional management:** Actively managed mutual funds also give you the benefit of professional investment management. The investments are selected by experienced professionals who devote themselves exclusively to tracking the markets, analyzing Investments and implementing a consistent investment strategy, ensuring that the best stocks are picked and prudent investment decisions are taken on behalf of the investor.

**Flexibility to meet your needs and goals:** A wide range of mutual funds is available to help meet the needs of every type of investor, from conservative to very aggressive due to the presence of diverse forms of investment, enabling an investor meet a variety of investment goals. Included in these goals are saving for a home, retirement or education.

**Liquidity:** Mutual funds provide liquidity in that investors can sell their mutual fund units when they need their money and receive current market value on their investments. For mutual funds with specific investment horizons, however, the investors who want to liquidate a part of investments before the exit period have to pay a commission.

Mutual Funds are ideal for investors who would want to invest on a regular basis to accumulate wealth for the future. The secret to wealth creation is to start small until an appreciable amount is accumulated in the future. No one should despise humble beginnings. An individual can start with an amount of ₵50,000, if he wants to make regular contributions.

Mutual funds are a proven wealth creation tool as evidenced by the success stories of funds in more advanced countries. The performance of some mutual funds in the United States shows a consistent return on the investment. We can cite examples of mutual funds that have posted consistent positive returns over the years. The C&B Mid Cap Value Fund which invests in Small/Mid Cap Stocks currently has a year-to-date return of -7.49%, but has a one-year average annual return of 14.5%, as well as a three-year return of 20.1%. The Opportunity Fund, another mutual fund has a year-to-date return of 8.35%, an average annual return of 16.22%, and a three-year return of 23.12%- all in the positive league. Large cap funds including the Capital Growth Fund, has a year-to-date return of 11.8%, a one-year average return of 19% and a three-year return of 18.5%. The International Core Mutual Fund - one of America's international specialty funds, has a year-to-date yield of 8.65%,

has an average annual return of 19.65%.

Below is an illustration of the performance of some Asian mutual funds - An indication that mutual fund are viable investment options.

Fund	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)
Asian Focus Fund	15.3	18.6	24.7	16.3
China and Hong Kong Fund	6.09	7.4	23.4	7.18
Global Energy Fund	57.6	54.1	n/a	n/a
Global Innovators Fund	9.3	13.9	13.7	-4.3

This table shows the performance of a wide variety of investment funds in India.

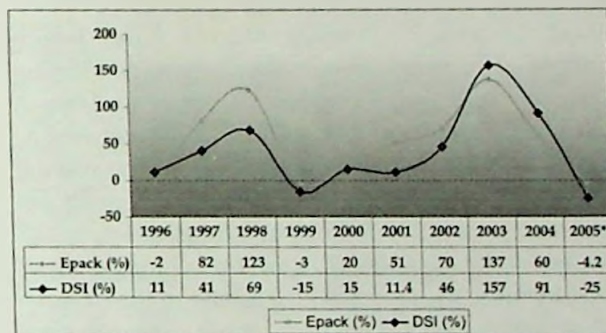
Fund	Compound Annualized		
	1-Year (%)	2-Year (%)	3-Year (%)
Reliance	82.97	101.54	69.18
Fanklin India Prima Plus	41.96	62.72	40.53
Birla India Opportunities Growth	39.84	52.57	29.14
Prudential ICICI Power-Growth	41.73	60.07	43.31
Kotak Tech Fund	41.97	50.87	22.13
Kotak MNC Fund	66.49	66.74	40.34
HDFC Capital Builder Fund	63.38	80.94	49.19

Countries such as Chile who have enacted new pension systems that place greater emphasis on the role of private investment in retirement savings, have often used mutual funds as funding vehicles for such systems.

Zeroing down to mutual funds in Ghana (a country where mutual fund investment is relatively nascent) investing in mutual funds has proved worth-while over the years. The only mutual fund that can be used as a point of reference is Databank's Epack, which is Ghana's premier mutual fund-having been in existence since 1996. The mutual fund has had a track record of steady growth, occasionally besting the performance of the Market Tracker- the Databank Stock Index.

Drawing a parallel between the weighted index of the Stock Market (the DSI) and Epack, would bring to the fore some interesting comparisons. Though the first year of Epack's operations showed a decline of -2% in 1996, the second year [1997] recorded a year-to-date gain of 82%, as compared to the market index's 41% return (half of the return posted by the mutual fund). Epack continued to perform better than the Databank Stock Index till 2003, when the tide turned in favour of the Market Index [157%] and persisted in 2004.

#### Comparative Analysis of Databank Stock Index and Epack Investment Fund



YTD Return on the Databank Stock Index and Epack Investment Fund

To strengthen the argument for mutual funds in wealth creation, we can now compare the cumulative returns of the flag ship mutual fund, Epack to other notable investment avenues in the country, over a five year period. The 91-day bill has posted a cumulative return of 326% from 2000-2005, while the one-year note has recorded a cumulative profit of 345% during the same period. The cumulative appreciation of the US dollar (a treasured investment avenue), has gained



134% over the five-year period being assessed (2000-2005). The Databank Stock Index, which is an aggregate weighted index of all the stocks listed on the Ghanaian bourse, has posted a cumulative return of 590%. Epack however has outperformed all these stocks with a cumulative return of 1023% as at December 19, 2005. To put this return into perspective, an individual who invested ₵1,000,000 in Epack in the year 2000, would currently have a net worth of ₵10,225,500 in his account and would have made a real return of ₵8,097,400. (Factoring in a cumulative inflation rate of 213%), as compared to an individual who invested in dollars, who would have a negative real return of -₵790,000 (174% - 213%\*1,000,000).

This year has been a test situation for mutual funds in Ghana, with most of the funds moving into negative territory and their net worth declining. This trend was underpinned by the poor performance of stocks listed (most mutual funds are equity funds) on the Ghanaian bourse, which resulted in a spate of panic selling by mutual fund investors, resulting in a decline in the net asset value of most of the funds.

Aside Databank's Money Market Fund which invests in short-term instruments including Treasury bills and Commercial paper and has a current net worth of ₵70 billion [2004 net worth: ₵16.6 billion], the value of the rest of the mutual funds has depreciated, so far this year. Epack's net asset value is ₵257 billion as compared to ₵347 billion by the close of 2004. NTHC's Horizon fund is ₵11 billion, down from ₵16 billion at the close of 2004, while SAS's Fortune fund has a year-to-date net worth of ₵7.02 billion [2004 close: ₵5.27 billion]. The reason for this trend is the short-term perspective of Ghanaian investors. Most Ghanaian investors seek for flexible short-term investments that would yield high returns and any contrary trend results in an exit by investors. Investors must however note that consistency as well as patience are two essential tools in investment growth.

With this downward trend, is it still recommended that investors increase their wealth through mutual funds? Taking stock of the year-to-date

performance there is still a strong case for mutual fund investment. The Databank Stock Index, which has a year-to-date return of -25.03%, pales in comparison to the returns on most mutual funds. Epack, the country's premier mutual fund has so far this year, made a year-to-date return of -4.19%, while SAS's Fortune Fund has a year-to-date return of -9.08%. What is more there have been cases of turnarounds in mutual funds, soon after negative returns were posted. This was the situation in 1999, when Epack Investment Fund ended the year at -3%, but gained 20% at the close of 2000.

Fund	Half-Year (%)	Year Close (%)
<b>Epack Investment Fund</b>	-6.80	-4.19
<b>Fortune Fund</b>	-2.71	-9.08
<b>Horizon Fund</b>	-0.97	11
<b>HFC Equity Fund</b>	1.92	46
<b>Money Market Fund</b>	17.4*	16.93*
<b>Anidaso Fund</b>	n/a	-0.2

Mutual funds have become popular among investors globally because throughout the world, individuals share the same basic needs and goals – A comfortable retirement, higher education for their children and improved family living standards, which they intend achieving in the future. Investors with this objective and with a thirst to accumulate wealth for major projects have found mutual funds to be a viable investment alternative.

The Ghanaian investor should therefore weigh the pros and cons of investing in the different mutual funds available depending on his investment

objectives) and choose one out of the six mutual funds in the country to enhance wealth accumulation.

Ghanaian fund managers must take a cue from their US counterparts, (who have increased portfolio investment in emerging markets) and search for investment in other countries in order to diversify risks.

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## INVESTING IN SHARES WHEN THE "CHIPS" ARE DOWN

### Overview

'Property is the fruit of labor; property is desirable; it is a positive good in the world'. - Abraham Lincoln. The desire to create wealth is an age old aspiration of man. This is because power, control and security [especially financial security] are derived from the possession of wealth. This drive underscores basic savings in commercial banks, investment in treasury instruments, equities, mutual funds and properties [houses, land etc]. While basic savings only accumulates income earned, investment rewards the investor for withholding consumption until a later date. Depending on the nature of the investment option considered, returns may be low, moderate or high after inflation has been factored out. This suggests that, naturally, rational investors would opt for investments that yield the highest returns. There is some risk inherent in investing and investors get a reward for bearing this risk. Risk and the rate of return on any investment are positively related. Thus, the risk tolerance level of the investor determines his choice of investment and how much returns accrue on the investment. Investors must note that the risk involved in any investment is the probability of not receiving exactly the expected returns or receiving returns that deviate from the expected. What should investors do when 'the Chips are Down?' What should investors do when their expectations in stock market investors are not met as has been the case for many invested in the Ghana Stock Market in 2005?

### Mechanics of Stock Market Investment

Historic records have proven beyond doubt that investment in stocks yields superior returns than other financial assets. Investors have different goals which determine their choice of investment vehicles [treasury instruments, equities, mutual funds and properties [houses, land etc]]. Investors have dreams which they aspire to achieve through investment goals such as planning for early retirement, children's education, purchase of a dream car, accumulate capital for a business venture or pay off mortgage/to build a home.



Adept investors will seek out the best means to achieve their goals. Is leaving your money tucked safely away in a bank or gilt edged securities [which may give you a lower rate of return than inflation] an option? Or would it be better to resort to the stock market [where the potential for strong returns is greater but the chances of losing money invested is higher?]

Investment decisions depend on investment goals and risk tolerance level. Risk increases with time and is thus key, when determining an investment horizon. For investors with an investment horizon of five years and more, it is well worth investing part of your portfolio in the stock market. Part because it is better to spread risk by investing in a range of assets.

Comparative Return on Financial Assets							
Year End	Year-On-Year Inflation (%)	Equity Performance (%)	91-Day Bill (%)	1-Year Note (%)	Fixed Deposit Rate [Avg.] (%)	Cedi Dep. (%)	Dollar App. (%)
1999	13.79	-15	28.12	19.66	20.5		
2000	40.54	15	38.99	26.92	33.5	-49	97
2001	21.29	11	40.87	31.57	23.25	-5	5
2002	15.20	46	25.14	26.65	13.25	-13	15
2003	23.60	156	28.37	29.96	14.25	-5	5
2004	11.78	91	17.29	18.46	13.25	-2	3
2005	14.80	-25.15	15.45	17.69	8.33*	0.64	0.65
Annual Avg.	20	40	28	24	18	-12	21

Credit: Databank Research and Information Limited  
Fixed Deposit Rate is a proxy as at September 2006.C

Types of shares available for investment include preference shares, bonds, and gilts but the most popular type is ordinary shares.

**Ordinary shares** represent part ownership of a company. When an investor buys shares, also known as equities or stocks, he literally becomes a part-owner of that business. If, for example, Canoly Company has 100,000,000 shares worth ₵100 each and an investor buys ₵1,000,000 of shares,

he owns 1% of the company's equity by implication.

Why have stock market investments been so successful? The success factor behind investment in shares is the direct link shares have with company profits and the strength of the economy. As the company expands its operations and increases profitability through efficient management, the company's fundamentals become strong. Consequently, the stocks attract demand from investors who are usually willing to pay a premium to acquire them and bid the stock's price up. Existing shareholders then make some capital gains if they opt to take their profit.

Shareholder benefits for owning shares include capital gains, equity growth and dividends. For example, if Dygrey Company Limited [DCL] earns revenue of ₵10,000,000 in one year. After deducting costs, DCL has ₵5,000,000 left as profit. DCL reinvests this amount in the business by investing in better technology, which enables cost-cutting and therefore culminates in increased profit the following year. If DCL continues to improve profits, demand for DCL shares will grow and the share price will rise. This type of company, known as a **growth stock**, is popular with investors **who do not need income** from their investments immediately such as fresh graduates and young [often unmarried] professionals.

Some companies pay **dividends** [especially those in industries at their maturity phase]. For example, Plaizy Ghana Limited earns revenue of ₵10,000,000. After deducting its costs and reinvesting in the business it has ₵2,000,000 left over. It decides to return this money to shareholders by paying a dividend. If the company has 10,000 shareholders, each shareholder will get a dividend of ₵200 per share. An investor who owns 100 shares will receive a total dividend of ₵20,000. Shares that pay dividends regularly are known as **'income stocks'** and are good for pensioners and those who need income regularly.

Companies can return money to shareholders in other ways such as **buying back** their shares. This increases the value of those shares still in circulation as the float [supply] is reduced.

Holding demand constant, the decline in supply will re-establish price at a higher level [according to the principle of demand and supply].

By investing in shares, investors **link their financial wealth to the health of the economy**. The returns on business operations typically grow when the economy is growing and slow down with the economy in recession. In times of inflation, shares are a better investment option because it has the potential to exceed inflation by a higher margin than other financial assets. Returns on shares are able to beat the effects of inflation because economies stay relatively longer in a growth phase [than in recession]. During this phase, companies expand and return higher earnings to shareholders. Savings accounts do little to protect your money from inflation as the rate of return is smaller, averaging under 10% a year.

### ***Risks Inherent in Investing in Shares***

As investors who had money in Ghana's stock market in 1999 and 2005 will testify, **share ownership is not without risks**. Expected capital gains are not always realized because share prices are volatile in the short-run and are difficult to predict with absolute accuracy. In times when the chips are down, should investors still hold in there or abandon their stock holdings? When a particular stock that an investor acquires in anticipation of capital gains performs disappointingly as many stocks have on the GSE this year, what should investors do?

A popular quote by Mike Milken says 'People forget that today's junk is often tomorrow's blue chip'. Many investors act at wrong times and suffer for it. Investors must act appropriately on information in order to beat the odds. The source of information must be credible and should have been provided within reasonable time. Full year financial results released up to a quarter after the end of the year may be irrelevant to act on in an effort to beat the market. This is because a quarter [3 months] is long enough for a company's circumstances to be significantly changed. Some investors also respond either too early or too late to information and are unable to reap good results from their decisions. Some investors for instance are too quick to redeem their profits in a bull or

bear market for fear of losses and wind-up with 'unknown meagre' profits, only to watch their former holdings soar even higher afterwards. Such investors are usually tempted to buy at the wrong time at much higher price levels or hold on too long to shares and thus end up making more losses.

A bear market usually occurs after a sustained bullish-run. It is a period of continuous share price declines [as witnessed in 1999 and 2005 in Ghana]. Like a 'financial cancer', capital gains and more are 'eaten away' during bearish markets when the chips go down. Intermediate rallies, which are seldom very strong, keep the hopes of investors alive as is expected in 2006. However some investors rush to sell their stocks before the peak of the rally and lose out.

Shares also tend to fall when the economy is weakening as investors recognize profits will be lower. Ghana's stock market however has been slow in its response to economic and other information.

### ***Beating the Odds when the Chips are Down***

There is nevertheless no justification for staying out of the stock market like a 'Nervous Nellie'. Risks are rather to help investors recognize the importance of building a **broad and diversified portfolio** with shares in different companies, industries and if possible countries. For the risk averse, investing in mutual funds such as Epæk is a diversified alternative because it spreads your money across a number of companies and financial assets and is managed by a professional fund manager.

It is also worth noting that apart from those companies that go 'bust', shares that have fallen in value on the market can recover over time. It is sometimes worth holding on to stocks whose value has fallen until it recovers. At other times, it may be better to cut losses by divesting interest in it in order to invest in a company that has better prospects. The option chosen depends on the company invested in and the investor's individual circumstances. Whatever the choice, it is important to build a portfolio with the aim of reducing investment risk. Expert advice and timely equity research information are priceless in beating



the odds when the chips are down.

We do not presume nor suggest that all stocks will bounce back in 2006. However, most equities have attained improved price earnings multiples and earnings that are ideal to generate investor interest and subsequent recovery in market value. However, historic trend and fundamental strength of listed companies suggest there will be recovery in 2006 as happened in 2000. Following a -15.1% return on the stock market in 1999, a positive return of 15.3% was recorded in 2000. It should be noted that depending on the particular stocks an investor holds, he could make positive returns even when the market as a whole is making a negative aggregate return. For instance, an investor who had shares in CFAO Ghana, or Camelot Ghana or PZ Cussons would have made 81.8%, 75.3% or 38.3% respectively in spite of the negative 25% return on the market.

When the 'chips are down' after a typical bearish market, it is a good time to buy stocks in anticipation of recovery. Stocks tend to trade on the Exchange at a discount or at fair market value. As demand for stocks rise, the price rises steadily over time. To beat the odds, perfect timing and regular management of portfolio are crucial. There are surprises in investing in shares. Equities with good prospects could suddenly encounter trouble that could alter their growth trajectory and vice versa. When a company whose stock price is expected to rise suddenly dips & trades at a discount to original optimism, some smart investors get excited because, they can increase the number of shares they hold in these stocks. Typical stocks in this category include CAL and Aluworks.

To conclude, it is extremely important not to rush to any conclusions on long-term performance. Patience is of greater urgency and importance than even 'perfect timing' in stock market investing. As Edwin Lefevre, an investor said 'People who look for easy money invariably pay for the privilege of proving conclusively that it cannot be found on this sordid earth'. Stock market investments are not for short-term or overnight quick money! Because 'Long periods of prosperity usually end in scandal' [George Taucher], some bearish sentiment is good

for the market after a bullish run. Getting into stocks with good prospects early proves greatly rewarding and even more so during price dips.

At the opening of 2006, most equities were trading at discounts or fair market value and some investors who were swift to buy, may admit that their decision worked in their favour. It is not beneficial either to 'box' a long-term investing strategy without ever selling as some Ghanaians tend to do [framing and decorating their halls with their share certificates]. An investor who specializes in ultimate growth opportunities must realize when growth has peaked and sell or avoid buying. For growth stocks, investors must tread cautiously to beat the odds. Some promising growth stocks may take years of volatility to reward investors because, the investor may have gone in when the company was barely at its infancy phase on the growth trajectory. Nevertheless, some investors won't shy away from these equities.

Stock Recommendation by Analysts and Research Reports [company reports] are useful in beating the odds when the chips are down, provided they are done by investment banks that value integrity and accountability. A closer look at some loser equities on the GSE will reveal that they still have some potential for a turn-around/price gains. Investors thrive on opportunity, and the fact that many stocks are trading for less than their fair value, should make them appeal to even the "Nervous Nellies"\*. Although momentum has been on lull, there are heartening indicators of conceivable recovery with a current year-to-date return of approximately 3 per cent on the market.

\* A Nervous Nellie is an investor who isn't comfortable with investing and the risks associated with it. If a Nervous Nellie ever decides to invest, he or she is likely to liquidate the investment at any time.

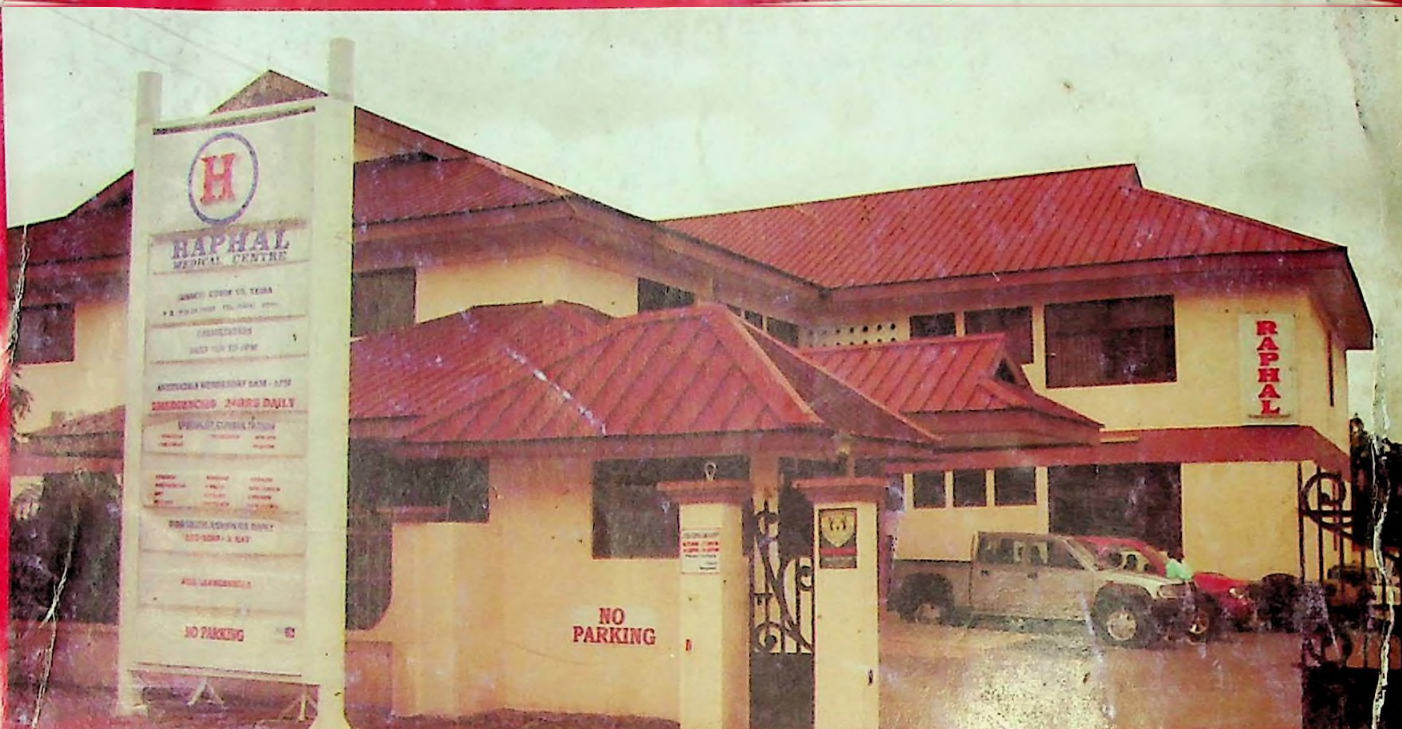
*Credit: Databank Research and Information Limited*

*Thinking is the hardest work there is.  
That is why so few people engage in it.  
-Henry Ford*



# RAPHAL MEDICAL CENTRE

...Raphal! The Healer At Work!



### OUR VISION

Our vision is to offer the best quality service in all areas of health to all and sundry whilst at the same time considering the spiritual needs of our clients.

### OUR MISSION

Our mission is to use modern medical technology to complement our kindhearted staff to deliver accessible, expedient and expectant healthcare to our clients in an enviable environment.

It is to offer unique service to our patients and clients with healthcare provided by exclusive combinations of our compassionate staff, efficient processes and modern medical equipments.

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#### General Outpatient Services:

- 24 hours emergency and rapid response
- Antenatal and postnatal consultations
- Immunizations (hepatitis, mumps, typhoid fever, yellow fever)

#### Special Consultation:

- Surgery, Gynaecology, ENT, Urology, Ophthalmology, Physician, Paediatrics etc.
- Family planning and reproductive health services

### INSURANCE SCHEMES

The Centre has been accredited by the National Health Insurance Scheme. We also see to the clients of the:

- Glico Health Insurance
- Nationwide Mutual Health Insurance
- Med'x
- Mutual Alliance



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Physician Specialist	Wednesdays	2:00pm
Paediatrics	Thursdays	2:00pm
Dietetics	Fridays	9:00am
Eye Specialist	Saturdays	9:00am
Urology	Every other Sat.	7:00am
Gynaecology	Saturdays	9:00am
Surgical	Fridays	2:00pm

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