PentVars Business Journal

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Red flags abound

SSNIT STUDENT LOAN REPAYMENT OPTIONS

Have You Re-paid Your SSNIT Student Loan?

Repayment of student loan can be done at any SSNIT Branch. Your indebtedness to the Student Loan Scheme is the principal loan and your portion of the interest.

The government pays the other portion of the interest.

Repayment options

- Cash repayment (outright or by installment) at any SSNIT Branch.
- Mandating employer to deduct from salary and pay to SSNIT.
- Deduction from Social Security contributions.
- Refund from scholarships and bursaries.

Steps to Repay Your Student Loan

- Visit any SSNIT branch and request for your statement or outstanding loan balance.
- Decide on any of the repayment options and inform SSNIT
- Start making payment(s)
- Borrowers outside the country particularly **U.K., Europe & North America** can make payment(s) to **Ghana International Bank (GIB), London.**
  1st FLOOR 10 Old Broad Street, EC2N IDW, UK.
  Tel: (0)2078470350 • (0)2078470358
  SWIFT · GHIBGB2L,
  SORT CODE: 70-06-13
  ACCT. No.: 01483704

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PENTECOST UNIVERSITY COLLEGE

James McKeown Auditorium
Air-conditioned Conference Hall

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 Apostle Dr. M. K. Ntumy.

VISION OF THE UNIVERSITY
To empower students to serve their own generation and 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 & Finance
4. Human Resource Management

BSc Information Technology(4-Year)
1. BSc Information Technology (4-Year)

3-Yr 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 Diplomas/Certificates (GBCE, O'Level, RSA III, ABCE, foundation stages of ACCA, CIM, ICA etc)

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inflationary expectations in some countries suggest that the process will not be automatic. In Tanzania, for instance, the continued persistence in inflation, in the face of a planned loosening of the fiscal stance, calls for caution on the part of the central bank to avoid an increase in inflationary expectations and second round effects.

Second, use available fiscal space judiciously.
Many countries have created fiscal space in recent years through debt reduction and strong policies. Thus, where fiscal sustainability and financing are not immediate concerns and demand conditions are weak, some stimulus or smoothing of negative demand shocks may be in order.

In Tanzania, the 2008/2009 budget provides for such a stimulus. But where external financing for public spending is falling, or commodity price changes threaten medium-term fiscal sustainability, restraint is required. In any case, current market conditions are not conducive to a dramatic expansion of public investment programs funded on commercial terms. Therefore any planned access to international capital markets should be postponed to avoid prohibitive costs.

Third, increase vigilance and stand ready to react flexibly.
The liquidity and usability of reserve assets and the availability of trade credit need to be monitored carefully. And governments should seek to identify banking system vulnerabilities, and develop plans on how to react should a banking crisis erupt.

Finally, I would also like to underline that, even though the circumstances and policies implemented in reaction to the crisis may vary sharply across countries, these should not derail the growth strategies that have been put in place in the past decade and have started to bear fruit. Sustaining the reform effort today, in spite of the crisis, will be crucial to boosting growth over the medium term and making headway toward the Millennium Development Goals.

For this reason, I welcome the focus of this conference on second generation financial sector reforms, a critical ingredient to sustained economic growth in Tanzania. And I see two broad objectives for these reforms.

First, and this is even more relevant today, there is a need to strengthen financial stability by reinforcing prudential regulation and supervision. One important aspect is to extend supervision to key nonbank institutions, such as the fast-growing pension funds. More generally, promoting the early identification of vulnerabilities and improving the monitoring of risks is critical. Financial stability assessments, as currently under preparation, can be a useful vehicle for this purpose.

Second, financial sector reforms should aim at enhancing the contribution of the financial sector to private sector development. Establishing an operational credit reference databank, for instance, will facilitate a healthy expansion of credit, and promote further financial deepening a critical ingredient for sustained high growth.

In conclusion, the international environment will be more challenging, probably for some years to come. But challenges are always also opportunities. The high-level conference that President Kikwete and the IMF will be co-hosting in Dar es Salaam early next year will provide and important occasion to bring together policy makers form all over Africa and beyond to address these questions.

This paper was presented at the 14th Conference of Financial Institutions Second General Financial Sector Reforms, November 6 - 7, 2008 Arusha, Tanzania.

Oil and Gas Accounting

Companies involved in the exploration and development of crude oil and natural gas have the option of choosing between two accounting approaches: the "successful efforts" (SE) method and the "full cost" (FC) method. These differ in the treatment of specific operating expenses relating to the exploration of new oil and natural gas reserves. The accounting method that a company chooses affects how its net income and cash flow numbers are reported. Therefore, when analyzing companies involved in the exploration and development of oil and natural gas, the accounting method used by such companies is an important consideration.

Two Approaches

The successful efforts (SE) method allows a company to capitalise only those expenses associated with successfully locating new oil and natural gas reserves. For unsuccessful (or "dry hole") results, the associated operating costs are immediately charged against revenues for that period.

The alternative approach, known as the full cost (FC) method, allows all operating expenses relating to locating new oil and gas reserves - regardless of the outcome - to be capitalized.

Exploration costs capitalized under either method are recorded on the balance sheet as part of long-term assets.

Why the Two Methods?

Two alternative methods for recording oil and gas exploration and development expenses is the result of two alternative views of the realities of exploring and developing oil and gas reserves. Each view insists that the associated accounting method best achieves transparency relative to an oil and gas company's accounting of its earnings and cash flows.

According to the view behind the SE method, the ultimate objective of an oil and gas company is to produce the oil or natural gas from reserves it locates and develops so that only those costs relating to successful efforts should be capitalized. Conversely, because there is no change in productive assets with unsuccessful results, costs incurred with that effort should be expensed.

On the other hand, the view represented by the FC method holds that, in general, the dominant activity of an oil and gas company is simply the exploration and development of oil and gas reserves. Therefore, all costs incurred in pursuit of that activity should first be capitalized and then written off over the course of a full operating cycle.

The choice of accounting method in effect receives regulatory approval because the Financial Accounting Standard Board (FASB), which is responsible for establishing and governing GAAP, and the Securities and Exchange Commission (SEC), which regulates the financial reporting format and content of publicly traded companies, are divided over which is the correct method.

In *Statement of Financial Accounting Standard (SFAS) 19*, the FASB requires that oil and gas companies use the SE method, while the SEC allows companies to use the FC method. These two governing bodies have yet to find the ideological common ground needed to establish a single accounting approach.

What's the Difference?

Regardless of the method one chooses to follow, an oil and gas company engaged in the exploration, development and production of new oil or natural gas reserves will incur costs that are identified as belonging to one of four categories:

1. **Acquisition Costs**

Acquisition costs are incurred in the course of acquiring the rights to explore, develop and produce oil or natural gas. They include expenses relating to either purchase or lease the right to extract the oil and gas from a property not owned by the company. Also included in acquisition costs are any lease bonus payments paid to the property owner along with legal expenses, and title search, broker and recording costs. Under both SE and FC accounting methods acquisition costs are capitalized.

2. **Exploration Costs**

Typical of exploration, costs are charges relating to the collection and analysis of geophysical and seismic data involved in the initial examination of a targeted area and later used in the decision of whether to drill at that location. Other costs include those associated with drilling a well, which are further considered as being intangible or tangible. Intangible costs in general are those incurred to ready the site prior to the installation of the drilling equipment whereas tangible drilling costs are those incurred to install and operate that equipment.

All intangible costs will be charged to the income statement as part of that period's operating expenses for a company following the SE method. All tangible drilling costs associated with the successful discovery of new reserves will be capitalized while those incurred in an unsuccessful effort are also added to operating expenses for that period.

For an oil and gas company following the FC method, all exploration costs - including both tangible and intangible drilling costs - are capitalized by being added to the balance sheet as part of long-term assets.

- **Development Costs**

Development costs involve the preparation of discovered reserves for production such as those incurred in the construction or improvement of roads to access the well site, with additional drilling or well completion work, and with installing other needed infrastructure to extract (e.g., pumps), gather (pipelines) and store (tanks) the oil or natural gas from the reserves.

Both SE and FC methods allow for the capitalization of all development costs.

- **Production Costs**

The costs incurred in extracting oil or natural gas from the reserves are considered production costs. Typical of these costs are wages for workers and electricity for operating well pumps.

Production costs are considered part of periodic operating expenses and are charged directly to the income statement under both accounting methods.

The Impact of Differing Levels of Capitalized Assets

The effect of choosing one accounting method over another is apparent when periodic financial results involving the income and cash flow statement are compared with the effect of highlighting the way each method treats the individual costs falling into these four categories. But such a comparison will also point out the impact to periodic results caused by differing levels of capitalized assets under the two accounting methods.

Much in the same way the financial results of a manufacturing company are impacted by depreciation expense for plant, property and equipment, those for an oil and gas company are equally affected by periodic charges for depreciation depletion and amortisation (DD&A) of costs relating to expenditures for the acquisition, exploration and development of new oil and natural gas reserves. They include the depreciation of certain long-lived operating equipment; the depletion of costs relating to the acquisition of property or property mineral rights, and the amortization of tangible non-drilling costs incurred with developing the reserves. The periodic depreciation, depletion and amortization expense charged to the income statement is determined by the "units-of-production" method, in which the percent of total production for the period to total proven reserves at the beginning of the period is applied to the gross total of costs capitalized on the balance sheet.

Financial Statements Impact - FC Vs. SE

Income Statement

DD&A, production expenses and exploration costs incurred from unsuccessful efforts at discovering new reserves are recorded on the income statement. Initially, net income for both an SE and FC company is impacted by the periodic charges for DD&A and production expenses, but net income for the SE company is further impacted by exploration costs that may have been incurred for that period. Thus, when identical operational results are assumed, an oil and gas company following the SE method can be expected to report lower near-term periodic net income than its FC counterpart.

However, without the subsequent discovery of new reserves, the resulting decline in periodic production rates will later begin to negatively impact revenues and the calculation of DD&A for both the SE and FC company. Due to the FC company's higher level of capitalized costs and resulting periodic DD&A expense in the face of declining revenues, the periodic net earnings of the SE company will improve relative to those for the FC company, and will eventually exceed those costs.

Statement of Cash Flows

As with the income statement, when identical operational outcomes are assumed, for a company following the FC method of accounting near-term results will be superior to those for a company following the SE method. Cash Flow from Operations (CFO) is basically net income with non-cash charges like DD&A added back so, despite a relatively lower charge for DD&A, CFO for an SE company will reflect the net income impact from expenses relating to unsuccessful exploration efforts.

However, when there are no new reserves being added, reported net income under longer term SE and FC, each company's Cash Flow from Operations will be the same. This is because adding back the non-cash charge for DD&A effectively negates the relatively larger impact to net income under the FC method of accounting.

How does full cost accounting apply under IFRS 6?

IFRS 6 (Exploration for and evaluation of Mineral Resources) only provides guidance during exploration and evaluation of mineral resources up to the point that technical feasibility and commercial viability of extracting is demonstrated. IFRS 6 permits a form of full cost accounting only during the exploration and evaluation phases but the full cost accounting model cannot be extended to the development and production phases. Accounting during these phases will generally be by analogy to 'IAS 16 (Property, Plant and Equipment) and IAS 36 (Impairment of Assets)."

Most of the major entities in oil and gas sector use the 'successful efforts' method, where the costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. However, some companies have used the 'full cost' approach, where all costs are capitalised. Without IFRS 6, many entities would have had to change their practice of accounting for these costs. It would have forced them to fall back to the IASB Framework, or to standards issued by their respective national standard setters.

IFRS 6 permits entities to continue to use their existing accounting policies, provided they comply with paragraph 10 of IAS 8, *Accounting policies, changes in accounting estimates and errors* that is they result in information which is relevant and reliable. An entity accounts for its exploration and evaluation expenditure either in accordance with the IASB Framework or with the exemption permitted by IFRS 6. This allows an entity to apply an accounting policy for exploration and evaluation assets which is relevant and reliable, even though the policy may not be in full compliance with the IASB Framework.

Disclosure

Entities are required to disclose information that identifies and explains the amounts recognised in their financial statements arising from the exploration for and evaluation of oil and gas resources. To comply with this requirement, the following should be disclosed:

the entity's accounting policies for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets; and the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Conclusion

When investing in companies involved in the exploration and development of oil and natural gas reserves, company analysis should include recognizing which accounting method a company follows. The differences between the two methods and their impact on near- and long-term net income and cash flow should prove helpful when comparing individual companies' past results and future expectations.

PROFESSOR KWAME BOASIAKO OMANE-ANTWI

BUILDING A GOOD REPUTATION AT WORK

(Easy Steps for Laying a Career Foundation)

When you are a new employee, you want to establish a good reputation and that is especially true if you are a new professional in the workforce.

Below are some tactics that should complete your game plan for winning favour and starting a good foundation for your career.

1. **Earn Respect Before a Special Request**

Life sometimes gets in the way of everything, including work. On an occasion you may need to ask your boss for an extra privilege, but it is best not to do so straight out of the gate.

Hallie Crawford, a certified career coach and owner of Hallie Crawford.com, agrees that "this generation has been pegged as one that expects everything up front at the beginning. That is not always accurate, but new graduates should remember that they will have to pay their dues before they can have it all".

Crawford recommends adhering to company policies and endearing your self to your boss before asking for flexibility. "You want to prove that you perform well and it's worth it to keep you content". So if your hours are nine to five, make sure you are at your desk at nine and at least until five. Down the road, after you have demonstrated your reliability and value to your boss, you may be able to negotiate more flexibility in your arrival and departure times or lunch hour or take a vacation before you're technically due one.

2. **Tackle Something Without Being Asked**

One of the best ways to gain the gratitude of your supervisor is showing initiative. "So many people get into a new job and think their supervisors are going to say, 'This is exactly what I expect you to do'. But this is not school. You are not going to get clear-cut homework assignments. You have to ask, 'What can I help with?' or you can just dive into a task."

Hallie Crawford recommends taking on a project that everyone is avoiding. Perhaps the supply closet is shameless. Or there's a major backlog at an important filing cabinet. Maybe an important database is woefully out of date. Put in a few extra minutes each day so your pet project does not interfere with your primary responsibilities. When you are done, you will have won your boss's admiration and your coworkers' gratitude. "You have to step up if you want to get ahead."

3. **Offer Opinions with Tact**

You have been employed because your boss and others at the company saw promise in you and your skills. Your opinion is valuable to the organisation's growth and future.

However, remember to offer it up gently and with respect. Crawford reminds new graduates that "Putting out things as if you are a seasoned consultant is not the best approach. It's great that you have a fresh perspective, but you need to present it in the right way."

Rather than inquiring why something is done in a certain way, ask if management has ever considered doing it another way. Suggesting a new process rather than questioning a current one highlights your forward thinking without insulting your boss's or the company's. "You don't want to come off as a know-it-all".

4. **It's Business, Not Personal**

Work friends can become some of your best friends, in and out of the office. You need to remember that these are professional relationships first, even if you work for a hip company where fun is a part of the company culture, "it is not a tea party". If you are invited out to lunch or an after-work drink, don't overindulge in alcohol. You have to be smart, if you don't want other people to know about it, don't do or say it. Over time you will learn a lot about your coworkers and your self, but it will happen organically.

5. **Figure It Out**

It is important to ask a lot of questions when you are new to any job, and your boss understands that. But don't bother her with queries all day long. You have to know when you need go to your boss and when you don't. For instance, he is really busy and can not always hold your hand.

6. **Communicate, Communicate, Communicate**

Especially at the beginning of your relationship that is, when either you or the boss is new to the job err on the side of giving your boss too much information and asking too many questions.

According to Marianne Adoradio, a Silicon Valley recruiter and career counselor, "There's no such thing as a dump question," she looks at it as information gathering. Don't keep up the constant stream of communication unless your boss likes it, though. It's best to ask directly whether you are giving the boss enough information or too much.

7. **Build relationships**

You will make your bos: look good if you establish a good rapport with your department's customers, whether they are inside the company or outside. Bring back what you learn about ways to offer customer service, for example to your boss. This is also helpful for your own career development. According to Adoradio everybody wins in the long run.

8. **Be engaged in your work**

Arguing with your boss over every request is not a good strategy, but neither is simply shrugging your shoulders and agreeing with everything your boss says. "The manager would like to see an engaged individual". That means both showing enthusiasm for your work and speaking up when you see room for improvement.

9. **Understand how you fit in**

Is your boss detail-oriented, or someone who keeps his head in the clouds? "The boss's personally is just incredibly important," says Norm Meshriy, a career counselor and principal of Career Insights.

Equally important is understanding what your boss wants in an employee. It may be, for example, that a boss who is detail-oriented will expect his employees to be as well. But a boss who has no time for details may actually appreciate an employee who does.

In conclusion, Crawford urges new employees to learn to work independently of their supervisors by reaching out to other key people related to their jobs and getting to know them. Your supervisor will appreciate the fact that you have figured out how things work and that you have begun to build relationships throughout the company.

DORIS ARYEE
Administrative Assistant
Pentecost University College

KEYS TO WARFARE:
Contemporary Leadership Strategies

In looking back on an unpleasant or disagreeable experience, the thought inevitably occurs to us: if only we had said or done x instead of y, if only we could do it over. Many a general has lost his head in the heat of battle and then, looking back, had thought of the one tactic, the one manoeuver, that would have changed it all. The problem, though, is not that we think of the solution only when it is too late. The problem is that we imagine that knowledge is what was lacking: if only we had known more, if only we had thought it through more thoroughly. That is precisely the wrong approach, Robert Greene would surmise. What makes us go astray in the first place is that we are not attuned to the present moment, insensitive to the circumstances. We are listening to our own thoughts, reaching to things that happened in the past, applying theories and ideas that we digested long ago but that have nothing to do with our predicament in the present. More books, theories, and thinking only make the problem worse.

Understand, Greene advises, that the greatest generals, the most creative strategists, stand out not because they have more knowledge but because they are able, when necessary, to drop their preconceived notions and focus intensely on the present moment. That is how creativity is sparked and opportunities are seized. Knowledge, experience, and theory have limitations: no amount of thinking in advance can prepare you for the chaos of life, for the infinite possibilities of the moment. The great Prussian philosopher of war Carl von Clausewitz called this "friction": the difference between our plans and what actually happens. Since friction is inevitable, our minds have to be capable of keeping up with change and adapting to the unexpected. The better we can adapt our thoughts to changing circumstances, the more realistic our responses to them will be. The more we lose ourselves in the predigested theories and past experiences, the more inappropriate and delusional our response.

It can be valuable to analyze what went wrong in the past, but it is far more important to develop the capacity to think in the moment. In that way you will make far fewer mistakes to analyze.

The first step is simply to be aware of the process and the need to fight it. The second is to adopt a few tactics that might help you to restore the mind's natural flow.

Reexamine All Your Cherished Beliefs and Principles

When Napoleon was asked what principles of war he followed, he replied that he followed none. His genius was his ability to respond to circumstances, to make the most of what he was given — he was a supreme opportunist. Your only principle, similarly, should be to have no principles. To believe that strategy has inexorable laws or timeless rules is to take up a rigid, static position that will be your undoing. Of course, the study of history and theory can broaden your vision of the world, but you have to combat theory's tendency to harden into dogma. Be brutal with the past with tradition, with the old ways of doing things. Declare war on sacred cows and voices of convention in your own head.

Education tends to burn precepts into the mind that are hard to shake. In the midst of combat, the trained mind may fall a step behind focusing more on learned rules than on the changing circumstances of battle. When you are faced with a new situation, it is often best to imagine that you know nothing and that you need to start learning all over again. Clearing your head of everything you thought you knew, even your most cherished ideas, will give you the mental space to be educated by your present experience the best school of all. You will develop your own strategic muscles instead of depending on other people's theories and books.

Erase the Memory of the Last War

The last war you fought is a danger, even if you won it. It is fresh in your mind. If you were victorious, you will tend to repeat the strategies you just used, for success makes us lazy and complacent; if you lost, you will be edgy and indecisive. Do not think about the last war; you do not have the distance or the detachment. During the Vietnam War, the great North Vietnamese general Vo Nguyen Giap had a simple rule of thumb: after a successful campaign, he would convince himself that it had actually been a failure. As a result, he never got intoxicated on his success, and he never repeated the same strategy in the next battle. Rather, he had to think through each situation anew. Attention to the details of the present is by far the best way to crowd out the past and forget the last war.

Keep the Mind Moving

The minds of children never stop. They are open to new experiences and absorb as much of them as possible. They learn fast, because the world around them excites them. When they feel frustrated and upset, they will find some creative way to get what they want and then quickly forget the problem as something else crosses their path.

According to Greene, all the historical greatest strategists were childlike in this respect. In fact, he espouses that, they even acted like children. The reason is that superior strategists see things as they are. They are highly sensitive to dangers and opportunities. Nothing stays the same in life, and keeping up with circumstances as they change requires a great deal of mental fluidity. Great strategists do not act according to preconceived ideas; they respond to the moment, like children. Their minds are always moving, and they are always excited and curious. They quickly forget the past the present is much too interesting. "What does not move is dead. What has speed and mobility has more possibilities, more life."

Absorb the Spirit of The Times

According to military historians throughout the history of warfare, there have been classic battles in which the past has confronted the future in a hopeless mismatch. It happened in the seventh century, when the Persians confronted the invincible armies of Islam with their new art of desert fighting. Again, in the first half of the thirteenth century, the Mongols used relentless mobility to overwhelm the heavy army of Russia. In each case, the conquering army developed a way of fighting that maximized a new form of technology or a new social order.

You can reproduce this effect on a smaller scale by attuning yourself to the spirit of the times. Developing the antennae for the trends that have yet to crest takes work and study, as well as flexibility to adapt those trends. As you get older, it is best to periodically alter your style. Instead of staying sentimentally attached to some fashion of days gone by, sense the rising trend and go with it. By constantly adapting and changing your style, you will avoid the pitfalls of your previous wars. Just when people feel they know you, you will change.

Reverse Course

People should learn to sometimes shake themselves up and break free from the hold of the past. This can take the form of reversing course and doing the opposite of what is normally done in any given situation—putting oneself in some unusual circumstances, or literally starting over. In those situations the mind has to deal with a new reality, and it snaps to life. The change may be alarming but it is also refreshing.

Relationships often develop a certain tiresome predictability. You do what you usually do, other people respond the way they usually do, and around it goes. If you reverse course, act in a novel manner, you alter the entire dynamic. Do this every so often to break up the relationship's stale patterns and open it to new possibilities.

Think of your mind as an army. Armies must adapt to the complexity and chaos of modern war by becoming more fluid and manoeuverable. The ultimate extension of this evolution, according to military scholars, is guerrilla warfare, which exploits chaos by making disorder and unpredictability a strategy. The guerrilla army never stops to defend a particular place or town; it wins by always moving, staying one step ahead. By following no set pattern, it gives the enemy no target. The guerrilla army never repeats the same tactic. It responds to the situation, the moment, the terrain where it happens to find itself. There is no front, no concrete line of communication or supply, no slow-moving wagon. The guerrilla army is pure mobility.

That is the model for the new thinking for the contemporary leader. Apply no tactic rigidly; do not let your mind settle into static positions, defending any particular place or idea, repeating the same lifeless manoeuvers. Attack problems from new angles, adapting to the landscape and to what you are given. By staying in constant motion you show your enemies no target to aim at. You exploit the chaos or the world instead of succumbing to it.

CAPT SAM ADDAIH (RTD.)
GIMPA, Greenhill

THE RED FLAGS OF FINANCIAL FRAUD

Beware Of The Psychopathic Snakes In Suits

INTRODUCTION

In simplest term, fraud is commonly defined as intentional deception, or simply lying, cheating, or stealing.

Black's Law Dictionary defines fraud as:

" A generic term, embracing all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get advantage over another by false suggestions or by suppression of truth. It includes all surprise, trickery, cunning, dissembling, and any unfair way by which another is cheated"

Concern about fraud exists with investors, creditors, customers, government and others. Major Financial Statement fraud such as Enron, Sunbeam, Worldcom, and others have raised the importance of fraud prevention and detection.

This piece provides a checklist of conditions (red flags) that may provide the opportunity for fraud.

RISK FACTORS FOR MISSTATEMENTS ARISING FROM FRAUDULENT FINANCIAL REPORTING

i) Management's Characteristics and Influence over the Control Environment:

1) A motivation for management to engage in fraudulent financial reporting:
   - Significant incentive compensation.
   - Excessive interest in increasing stock price or earnings trend through aggressive accounting practices.
   - A practice of management committing to outsiders unduly aggressive or clearly unreliable forecasts.
   - An interest by management in pursuing inappropriate means to reduce taxable earnings.

2) A failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process.
   - Ineffective communication of values, or inappropriate values.
   - Domination of management by a single individual or small group without effective oversight by boards or audit committees.
   - Inadequate monitoring of significant controls.
   - Management failing to correct known deficiencies in a timely manner.
   - Management setting unduly aggressive financial targets and expectations for operating personnel.
   - Management displaying a significant disregard for regulatory authorities.
   - Management continuing to employ ineffective accounting, information technology, or internal audit staff.

3) Non-financial management's excessive participation in financial decisions.

4) High turnover in senior management.

5) Strained relationship between management and the current or predecessor auditor.
   - Frequent disputes with the auditor.
   - Unreasonable demands on the auditor.
   - Formal or informal restrictions on the auditor.
   - Domineering management behavior toward the auditor.

6) Known history of securities law violations.

ii) Industry Conditions:

7. New accounting, statutory or regulatory requirements that could impair the, financial stability or profitability of the organization.
8. High degree of competition along with declining margins.
9. Declining industry, declining customer demand, and increasing business failures.
10. Rapid changes in the industry, such as high technology or rapid obsolescence.

iii) Operating Characteristics and Financial Stability:

11. Inability to generate cash flows from operations while reporting earnings and earnings growth.
12. Significant pressure to obtain additional capital necessary to stay competitive.
13. Assets, liabilities, revenues, or expenses based on significant estimates that involve unusually subjective judgments.
14. Significant related-party transactions not in the ordinary course of business.
15. Significant, unusual, or highly complex transactions, especially those occurring at year-end, that pose difficult "substance over form", questions.
16. Significant bank accounts in tax-haven jurisdictions for which there appears no clear business justification.
17. Overly complex organizational structure involving numerous or unusual legal entities or contractual arrangements without apparent business purpose.
18. Difficulty in determining the organizational entity or person(s) that control the entity.
19. Unusually rapid growth or profitability, compared to other entities in the industry.
20. Especially high vulnerability to changes in interest rates.
21. Unusually high dependence on debt or marginal ability to meet debt repayment requirements.
22. Unrealistically aggressive sales or profitability incentive programs.
23. Threat of imminent bankruptcy, foreclosure or hostile takeover.
24. Adverse consequences on pending transactions that are tied to positive earnings or sales reports.
25. Poor or deteriorating financial position when management have personally guaranteed the entity's debt.

RISK FACTORS FOR MISSTATEMENTS ARISING FROM MISAPPROPRIATION OF ASSETS

i) Risk Factors Related to Susceptibility of Assets to Misappropriation:

1. Large amounts of cash on hand or processed.
2. Inventory characteristics, such as high value, small portable, high demand.
3. Easily convertible assets.
4. Fixed asset characteristics: portable, valuable, not marked for identification.

ii) Risk Factors Relating to Controls:

5. Lack of appropriate management oversight.
6. Lack of job applicant screening for sensitive jobs.
7. Inadequate record keeping:
8. Lack of appropriate segregation of duties or independent checks.
9. Lack of appropriate system of authorizations and approval of transactions.
10. Poor physical safeguards over assets.
11. Lack of timely and appropriate documentation for transactions.
12. Lack of mandatory vacations for employees performing key control activities.

CONCLUSION

Why do individuals commit fraud?

Probably the most common reason is that the perpetrators are greedy and believe that they will not get caught. Various researchers including criminologists, psychologists, sociologists, auditors, police detectives, educators and others have studied this issue. They have concluded that three basis factors known as the **Fraud Triangle** determine whether an individual might commit fraud. These three factors comprising the fraud triangle include:

- Motivation (perceived pressure or incentive)
- Perceived opportunity and
- Rationalization

All three elements generally exist in the typical fraud.

Effective internal control is an important factor in limiting fraud. Management must pay attention to the entity's internal controls and evaluate the weaknesses or red flags that provide the opportunity for fraud.

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Analysis of Cost for Pricing:
An exploration of the gap between Theory and Practice

Ibrahim Zubairu

Abstract

Over the years, there has been several discussions over the alleged gap between management accounting theory and practice. As a result, researchers sympathetic to neoclassical economies have sought to rationalize the gap in terms of information economics and have proposed constrained optimisation as the norm. Scapens (1994) and Ahmed & Scapens (2000) have suggested that, the old institutional economics framework might better explain management accounting practice.

The old institutional economics originated about the same time as neoclassical economics and in opposition to its rationalization of the gap, it largely rejects rational optimisation as the basis for much of human behaviour and stresses, instead rule following and adherence to custom.

This research paper reports on the findings of two case studies undertaken as part of a programme of case studies intended to examine the power of the old institutional economics framework to explain the gap between management accounting theory and practice, in the realm of costing for pricing. The paper concludes that, much observed management accounting practice is difficult to reconcile with ex ante constrained optimisation, but is explicable in terms of conditioning by various institutions in question.

1. Introduction and History of the Reality Gap

There are several write-ups over a prolonged period about the alleged gap between the conventional wisdom of management accounting textbooks, academic/professional journals and management accounting practice. But the 'reality gap' did not attract much attention in all these except in the area of cost analysis for pricing and product mix decisions.

The textbooks recommended a decision relevant approach to cost analysis for pricing decisions, while the empirical research on the other hand has consistently suggested that such an approach is not widely used in practice.

No sooner had the accounting researchers began to systematically conduct empirical studies of management accounting practice than the 'reality gap' became apparent. Studies made in the United Kingdom by Coates et al (1983) and Gordon et al (1981) in the United States of America are typical examples of the empirical studies conducted on management accounting practice. The studies have been regularly replicated up to the present day, for example Drury and Tayles (2005) — Full cost plus pricing appears to be common. Most studies also suggest that, demand and competition are often taken into account.

However, 'cost' as defined by accountants considering typical full cost as measured for external financial reporting purposes was shown to be a very important benchmark in pricing and adjustments in response to demand and competition certainly did not constitute equivalent to full cost application of marginalist/incrementalist principles.

Looking from 1980s onwards, the conventional wisdom has also advocated for the use of target costing as a way of dealing with increased competition. However, survey evidence available suggests that, this approach is not widely used in practice (Drury et al., 1993 and Garg, 2003).

In recent times, Drury and Tayles (2005), attempted to explain management accounting practice in terms of cost-benefit contingencies; from the point of view of information economics. Their approach was consistent with the arguments of Demski (1972), Demski and Feltham (1976) which drew its conclusion from the earlier work of Arrow (1963) and Horngren (1990) postulating that sophisticated techniques are often costly to implement and the benefits may not justify the costs. They concluded however that, the contingent variable suggested by the theory in Cooper (1988) could not satisfactorily explain divergences between theory and practice. The cost-benefit contingency in a constrained optimization approach assumes a degree of rationality and consensus that is often not present in group decision making contexts; in which pricing decisions are often made. Consequently, these authors called for further research, using case studies to provide insights into why accounting practice differs from accounting theory.

2. Alternative Research Frameworks

Other researchers have suggested that, 'reality gap' results from the fact that, the world in which management accounting is practiced is different from that of neoclassical economics, on which the conventional wisdom is based (Scapens, 1994; Ahmed and Scapens, 2000). In this view, either competitive conditions differ from those assumed by conventional theory, or the decision-making context differs or both. The former would include tacit collusion among oligopolistic firms rather than price competition (Tool, 1991). The latter would include group decision-making under conditions of uncertainty and ambiguity, rather than the rational mode of decision-making assumed by neoclassical theory (Stacey, 1996). Group Decision-Making is different from individual decision-making and in addition to the scope for different interpretations of decision problem, there is likely to be lack of goal congruence among the group members; each of whom has their own functional responsibility. More so, there is likely to be an unresolved agency problem between group members collectively as agents and the shareholders as principal (Varlow et al, 2005). Under such circumstances, the techniques prescribed by the management accounting textbooks may be irrelevant to the needs of managers in practice.

2.1 The institutionalisation of cost accounting

Scapens (1994) and Ahmed and Scapens (2000) have suggested that, the reason for reality gap is that, the world in which management accounting is practiced is better explained by old institutional economics framework of Veblen (1899), Commons (1931 and 1934) than by neoclassical economics framework on which the conventional wisdom of textbooks is based.

Institutions are important for economic life and have been defined by North (1990) as the rules of the game with organization as the players. They are credited with establishing patterns of human action by excluding some types of behaviour and encouraging others. Institutions facilitate and maintain patterns of habitual behaviour (Hodgson, 1988), as opposed to rational behaviour. They can be considered as a response to the high information and computation costs that so-called rational behaviour would have and a coordinating device for human actions (Loasby, 1999). However, Hodgson (2006) defined institution as "the system of established and prevalent social rules that structures social interaction". An important aspect of institutions is according to Hodgson (2006), that they are useful to create stable expectations. Generally, institutions enable ordered thought, expectation and action by imposing form and consistency on human activities. The institutions we share with each other make social life easier, more predictable and therefore more efficient.

In the institutional world view, human behaviour is not typically the result of rational optimisation as postulated by neoclassical theory. People do not have the information, the cognitive capacity, or the inclination to optimise; rather, behaviour is guided by custom and rule following. In a given decision-making situation, the problem is identified as being a particular type of and then the appropriate custom or rule of thumb is invoked.

The particular custom or rule followed will be the result of specific historical episodes or events. Ahmed and Scapens (2000) argue that much of contemporary costing and pricing practice has its origins in the developments in cost accounting which occurred in the first two decades of the 20th Century. These developments comprised two historical episodes: first, the evolution of industry uniform costing systems, to avoid damaging price competition which failed to take account of the full cost of production; and second, Government was contracting in First World War which made it necessary to avoid profiteering by private contractors, cost accounting was not intended to be concerned with determining "relevant cost", or the incremental future cash flows attributable to a particular product. Rather, it was concerned with ensuring the systematic recovery of all historical monetary outlays on production resources (based on a functional classification) and the earning of a fair or normal return on investment.

Institutionalised accounting methods proved to be appealing to firms in a number of industries, because they seemed to offer a way of ensuring the systematic recovery of all production costs in the prices charged to customers; also, if all firms in the industry adopted the same (full cost plus) approach, this would drastically reduce price competition. Where firms have similar cost structure, however, cost plus pricing will tend to result in stable prices rather than prices constantly changing in response to short-run demand fluctuations. As Blyth (1923, p. 124), a prominent contributor to the early literature on cost accounting, puts it:

Uninformed price cutting would be gradually eliminated and by this means, one of the greatest menaces to successful business would be removed. This would tend to create greater stability not only in each industry but in industry generally.

Costing practice thus provided a means of subliminal tacit collusion, institutional writers have also observed that cost plus pricing may be considered more socially acceptable than the seemingly opportunistic demand driven pricing (Tool, 1991).

Given the Scapens/Ahmed and Scapens explanation regarding the divergence between competitive conditions assumed by theory and those in which management accounting is practised. Management accounting practices are customs or institutionalised rules to facilitate conformity across organisations in a field (DiMaggio and Powell, 1983), to provide order and stability in the industry. In this context, institutional economics, unlike neoclassical economics, is not mechanistic or deterministic; it postulates that there will be a wide variety of approaches to costing and pricing-reflecting different historical trajectories-i.e., "path dependency" rather than universal optimisation (Scapens, 1994).

A general proposition of old institutional economics, however, is that there are large sectors of the modern industrial economy where tacit collusion rather than price competition prevails. The foregoing discussion of the institutionalisation of cost accounting suggests that cost practices may be instrumental in maintaining such collusion.

2.2 Alternative decision-making modes

Given Stacey's explanation regarding group decision-making under conditions of uncertainty and ambiguity (for example, decision —making as a political process), management accounting information is not used to facilitate "rational optimisation", but provide ex post rationalisation of decisions taken on other grounds. This theme i.e., of accounting being used to justify ex post rather than inform ex ante pervades the early literature on "behavioural explanations" of cost plus pricing see, for example, Earl and Hopwood (1979), Weick (1979) and Cooper et al. (1981).

2.3 The validity of neoclassical theory

It must be emphasised that the issue here is not the validity of the neoclassical economic theory of the firm. Indeed it is probably impossible to test that question by reference to observe costing and pricing practice at the level of the individual firm. Friedman (1953) in his famous Essay in Positive Economics argues that competitive process results in firms having to act optimally (or at least in a way consistent with constrained optimisation) only firms doing so will survive. Where a rule of thumb (such as full cost pricing) is employed rather than explicit application of the marginalise calculus, the firm may have found over time by trial and error that this approach produces the maximum profit.

Thus, the firm's behaviour is "as if" it were acting according to neoclassical assumptions: using a "rule of thumb" results in same outcome as would explicit application of the marginalise calculus. Any observed behaviour (as Friedman himself suggests even simply picking a figure at random) could, therefore, in principle be consistent with profit maximisation thus vindicating neoclassical economic theory.

Thus, potentially, whatever a firm's cost and pricing approach, it could achieve the same (profit maximising) outcome as if the marginalise calculus had been explicitly applied. The question being explored in this paper then, is not whether neoclassical theory is valid in predicting the outcome of pricing decisions (with respect to achieving profit maximisation). The purpose here is to explore the behavioural dimension in management accounting practice in order to understand why the neoclassical approach is not applied in practice and, in particular, to evaluate whether behaviour is explicable in terms to the old institutional economics framework. In this respect, management accounting could be said to be a practice in search of a theory.

3. The need for case studies at the level of the individual firm

Although there is no logically necessary association of neoclassical economics and positivist research methodology, such as that employed by Drury and Tayles (2005) the latter approach has tended to be the dominant one in the economics-based management accounting research literature. This approach is based on the discovery of general laws of behaviour, which can be represented by statistical correlations. Given this approach, if existing theory cannot explain observed behaviour, then a new theory is required: case studies are simply exploratory device for generating hypotheses for subsequent testing, using quantitative methods in the search for general covering laws of behaviour (Ryan et al..2002).

3.1 The institutional view: behaviour as rule following

Old institutional economics, however, like other "interpretivist" approaches (i.e. approaches that believe "reality" is socially constructed/negotiated) is based on the assumption that as Outhwaute (1987, p. 13) puts it: "Human beings are not only propelled by causal influences, but also act for reasons which are not causes and must be understood in terms of rule following or some other mode of analysis radically distinct from the identification of law like regularities". "Rules" have been defined by Hodgson (2006, p. 3) as: a socially transmitted and customary normative injunction or immanently normative disposition, that in circumstances x do y.

Institutional economics also recognises that the rules being followed reflect "dispositional power" (Ribeiro and Scapens, 2006). These authors suggest that the "reality gap" results from the fact that the "reductionist" approach of the conventional wisdom ignores the social and organisational context of management accounting. They argue that "dispositional power" is a major component of organisational context and that this can provide a framework for the study of management accounting practice in organisations.

Dispositional power is contrasted with overt exercise of power in conflict situations and is defined as the ability to take advantage of others' acceptance of one's authority and legitimacy of one's interests.

Accounting researchers adopting the old institutional economics perspective (e.g. Burns and Scapens, 2006; Burns, 2000) have explicitly considered this aspect of power. They suggest that institutionalised rules constitute an important dimension of power. The power of social actor to achieve desired outcomes over time will derive from the appropriateness of institutionalised rules and routines become institutionalised as "the way things are done in people's minds; thus, such rules and routines constitute an important dimension of power.

3.2 The institutional research approach

The purpose of research within the institutional approach, then, is to draw on the theoretical framework to understand/explain specific behaviour not to identify general covering laws. Regarding the adoption of the institutional economics framework to understand/explain management accounting practices, it is necessary to identify the institutions' (i.e. settled patterns of thought) conditioning behaviour in particular organisations.

This involves identifying the rules being followed, the power bases reflected in such rules and their meaning/significance to managers, which account for their perpetuation.

To explain the accounting practices of individual organisations, therefore, it is necessary to study the processes of accounting practice in the context of the internal dynamics of the firm.

In order to evaluate the explanatory power of the institutional economics framework, a number of case studies were undertaken, using a semi-structured questionnaire. The following section discusses two of the case studies undertaken as part of the research programme.

4. Case 1: Interplast Limited.

Interplast Ltd is a manufacturer of PVC pipes; HDPE pipes & tubes; PVC electrical ducts & trunkings; PVC doors and windows. It is based at Spintex Road in Accra Ghana, employing over 650 people and with a sales turnover of about Gh¢380m. Its net profit, however, is only about 2.5% of sales turnover. Interplast Ltd was established in 1970; in consultation with Ghana Water & Sewerage Corporation to provide high quality unplasticised polyvinyl chloride (uPVC) pipes and fittings manufactured to internationally recognised standards. The company has since produced and supplied the majority of Ghana's requirement of small and large diameter PVC pipes for the supply of water throughout the country. Interplast has since expanded its products range to cover the manufacture of HDPE (High Density Polyethylene) pipes as well as PVC profiles for the building industry. Interplast modern production facility located in Accra is equipped with the most technically advanced extrusion machinery available today and has the capacity to supply complete uPVC & HDPE pipe lines within limited time frame and carry out routine testing of all its pipes as laid down in DIN standards under the supervision of the Ghana Standards Board. The corporate clients of Interplast include Ghana Water Company Ltd, Srabag Ltd, China GEO Engineering Corporation and Ghamal Telecommunication Company Ltd. It purchases its raw materials from oil producing countries such as, the Kingdom of Saudi Arabia, Lebanon, Nigeria etc and its equipment from original equipment manufacturers in Taiwan, India, Korea and Japan. It manufactures, stores, packs and delivers to a range of corporate, retail and wholesale customers and also performs various 'value added activities' to give the product unique position in the market. Different customers place different demands on the firm's operating resources, yet no cost allocations are made to different customers to reflect these differing resources consumption levels: pricing and customer profitability analysis are based solely on the manufacturing price of the product. Senior managers believe that overall profitability could be improved by a better understanding of customer profitability and renegotiating terms or even dropping unprofitable customers.

Conventional wisdom would recommend the allocation of attributable operating costs (inbound/outbound logistics and so on) to particular customers, using appropriate cost drivers, but this is not done. This is particularly surprising, given that the firm operates in highly priced competitive markets with wafer thin profit margins. Operating cost total about GhC370.5m in relation to sales turnover given a net profit of GhC9.5m).

The non-allocation of such costs in assessing customer profitability, effectively assumes equal consumption per GhC1 of sales value. Yet, account managers recognise wide differences in consumption of operating costs relative to sale value. Thus, significant distortions in profitability measurement are likely to occur. Cost apportionment problem might be expected to rise where delivery to several customers in the same locality is made by one truck and such problems mitigating against the introduction of a more sophisticated approach to customer costing. However, delivery to customers is subcontracted out to several heavy load truck operators, who charge Interplast on the basis of quantity & tonnes/miles. Therefore, to Interplast, delivery is a direct cost and such an appointment problem does not arise, even though, this cost is not actually allocated to customers in assessing their profitability. This non-conformity to the conventional wisdom appears explicable in the following terms:

4.1 Origins of the approach

According to several members of the current senior management team, the founding fathers of the company were Indian/Ghanaian entrepreneurs with a less than sophisticated, rigorous attitude that emphasised sales and market share growth rather than profitability. They appear to have valued these things per se, for kudos among peers or rivals. In addition, they have the conviction and had wrong belief that increased sales would automatically increase profitability. The firm has survived in a very price competitive field because all its competitors act similarly; reflecting several similar origins which led to the lack of information necessary for optimal decision-making in the company.

4.2 Reasons for persistence of the approach

The approach seems to have persisted because decisions are made by a group of managers, rather than the individual 'entrepreneur' of basic neoclassical economics (and by implication management accounting's conventional wisdom). The management team has its own functional responsibilities and problems, which often take precedence over corporate objectives.

Given the day to day pressures, managers wish to ensure first that their individual functional responsibilities are fulfilled. Certain members of the team (the Group Supply Chain Director and the Operations Director) recognise the need to introduce activity-based costing to improve their understanding of customer profitability, but the issue does not have a powerful champion. As far as it was possible to determine, this did not appear to be a priority for Sales and Marketing Management.

There seems to be lack of congruence between the organisation's goals and those of each functional manager. This is probably inevitable where growth and increase complexity, make it necessary for a group of managers with roughly equal power to make decisions, rather than a single individual who is unlikely to have the knowledge or information processing capacity necessary to make effective decisions (Stacey, 1996). Thus, there is a conflict between the need for decentralisation and integration/goal congruence.

Interestingly also, the way Sales Marketing personnel are rewarded may provide them with a disincentive to seek allocations of operating costs to customers. The Marketing function stipulates a minimum price (adding a margin to the cost of production) and is rewarded on this margin. The Sales personnel are rewarded on the basis of the contribution achieved in excess of this budgeted margin. Thus, together, the two function on the basis of sales minus cost of bought goods. If the customers producing the highest gross profit also consume disproportionate amounts of operating costs, a certain product group managers (marketing function) and or customer account managers (sales function) would have a strong incentive to resist the introduction of a formal cost accounting system.

However, Interplast's behaviour may be due, in greater part, to the 'dispositional power' of the Sales and Marketing function resulting in a general lack of financial orientation in the organisational culture, as evidenced, for example, by the exclusion of the finance function from the pricing/customer selection decision-making process. Thus, in this firm, the dispositional power underlying the rules of pricing appears to lie with the Sales and Marketing functions as a result of the historical development path of the firm. The Accounting and Finance function is geographically remote from 'the action' and its role seems restricted to a 'score keeping' rather than a decision support one

The organisation's culture does not have a financial orientation; financial controls and performance measures are not prominent in people's minds. Size of the turnover, market share and number of employees do seem to be. The firm operates a Balanced Scorecard approach to performance evaluation and non-financial performance measures seem to be given more attention than financial indicators, thus seemingly consistent with the firm's non-financial cultural orientation.

Interplast also provides an example of what Stacey (1996) describes as ambiguity in decision-making -i.e. where managers have different interpretations of the decision problem. There was a lack of agreement among the management team on the importance of price in the firm's marketing mix. This, of course, is significant because it would seem likely to influence the perceived need for accurate cost information. With a cost leadership strategy, accurate cost information is likely to be more important than with a differentiation strategy, which is normally synonymous with premium pricing.

There is general agreement that the firm's profitability is poor (at only 2.5% Return on Sales). However, there is disagreement over the cause and by implication the appropriate remedial action. Some managers believe it is inherent, due to the nature of competition in the industry (i.e. price competition):

Price is everything and we compete solely on the basis of price said the Sales Director. Therefore, given this view, accurate cost information is vital since margins are inevitably wafer thin. It must be pointed out, however, that despite his diagnosis, the Sales Director has not been a powerful champion of the introduction of activity-based costing for customer profitability analysis. This may be the result of the way the sales force is rewarded, as discussed above.

The Company's Supply Chain Director, on the other hand, believes that there is scope for differentiation in pricing, based on service quality differentiation. In this view, the low profitability must be due to inadequate exploitation of this potential differentiation, which the firm fails to reflect in a value added pricing policy. The different interpretations of the problem imply different remedies (and differing importance of accurate cost information).

Where there is such a lack of consensus concerning the nature of the problem, it is not surprising that the implementation of potential remedies continually drifts; and in effect reinforces the preoccupation of managers with their own individual functional responsibilities.

In addition, the firm's main objective seems to be long-run market share rather than short-run profit maximisation and the assumption of management accounting's conventional wisdom. This may be a good thing, as Simmonds (1981) argues that market share has intrinsic value: it reduces unit costs through economies of scale. Indeed, a large market share often represents a formidable barrier to entry and thus restricts competition. It also makes people tend to automatically make the firm their supplier of first choice. Thus, market share may be a good leading indicator of long-run profitability.

This also makes accurate cost information less critical, as limited action would follow as a result of a better understanding of customers' profitability in which case there is the likelihood that customers would be dropped or have their terms of trading renegotiated as turnover/market share takes precedence over short-run profitability.

Moreover, certain large customers (most of whom the firm already knows are unprofitable) must be retained anyway for kudos and this restricting further the scope for acting upon more accurate customer's profitability information; although this really only relates to a handful of customers and does not seem sufficient justification for the failure to introduce a customer costing system.

4.3 Case summary

In case summary, therefore, Interplast's behaviour fails to conform to management accounting's conventional wisdom for the following four reasons:

(1) Its founders were largely unaware of the dangers of pursuing growth at the expense of profitability. Thus, the firm's behaviour is explicable in terms of a specific historical episode, rather than in terms of rational optimisation which is a fundamental premise of institutional economics.

(2) There may still be an element of kudos among peers being the objective function, rather than profit maximisation and such kudos coming from sales/market share growth. Such a settled pattern of thought would indeed constitute an institution.

(3) Decisions are made by a group of managers rather than an individual, each with his own more pressing issues. The introduction of activity-based costing to improve knowledge of customer profitability does not have a powerful champion and it continues to drift. Moreover, there is ambiguity concerning the nature and causes of the decision problem, which seems likely to impact on the implementation (or otherwise) of a possible remedy; such a decision context is postulated as typical by institutional economists.

(4) Short-run profit maximisation is not the objective, perhaps rightly so, as it might conflict with long-run profitability. Thus, the firm operates a Balanced Scorecard approach to performance management, with an emphasis on long-run market share and a range of critical success factors/key performance indicators to achieve this goal. Again, institutional economists contend that sales/market share growth rather than short-run profit maximisation are typically a firm's objectives.

5. Case 2: Amani Manufacturing Company Ltd.

Amani Manufacturing Company Ltd was

established in 1999 and situated in Tema Heavy Industrial Area; just adjacent to Tema Steel Works Ltd. The company manufactures a range of poly products; such as plastic bowls, cups, tables, chairs, water sachets and polythene bags. It has a turnover of about Gh¢35m and employs about 250 people. It uses a rigid 'cost plus' approach to pricing and product mix decisions, based on a hybrid 'cost' figure somewhere between conventional full cost and marginal cost in contravention of conventional wisdom.

5.1 Non-conformity to conventional wisdom

The conventional wisdom recommends the use of Shillinglaw's (1963) 'attributable cost' for regular pricing and product mix decisions as in activity-based costing, for example, is intended to capture attributable cost (Shank and Govindarajan, 1993). In terms of the cost hierarchy discussed in the activity-based costing literature, this normally includes all unit level, batch level and product sustaining costs, allocated using appropriate cost drivers, while excluding non-avoidable (with respect to particular products) facility sustaining costs, the hybrid cost figure used by this firm includes some of each type (all allocated using direct labour hours) whilst excluding others, based on a functional classification of costs as 'production' versus 'non-production' costs. Thus, for example, materials handling and production scheduling batch level costs are excluded from unit product costs, as they originate in 'non-production' departments. This cost is clearly not the attributable cost, failing as it does to reflect cost cause-effect relationships. To this hybrid, cost figure is added a mark up to give a 35% gross margin. This cost plus policy is rigidly enforced by senior management monitoring sales reports (indicating margins achieved) which is seemingly independent of varying market demand conditions.

5.2 Origin and persistence of the approach to costing and pricing

It appears that the reason the firm does not apply the incremental costs and revenues analysis recommended by the conventional wisdom in Drury et al., 1993 is that it is not engaged in price competition in a competitive market. Rather, it is probably engaged in tacit collusion where the approach to costing and pricing is intended to maintain an orderly and stable market. This seems a reasonable inference, as the firm has been able to apply rigid cost plus pricing (independent of demand conditions and not reflecting the attributable product cost) for many years. In such circumstances, it would not wish to change prices as a result of applying an incremental cost/revenue analysis (as prescribed by the conventional wisdom) through fear of competitor reaction.

This situation seems consistent with Ahmed and Scapens's 'institutionalisation of cost accounting' hypothesis outlined earlier in this research paper. The firm takes 'production cost', based on functional classification and adds a 'normal' profit mark up. This is the approach to pricing new products, based on accepted practice within the industry. It seems to have become the accepted norm of right and proper behaviour, which maintains such 'institutions' (Scapens, 1994; Ahmed and Scapens, 2000). The accountants' approach to costing and pricing in this firm seems to be accepted as legitimate by other functional managers; for example; Sales & Marketing, Supply Chain etc. When asked if, in a tight market situation, he would seek to argue the case for an incrementalist approach to pricing, the response was as follows:

"Possibly, but you're really in last resort territory here; it is, after all, necessary to cover all these costs". (Ghanaian Sales Manager). Thus, other managers seem to accept as legitimate, the approach of the accountants which is based on the fear that an incrementalist approach would result in the under recovery of overheads. Thus, in this firm, the dispositional power (underlying pricing rules) appears to be lying in the presumed expertise of the accounting and finance function. The costing and pricing practices advocated by the accountants seem to have become 'institutions' and settled patterns of thought or behaviour.

For existing products, there is a firmly established market expectation of a particular price; the costing methodology described is then used for product profitability analysis and product mix decisions. The market price must cover 'production cost' and earn the normal profit mark up this being considered to represent the opportunity cost (in terms of contribution displacement) of using 'non-production' resources in making this product rather than another. This approach clearly does not capture attributable cost and hence reveal true product profitability- spreading as it does 'non-production' overheads evenly over different products (via the application of the uniform 40% margin), which actually consume these resources very unevenly.

The approach to cost analysis has come to be rationalised (i.e., institutionalised) on other grounds too thus contributing to its persistence. Production departments are treated as profit centres each with its own product range and it is necessary to measure controllable profit for each profit centre. Production department managers are assumed to be able to control their own department's costs, but not the cost of the various service and support departments (e.g. Materials Handling, Production Scheduling). If only controllable costs are included in unit product costs, then these alone will be reflected in profit centre performance measurement. The department manager will thus have an incentive to control those costs that he/she can control.

5.3 Case summary

So, the approach to cost analysis has come to assume meaning and significance to managers as facilitating cost control and performance measurement. The system of costing and pricing has been in operation for many years and none of the current management team knows it origins. Actually, the firm's approach was once the conventional wisdom. As discussed earlier in this research paper, the cost accounting methods advocated by those involved in the uniform costing and government contracting episodes, employed exactly this approach , i.e., full 'production cost' (based on a functional classification) plus a fair/normal profit mark up.

In the second half of the 20th Century, Cost Accounting evolved into Management Accounting with its advocacy of 'relevant costs' for decision-making and today's conventional wisdom. The latter, however, is based on the assumption of short-run profit maximisation as the firm's objective. The former was intended to facilitate long-run order and stability in the industry and it appears to have become institutionalised practice in some organisations.

It seems that this firm's approach to costing and pricing is attributable to the fact that the competitive conditions in which it operates (that is, tacit collusion in oligopolistic markets rather than price competition, such collusion facilitated by cost accounting practices as described above) are at variance with those assumed by the conventional wisdom of today's management accounting textbooks. This situation is consistent with the way in which real market economies are assumed to operate by old institutional economics writers (Tool, 1991).

1. The practice of management accounting

The above case studies present us with an 'institutional' perspective which reflects the interconnectedness between management accounting practice and other phenomena. Management accounting practice in the hands of one group may be performed differently in the hands of another. When we think of assets, technology and innovations in a physical sense such as plants and buildings, processes and devices, we often overlook the fact that these are enmeshed in a network of people. People in their roles in the economic organisation of the firm do not limit their advice to technical expertise. Instead, they use their positions as manager/adviser to advocate particular programmes of action. In this sense, managers do not just discuss the ends and means efficiency of this or that policy independently of their own value assessment of the policy; rather they infuse their contribution with their own values. Management accounting is a powerful way of analysing, interpreting and formulating action plans, and it may well be value neutral; but managers are not value neutral (Rafferty, 2007).

6.1 Accounting as social and institutional practice

Institutional economists view the economic system in a less mechanistic and deterministic way than do neoclassical economists. In the absence of a complete resolution of the agency problem, whereby managers as agents would act solely in the best interest of shareholders as principals, managers have considerable discretion in decision-making; into this space fall various 'institutions'. Both case studies reveal group decision-making, with different group members possessing dispositional powers; these group members bring to the table their values and views about how things should be done. These values and views, in turn, reflect the 'institutions' generated by their environment.

Why do different members/functional departments possess power in imposing their values in the management practices employed? This may be partly attributable to the personalities and the internal dynamics of the particular organisation concerned. However, it may also be necessary to look beyond the boundaries of the particular organisation to the wider society, to explain the origins and dissemination of various 'institutions and the dispositional power reflected in them. In the Interplast case, the dispositional power (of the Sales and Marketing personnel) reflected in the approach to costing and pricing, seems explicable in terms of the industry's origins and the rigorous culture of the founding fathers. In the Amani case, rigid 'cost' plus pricing has clearly become institutionalised and seemingly reflecting the dispositional power of the accountants.

Institutional theorists (for example, Meyer and Rowan, 1977) have argued that it may be necessary to look beyond the organisations' boundaries, to the wider social role of accounting, in order to understand particular accounting or management practices and the status of accountants. Hoskin and Macve (1994) have argued that the development of the modern forms of accounting and accountability made possible the emergence of our familiar modern economic discourses on productivity, profitability and performance. Miller (1994) has argued that by reducing diverse activities and processes to the end point of a single figure (ROI, NPV, EPS labour efficiency variance etc.) accounting makes comparable the entities of which it produces calculations in wider social and economic agendas.

Miller and O'Leary (1987) and Loft (1986a, b) discuss how cost accounting practice provide a bridge between national efficiency objectives and economic governance of individual enterprises in the post-world war one reconstruction. According to Loft (1986a, p. 133), Britain was to be recreated as an efficient manufacturing nation and one of the members of the corps of experts who were to provide efficiency data at the time was the costing expert! Within the enterprise, accounting was to provide a 'truth' about production which would enable its efficient management; and the sum of efficient enterprises would be an efficient nation.

The accountancy profession was thus brought prominently forward; this elevation in status contributed to the financial (rather than production) orientation of British management. Thus, the 'discourse on national efficiency' resulted in a change in the 'rules of the game', enabling various experts, including cost accountants, to gain positions of power and influence. The form of power achieved could be understood in terms of Ribeiro and Scapens's (2006) concept of dispositional power.

6.2 Different institutional environments and different accounting practices

It may be instructive to study the ways in which different environments determine the amount of accounting done in a particular organisation, rather than tacitly accepting that this derives from intrinsically necessary technical work processes (Meyer, 1986). Importantly, Meyer and Rowan (1977) observe that organisations are driven to incorporate the practices and procedures defined by prevailing concepts of what is rational. These can obviously change over time.

Interplast was established in 1970 to provide uPVC pipes, but subsequently expanded its product range to cover manufacturing of HDPE. The approach to costing and pricing is widely used across the company's manufacturing process and the functional managers believe it was imposed by the founding fathers of the company. It seems likely, therefore, that it would have been influenced by the socioeconomic and environmental factors discussed by Ahmed and Scapens (2000) and Loft (1986a, b) etc.

On the other hand, a manufacturing firm (Amani Manufacturing Co Ltd) established in the late 1990s would not be subject to the same environmental institutional pressures and is quite likely, therefore, not to adopt the financial orientation of traditional manufacturers. These pressures within the environment which shape the institution's response in its historical context also have their 'institutional twin' in the activities within individual firms. The generalised theory put forward here, supporting the specific organisation's institutionalised activities, can perhaps be explained in terms of the interconnectedness of networks of people and functions.

Networks of people are also networks of concepts and ideas that interact with the inputs from other sources with similar networks. More complex networks lead to more complex links between people, ideas and actions. These integrated networks are the organisations 'connectedness', if one thinks of connectedness in the wider sense as resources, capabilities and competences required to achieve organisational goals/objectives. In this sense, management accounting practices is part of the 'connectedness' profile of the firm. It is a networking activity that attempts to bridge the different organisational worlds within the same firm, with those of the operational imperatives imposed by the historical environments of the individual industry contexts.

In the cases outlined above, the role of management accounting practice is to utilise existing knowledge (costs and prices) and adapt it to the settings of the connected networks in the wider environment on the one hand and the sales and marketing, operations, finance and general management on the other. Within this role, the practice of management accounting also acts as a source of inventive recombination.

While aspects of management accounting are new in some respect (zero-based budgeting, balanced scorecard, activity-based costing, etc.) they are rooted in historical routines, methodologies and even rituals.

In its role in the connectedness profile of firms, management accounting practice finds its distinctive feature in the constructive assimilation of these pre-existing methods with a new synthesis, which is often shaped by the general circumstances and configurations of the organisation's behaviour.

Like many inventions, the practice of management accounting comes from the influence of other ideas that emanate from the network arrangements that evolve in the organisation. In this sense, management accounting practice recombines existing processes and systems with new ideas, methods and orientations that emerge from the network of the people and functions with which it engages on an ongoing basis. In its most effective form, this practice of inventive recombination accommodates change and redirection where necessary and provides the bridging process whereby the historical practices are married with the routines and rituals of the existing contexts and conditions.

Thus, in these cases it is to observe the practice of management accounting as one where the disciplines of costing are adapted to the social and operational imperatives of the organisation, which stem from the orientations of the different network arrangements, ideas and concepts that form the connectedness profiles of firms.

Conclusion

Much of the previous research into cost analysis for pricing and product mix decisions has tended to adopt the positivist view of the world (Ryan et al., 2002). The purpose of such research is to uncover general laws and ideally express them in the form of quantified relationships between variables (Drury and Tayles, 2005 is a good example of this approach).

Within this research approach, the only role for case studies is a source of hypothesis generation (where theory is relatively underdeveloped) for subsequent testing using quantitative methods on large-scale data.

Axiomatic to the approach of old institutional economics, is what I am likely to be able to explain particularly in management accounting practice by invoking general covering laws (of the form if x, then y): particular behaviour cannot be understood or explained outside its specific context and its relation to the social system of which it is a part.

In old institutional economics, as in other 'interpretivist' approaches, the intention is not to produce statistical generalisations representing general covering laws. Rather, it is to understand or explain behaviour in a particular set of circumstances. The type of generalisation sought is what Ryan et al., (2002) call 'theoretical generalisation'. With such an approach, case studies are viewed as a method by which theories are used to explain observations. The theories that provide convincing explanations are retained and used in other case studies. Case studies in new or different contexts are used to generalise (i.e., extend) the theory to a wider set of contexts (Ryan et al., 2002). This has been the purpose of the research programme, with respect to the old institutional economic framework. The approach to costing and pricing in both the cases discussed in this paper is best

Date	Purpose & Activity carried out	Remarks
1. Interplast Limited, Spintex Road - Accra		
05/05/2008	The nature of costing applications by the company in practice	
12/05/2008	Interview of the key personnel of the company in both the accounting and sales/marketing department	
12/06/2008	Analysis of costing information and search for the gap between cost/management accounting theory and practice	
2. Amani Manufacturing Company Limited, Heavy Industrial Area - Tema		
07/05/2008	The nature of costing applications by the company in practice	
14/05/2008	Interview of the key personnel of the company in both the accounting and sales/marketing department	
29/05/2008	Analysis of costing information and search for the gap between cost/management accounting theory and practice in attempt to confirm their application in practice.	

understood with reference to old institutional economics.

This agenda implies the need for further case studies, identifying the rule of the game being followed, the dispositional power reflected in such rules and their origins in terms of environmental 'institutions'. For organisations to incorporate institutionalised activities; to understand accounting practices from this perspective, it is necessary to trace the processes that link accounting with its institutional environment (Miller, 1994). Such research may demonstrate the explanatory power of the old institutional economics framework regarding the practice of management accounting and the 'reality gap'.

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Business support schemes in Ghana:
An Assessment

Mr. Edward Marfo-Yiadom & Dr. B. Obeng Acquah

Abstract

Business support schemes are necessary for the growth of private enterprises. Ghana has had a number of initiatives under various regimes from independence to date, aimed at ensuring vibrant business support schemes but the country is far from reaching the goal. This is because there is lack a of clear policy direction as well as weak collaboration among the few public and private business support organisations.

This paper highlights two prominent institutions, the National Board for Small Scale Industries and Empretec Ghana Foundation and establishes that the institutions need financial support and more qualified personnel to carry out their mandate. There is also the need to consolidate the fragmented support services especially in the private sector to avoid duplication.

Introduction

The proliferation of external business support initiatives in many sub-Saharan African countries (Mkandawire 1999; Manuh 1999) appears to suggest an increased interest by governments and other development partners in promoting the development and growth of small businesses. The change in the direction of policy in favour of small businesses could be explained from two main perspectives. Firstly, following the unsuccessful attempt by many sub-Sahara African countries to develop their economies through large scale import substitution industries immediately after independence in the 1950s and 1960s, the need to develop small scale industries became a major priority for many countries in the 1970s (Rogerson 2001; McPherson 1996; McKenzie 1990). Secondly, the contribution of small and medium-sized businesses towards the transformation of the South-East Asian economies (Kim and Nugent, 1994) also created the awareness about the potential role that small businesses could play in terms of job creation and equitable distribution of income.

Despite the numerous initiatives and the huge amount of the taxpayers' money used to support the various schemes, academic research has lagged behind the amount of resources invested into these schemes (Storey, 2004) and the situation is worst in the African context. This paper, therefore, attempts to examine the origin of small business support schemes in Ghana, the nature of public and private support organisations in Ghana, and finally, a review of one Public Sector and one private sector support organisations.

The business support environment in Ghana.

The role of small scale businesses as an absorber of the unemployed goes back as far as 1940 (Ninsin, 1989) although there was no major attempt by the colonial government (Britain) to develop the indigenous industry (Asamoa, 1996: Aryeetey and Ahene, 2004). Following the taking over of internal administration of Ghana by the Convention People Party (CPP) led by Dr. Kwame Nkrumah there was no change in the policy direction. The first ten-year development plan by the CPP government focused on the development of large-scale industries. The subsequent Seven-Year Development Plan (1963/64 to 1969/70) by the CPP government recognised that the small-scale industrial enterprises employed about 53% of the Ghana industrial labour force. However, in spite of this recognition there was no concrete effort to support that sector during the seven-year period. The government policy on industrialisation was focused on the development of large scale import-substitution industries in order to meet the growing demand for the imported consumer goods by the Ghanaian consumer.

'*In order to correct this imbalance between domestic production and demand therefore the types of industries that will be promoted and the subsequent development plans will in general be on the larger scale than the types that have hitherto characterised industrial activity in Ghana*' (Ghana Seven-Year Development Plan [1963/64 to 1969/70] : 90). Clearly, the above statement indicates the lack of interest of the CPP government in promoting the small scale businesses as a strategy for the nations' industrialisation process. During the mid 1960s, the falling of the foreign exchange earnings from cocoa proceeds could not sustain the local industries which relied on imported raw materials and spare parts for their operations (Aryeetey and Ahene, 2004). The end result was the closure of most factories which led to mass unemployment. As Asante et al. (2000: 246) observed 'in Ghana the import substitution industry was deemed to have failed by mid to late sixties'.

Small business development policy after CPP regime

After the overthrow of the CPP government by the National Liberation Council (NLC), the NLC government enacted the Ghanaian Enterprise Decree (NLCD 323) in 1968. The main objective of the decree was to promote the development of indigenous industries. There was no major change in the fortunes of small businesses as a result of the enactment of the decree as the institutional structures to ensure implementation of this policy remained the same (Ninsin, 1989). However, in 1970 the United Party (UP) government led by Dr. Kofi Abrefa Busia highlighted the need to support small scale businesses in their One-year development plan [1970-1971] (Asamoa, 1996). In furtherance of this objective, the Ghanaian Business Promotion Act 1970 (Act 334) was passed and the setting up of the Business Promotion Office followed (Ninsin, 1989; Asamoa, 1996). The main objective of the Act was to promote the development of small scale industries. The passage of the Act saw the establishment of the first Small Scale Business Loan Scheme, although there was not enough evidence to suggest that small scale businesses did benefit from the scheme as pointed out by Ninsin (1989: 266) '*indeed the whole orientation of public policy was so biased against small businesses that even small scale business scheme did not benefit them*'.

After the overthrow of the Busia government in 1972, the National Redemption Council (NRC) which assumed the internal administration of the country gave a great impetus to the small businesses in their Five-Year Development Plan (1975/76 to 1979/80). The Ghanaian Enterprise Development Decree 1975 (NRCD 330) and the Ghanaian Enterprise Development Commission (GEDC) was established to replace the Business Promotion Office. The GEDC was charged 'to draw up and implement a comprehensive programme, embracing financial, commercial and technical assistance schemes, aimed at the development of small-scale Ghanaian enterprises' according to the Seven-Year Development plan. There were three specific objectives of GEDC according to Ninsin (1989). Firstly, to provide credit facilities to small businesses. Secondly, to promote the technological development of small businesses through the provision of information on projects' viability, technical advice on inputs and output related issues, and equipment requirements. Thirdly, to provide services to small businesses in the form of advice on efficient management practices, training on basic record keeping and costing, and training on procurement management.

Surprisingly, there was no evidence to show that the commission was able to discharge its mandate of promoting the technological development of small businesses or the provision of extension services to small businesses (Ninsin, 1989). However, the GEDC was able to grant loans to Ghanaian businesses although the conditions attached to the loan applications disqualified most small businesses, hence, only a few small businesses benefited from the scheme. It is important to note that the inability of the GEDC to fully discharge its mandate could be attributed to the lack of resources (human and material) and the poor institutional structures which existed at that time.

Apart from GEDC which acted as the government agency in promoting the development of small businesses in Ghana, there were other institutions which supported the development of small businesses through the provision of advisory and consulting services during the 1970s. For instance, the Technology Consulting Centre (TCC) was set up in 1972 at the University of Science and Technology to develop the appropriate technology and transfer to the small businesses. The National Investment Bank through their Development Service Institute also provided advisory and consultancy services to number of businesses although not many small businesses benefited from their services. The Ghana Export Promotion Council was also set up in 1969 by NLC Decree 396 with the main objectives of promotion and the development of non-traditional export (Ninsin 1989).

Small business development policy since 1980

Following the implementation of the Economic Recovery Programme (Steel and Webster, 1992) in 1983 and the near collapse of the economy, the Provisional National Defence Council (PNDC) government initiated a number of programmes designed to assist the development and growth of small businesses. The first major step taken by the government was the establishment of the National Board for Small Scale Industry (NBSSI, 2002) in 1985 although the Act 434 which gave the legal backing to the Board was passed by the Parliament of the Third Republic in 1981 (Ghana Integrated Industrial Policy for Increased Competitiveness (GICPIC) Pt. III, 2002: 18). The main objective of the board was to serve as the highest government body to 'assist the Ministry of Trade and Industry (MOTI) in the formulation, development, and implementation of national programmes aimed at accelerating the growth of small-scale industries in Ghana'. Considering the objectives of the Act 434 might probably imply the replacement of the GEDC which had served as the main agency in promoting the development of the small scale businesses. Nevertheless, GEDC continued to operate after the passage of NBSSI Act until 1991 when the two organisations were merged and retained the name NBSSI.

Before the establishment of NBSSI, government support to small businesses had focused on the provision of credit facilities (such as, the Small Business Loan Scheme and Funds for Small and Medium Enterprise Development) with less emphasis on the development of the technical and managerial development of small businesses (Ninsin 1989). The subsequent years following the establishment of NBSSI have seen a number of public support organisations being set up by the government especially in the 1990s and these include: Ghana Regional Appropriate Technology Industrial Services (GRATIS), and Export Development and Investment Fund (EDIF). According to Aryeetey and Ahene (2004: 1) the main purpose of these public organisations is to develop an enhanced environment for the functioning of private enterprises, most of which are SMEs. Table 1 provides a summary of the various government schemes set up to provide external support to small businesses in Ghana. In recent years government policies such as the Ghana Poverty Reduction Strategy [GPRS] (2002) and the Ghana Integrated Industrial Policy for Increased Competitiveness [GIIPIC] Part III (2002) have not established any new initiatives from the NBSSI Act of 1981.

With regard to the private sector support organisations the Africa Project Development Facility (APDF) 2002 report documented about 48 donor support programmes in Ghana. There are other private sector small business support programmes which were not captured by the APDF (2002) report especially the Non-Governmental Organisations (NGOs). Some of the notable private sector support organisations include Empretec Ghana Foundation, TechnoServe, African Development Foundation, and African Project Development Facility. Table 2 provides a summary of some of the most important private sector support organisations in Ghana.

Table 1 Types of Public Sources of Advice

Schemes	NBSSI	GEPC	GRATIS	EDIF
Year of establishment	Board was established in 1985 due to the passage of Act 434 in 1981.	Established in 1969 by NLC Decree 396	Established in 1987	Established in 2000
Mission	To assist MOTI to formulate, develop, and implement national programme on small business growth.	Development and promotion of non-traditional exports	To develop an appropriate technology and transfer to small businesses.	To enhance economic growth of Ghana by providing funds on concessionary terms for the development and promotion of the ___
Sources of Funds	GOG and Bilateral donors (GTZ, CIDA)	Government of Ghana (GOG)	GOG and Bilateral donors (GTZ, CIDA, DFID)	Government of Ghana
Types of Services	1. Business advisory service 2. Credit facilitation	1. General export information service 2. Advisory service 3.Market development 4. Trade facilitation 5. Export incentives schemes 6. Export Financing	1. Technology transfer 2. Training and advisory services. 3. Hire purchase and working capital	1. Export development and promotion facility 2. Credit facility
Target businesses	Businesses in the service and manufacturing sectors with less than 29 workers.	Non-traditional exporters	Micro and small businesses	Businesses in the Export sector
Operational Coverage	Offices are located in all the regional capitals and about 63 districts	Head Office located at Accra and three regional offices at Kumasi, Takoradi and Bolgantanga	Offices are located in the regional capitals.	One office at Accra

Sources: Compiled from Ernst and Young (1997), Ninsin (1989), and Ghana Integrated Industrial Policy for Increased Competitiveness Pt. III (2002).

Table 2 Summary of the notable private sector support organisations in Ghana

Name	Empretec	ADF	TechnoServe	APDF	AGI	PEF
Year Established	1990 as a UNDP, Barclays Bank Gh. Ltd. and GOG project	US government agency which started operation in Ghana in 1985	Established in 1971	APDF has been operating in Ghana since 1987	Established in 1958 as the Federation of Ghana Industries	Founded in 1994 by the private sector organisations
Mission	To build high quality, growth oriented, internationally competitive entrepreneurs	To support the development and increase the competitiveness and profitability of indigenous SMEs	To build business that creates jobs, income, opportunity, and economic growth in developing countries	To support the development of competitive African SMEs, working mainly through local institutions and consultant.	To develop quality service to member companies	To service the development needs of the private sector by influencing government policies and regulations in order to create enabling environment for the private-sector led economic growth strategy and national development.
Sources of Funds:	UNDP, World Bank, GOG, DFID, SSNIT, Barclays Bank and other private organisations	GOG and USAID	USAID, Bilateral and Multilateral donors	IFC and donor governments	Members subscription, UNDP and donor governments	USAID, GOG, DANIDA and UNDP.
Types of Services	Training, consultancy and advisory services and financial services.	Focus on capacity building through training, interventions, Business planning, and provision of grants	1. Advisory services 2. Provision of finance 3. Business management training	1. Business advisory services. 2. Enterprise support services. 3. Skills development and capacity building.	Management training, export promotion service and organises trade fairs and trade delegations abroad, credit guarantee	1. Institutional capacity development. 2. Training
Target businesses	Growth- oriented small businesses	SMEs with potential for growth	Small community-based enterprises	SMEs	Member of the association	PEF members and small scale businesses transitioning from the informal to formal sector.
Operational Coverage	National and Regional level.	National level.	It operates at the local level.	National level	National and regional level	National level

Apart from these private sector support organisations there are other initiatives undertaken by the various industry and professional associations in terms of provision of advisory services to small businesses. Prominent among them are the Institute of Chartered Accountants Ghana (ICA) which provides training in book-keeping and costing to small businesses; Association of Ghana Industries which has established Business Development and Services Centre to service the technical and the managerial needs of their members; the Private Enterprise Foundation which services to members of the foundation include training and advisory. The role of bilateral donors such as German Technical Cooperation (GTZ), The Danish International Development Assistance (DANIDA), Department for International Development (DFID), Canadian International Development Agency (CIDA) and others are also significant. For instance, establishment of Support Programme for Enterprise Empowerment and Development is a joint initiative of the GTZ and DANIDA.

The National Board for Small Scale Industries (NBSSI)

The NBSSI is the main government institution set up to promote the development and growth of micro and small scale enterprises in Ghana. The board was established in 1985 by the Provisional National Defence Council (PNDC) government. The board was established as a result of the promulgation of a parliamentary Act 434 in 1981 by the parliament of the Third Republic under the People's National Party government (Ninsin 1989). According to the GIIPIC Pt III (2002: 18) document the main remit of the board was 'to assist the Ministry of Trade and Industry (MOTI) in the formulation, development and implementation of national programmes aimed at accelerating the growth of small scale industries in Ghana'.

Until the launching of the Entrepreneurship Development Programme in 1988 (Ninsin 1989) and the subsequent merger with the GEDC and the establishment of the Business Advisory Centre (BAC) in Cape Coast in 1991 (Ernst and Young, 1997), NBSSI seemed to have been dormant during their initial stages of existence. There were four main objectives of BAC and these were as follows:

1. Facilitate the improvement of the environment for small-scale business creation and growth.
2. Provide tailor-made entrepreneurial, managerial and technical training.
3. Provide advisory, counselling and extension services.
4. Promote group formation and strengthening micro and small businesses associations.

In recent years the Board has also established a credit unit which now manages other government credit lines for small businesses. The Board's activities are targeted at micro and small businesses that are in the manufacturing or service sectors of the economy. A micro business is defined as an enterprise which employed between 1-5 workers with a capital base of $10,000 (excluding land and buildings) and small business employing between 6-29 workers with a capital base of $100,000 (excluding land and buildings).

In terms of the operations of the Board, the Board works directly under the Ministry of Trade, Industry and President's Special Initiative and the highest decision making body of the board is the Board of Directors who are non-executive members of the organisation. With regard to the administration of the day-to-day activities of the organisation, the executive director is the head, followed by the deputy executive director and the departmental heads are next on the organisational ladder. The management committee also plays an important role in the management of the board. At the moment, NBSSI business advisory centres operate in all the 10 regional capitals and 66 districts capitals throughout Ghana (NBSSI News, 2003). NBSSI activities are mainly sponsored by the Government of Ghana, however, the board has collaborated with some organisations to undertake various projects as summarised in Table 3.

Table 3 demonstrates some of the achievements of the board and also the crucial role that it continues to play in terms of small business development in Ghana. NBSSI has played an important role in terms of small business development through the BACs and the Finance Unit and also with the support of its collaborating agencies since its inception. For instance, the IFAD/Republic of Ghana Rural Enterprise Project (2000: 30) made the following observation about BAC 'the BAC SSE development and support component is the most successful in the project'. NBSSI has a wealth of information on small business development in the country because of its numerous offices in all the regional capitals and most of the district capitals. In spite of these positive developments, NBSSI is plagued with a number of problems.

Table 3 NBSSI Collaborative projects

Name of the project	*NBSSI/GTZ Promotion of small and micro enterprise project	*Agri Entrepreneurship Training Project	**Rural Enterprise Project
Collaboration organisation	German Development cooperation (GTZ)	Nova Scotia Agriculture College, National Council on Women and Development, Tamale Polytechnic	International Fund for Agricultural Development (IFAD).
Source of Funds	GOG/German government	CIDA	IFAD and GOG
Objectives of the project	To contribute towards sustainable income and employment and a socially balance growth of the economy.	To train rural entrepreneurs in agro-processing to effectively manage their businesses and increase their income generating capabilities.	To increase the production base of businesses in the rural areas in order to increase income and employment.
Target small businesses	Micro and small businesses in the manufacturing and the service sectors.	Women in agro-processing businesses.	Small off-farm enterprises.
Types of services	Financial and business development services.	Training in book-keeping and costing, marketing, loan management and small business management.	Facilitating access to new technology through training and the provision of advisory and financial services. Supported the creation of new businesses.
Project duration	1998 to 2002	1997 to 2002	1997 to 2002
Coverage	NBSSI operation areas	Northern region (Savulugu/Nanton district).	Ashanti and Brong-Ahafo regions
Results	By December, 2002 an amount of ¢9.497 billion (£740,564.00) had been disbursed to 223 micro and small businesses.	Members of Women Weaving Association in Nanton district were trained in costing and pricing, marketing, small business management, finance and loan management.	BAC helped in the establishment of 1900 new businesses and also assisted over 4000 existing businesses as at 2000.
Remarks	Since 2003 the project had been administered by Support programme for enterprise empowerment and development (SPEED).	The project ended in 2002.	The original project ended in 2002.

Sources: *NBSSI News Volume 1 No. 8 December, 2002; ** IFAD /Republic of Ghana Rural Enterprise Project, Interim Evaluation Report, 2000.

A study undertaken by Aryeetey and Ahene (2004: 9) observed that, 'although NBSSI is established purposely to help develop and promote the sector, it is, like most of the ministries, departments, and agencies, not adequately resourced with funds, logistics and people to be effective'. The above observation sums up the problems faced by the board. A similar observation was also made by the IFAD project on rural enterprise when NBSSI could not implement some of the specific aspects of the project because of the lack of requisite personnel (IFAD/Republic of Ghana Rural Enterprise project report
(2000).

Empretec Ghana Foundation (EGF)

Empretec Ghana Foundation is an umbrella wing of Empretec, an international entrepreneurship and capacity building programme which is currently operating in Africa, Latin America and Asia. The Empretec scheme was initiated by UNCTAD in 1988 and it coordinates the activities across the globe. In Africa, the Empretec scheme is operated in Ghana, Ethiopia, Nigeria, Zimbabwe, Botswana, Namibia, Mozambique and South Africa. Empretec programmes focus on entrepreneurship training, workshops and targeted at high growth potential SMEs.

The EGF was established in 1990 and its mission was, 'to build a high quality, growth oriented, internationally competitive entrepreneurs through training, business advice and access to technology and finance' (Ernst and Young, 1997). In the early years of its operation EGF focused its activities around entrepreneurship workshops and management seminars with a limited number of consultancy and advisory services. From 1994 to 1997 EGF saw tremendous growth and changed from a development project into an independent foundation, hence, the EGF (Gibson, 1999). The target clients of the foundation include growth oriented small and medium-sized enterprises, local corporate organisations and international development agencies. The project activities focus on three core services - consultancy and advisory, finance, and training. Specifically, EGF focuses on growth-oriented enterprises in the manufacturing and service sectors of the economy (EGF Corporate Profile). The activities of EGF are sponsored by the UNDP, the World Bank, the EU and the Department for International Development (DFID) of the UK, The SG SSB Ltd, the Agricultural Development Bank, Barclays Bank, and the Government of Ghana. Since 1994 the DFID has been the largest donor (Gibson, 1999).

Administratively, the highest decision making body of the foundation is the 14-member Governing Board who are drawn from mostly the private and the government representative. The administration staff is headed by the Chief Executive Officer who is assisted by the five divisional heads in the area of training; consultancy and extension; corporate relations, planning and research; information technology; and finance and administration (Gibson, 1999). EGF provides three main core services in the area of training, consultancy and advisory services and financial services. Table 4 summarises the main services provided by the EGF under the core services mentioned above.

The foundation has successfully managed some donor-funded projects on small business development in the country particularly, the DFID's Ghana Enterprise Development Project (GEDPRO) for nearly 8 years (EGF Corporate Profile). Other successful completed projects include the UNDP's Capacity Development and Utilisation Programme and the DANIDA's Private Sector Development Programme. In terms of the impact of EGF services on beneficially businesses, Gibson (1999) reported that businesses that used the services of EGF experienced a 12% growth rate in employment and a 25% growth in sales over a three-year period. Nevertheless, it is important to treat these figures cautiously since empirical studies on the subject have found it difficult to establish a link between the use of external advice and the performance of the business (Wren and Storey, 2002; Lambretch and Pirnay, 2005). Furthermore, the success story of the EGF could also be debated in the context that EGF targets growth-oriented businesses and successful businesses, hence, the likelihood of these businesses experiencing higher growth rates than the normal businesses.

Table 4 Types of services provided by EGF

Training	Consultancy and advisory Services	Financial services
Entrepreneurship development	Business diagnosis and Health checks	Loans
Business awareness	Business counselling	Credit facilitation
Managing your finance	Business plan preparation	Loan monitoring
Junior business seminars	Productivity improvement programme	Mutualistic Empretec Guarantee Association (MEGA)
Effective supervision	Foreign linkage and export development	Client accounting and book - keeping service (CABS)
Time management	Sub-contracting	
Customer care	Information technology awareness seminars	
Business growth	Empretec business network	
Customised management development seminars	Design and in stallation of information system	

Source: EGF Corporate Profile (Not dated)

Conclusion

The main rational of the Ghanaian government policy towards the support of the small businesses had been based on the social related issues such as employment and poverty alleviation (Ninsin, 1989; GPRS, 2002).

On the review of the literature on the government policy of external support in Ghana, it is important to note that small businesses received a major policy attention in the 1970s when the United Party government passed the Ghanaian Business Promotion Act of 1970 (Act 334). This policy initiative became necessary as a result of the failure of the CPP government to develop the economy through the large-scale import-substitution industries and the worsening economic condition thereafter. Subsequent years saw the setting up of the GEDC in 1975 and the NBSSI in 1985, respectively, and the merger of these organisations in 1991. A critical analysis of the government policies towards small businesses development since 1970s appears to reveal a social objective approach. The government policy objectives had focused on employment creation and the poverty alleviation (Ninsin, 1989; GIIPIC Pt III, 2002). However, studies on small business policies in Western Europe and the lessons from the experience of the South-East Asian countries on small business development appear to demonstrate that such strategy is less likely to achieve its desired results (Johnson et al., 2000). In recent years the UK government policy on small businesses have moved from the social and employment issues in 1980s to economic growth and competitiveness issues (Johnson et al. 2000) and other European countries have adopted similar approach (Storey, 1994). In Ghana the need to rethink small business policy is more important because some studies found Ghanaian manufacturing companies to be less competitive on the international market (Soderbom and Teal, 2002) and a less educated workforce (Frazer, 2005).

With regard to Empretec Ghana Foundation and National Board for Small Scale Industries, lack of empirical studies on the schemes prevented a comprehensive assessment of the impact of the schemes on small business performance in the country. Nevertheless, like most public and private support organisations in Africa, there was enough evidence to suggest that their impact had not been significant in terms of the small businesses development in the country (Manuh 1999; van Bussel et al., 2001).

On the sources and the use of external advice, it was found that government sources were likely to be least sought (Ramsden and Bennett, 2005; Bennett and Robson, 1999). On the factors that influence the demand and the use of external advice, a review of the literature revealed that both the business and the owner-manager characteristics could influence the use of external advice. Specifically, factors such as the size, the sector, growth rate, and innovativeness of the business were found to be associated with the use of external advice. The characteristics of the owner-manager such as the educational background, gender, and the experience of the owner-manager were also correlated with the use of external advice.

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Finance Practices Of Large Construction Firms In Ghana: Methodological Perspectives For Postgraduate Researchers

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ABSTRACT

Conducting research is a process of combining a set of principles, outlooks and ideas with a collection of specific practices, techniques and strategies to produce and legitimize knowledge. In this paper, knowledge is shared with postgraduate students pursuing various studies in management and finance regarding research methodology. Integrated approach of conducting quality research in this field through personal experience and reference to scholarly works is advocated by the paper. The paper is concerned with methodological considerations adopted for emblematic doctoral research work in the area of construction finance. The discussion focuses mainly on attentive issues such as research philosophies, research approaches and research techniques. The paper concludes by recommending postgraduate researchers to situate their research within theoretical, philosophical and empirical relevance, which would require holistic adoption and adaptation of apposite research methodology.

Keywords: Finance, Management, Methodology, Philosophy, Postgraduate, Research Technique

INTRODUCTION

The growth and development of construction industry is pivotal on the overall financial performance of the firms that operate in the industry and how these firms finance their major investment activities. In view of this, there has been a growing concern to bring stakeholders to the knowledge of how to holistically resolve attempts to meet the financing needs of construction firms in Ghana. However, confronting this challenge would require a careful probe into the complex dynamics within the contextual framework, which the firms' financing practices is positioned. Approaches to management and finance research and knowledge creation would involve a varied combination of key processes of observation, reflection, theory conjecturing and testing of theories. It is therefore reasonable to stress that conducting research in management and finance would require situating the study within the appropriate philosophical background. This suggests that research should be organized systematically to make the best use of the opportunities and available resources. As such, many different theories of knowledge or paradigms would compete for methodological primacy. Accordingly, researchers draw from one or more traditions when designing research projects in a way which remains sensitive to the theoretical and philosophical foundations upon which the enquiry is based. However, Seymour et al (1995; 1997; 1998) reported that, the extent of management research has been subject to the ascendancy of positivism and quantitative method. This has promoted orthodoxy of the application of the natural science methods in the study of social phenomena and an attendant focus on explaining human behaviour (Fellows and Liu, 2003). In contrast, proponents of interpretivism, as an alternative paradigm, espouse the importance of understanding human behaviour. This has an emphasis on the empathetic comprehension of human action rather than the forces which shape it (Bryman and Bell, 2003;

Dainty, 2007). This perspective arguably has the potential to provide complementary insights enriching understanding of the perspectives of those who work in this sector. Nearly thirteen years ago, some of the leading researchers within the management and finance research community debated the merits and demerits of different theoretical and philosophical perspectives on methodologies from different research paradigms. This debate was initiated by two papers in particular, thus, Seymour and Rooke (1995) and Seymour et al (1997), which questioned the dominance of the rationalist position which seemingly underpinned most research within management and finance community, suggesting that this tacitly endorsed the very attitudes in need of change in the construction industry. They suggested that the culture of research must change if management and finance researchers were to have an influence on the construction industry. Seymour et al (1997) further questioned the dominance of the scientific theorizing associated with realist ontological and epistemological positions given that the 'object' of most management and finance research is people and their social interactions.

These papers invoked a vigorous and somewhat polarized response around the relative merits of different research approaches. Seymour and his colleagues were accused of being 'anti-scientific' and of propagating an approach which has yet to yield productive output, theories or progress (Runeson, 1997). Further, they were accused of promoting an approach more akin to consultancy than research, and of advocating methods which they themselves have widely criticized within the sociological literature (Harriss, 1998). Again, Seymour and Rooke (1995) were accused of setting out battle lines in the way that they dichotomized rationalist and interpretive paradigms to the detriment of research standards (Raftery, et al 1997). Seymour and his colleagues defended their position by counter claiming that Raftery *et al* themselves undermined standards by failing to recognize that different methods suit different purposes and that their position was symptomatic of the widespread confusion over terms such as 'method', 'methodology' and 'paradigm' (Rooke, et al 1997). They also questioned Runeson's definition of 'science', defending the rigour of methods associated with the interpretive paradigm and their value in establishing the meaning ascribed by the actors studied (Seymour, et al 1998).

In this regard, this paper attempts to outline available research philosophies and approaches, while logically justifying the use of apposite research methodology to investigate the strategic decision choices and decision criteria involved with contractors' financing practices in Ghana and to examine the determinants or factors that influence their financing practices. For this purpose, the hierarchical model of research methodology developed by Kagioglou et al (1998) is adopted, highlighting the main components of the arguments to justify the selection of appropriate philosophical stance, research approach and research techniques. The paper is organized as follows. First, as a backdrop to the paper, coverage of the local construction industry and its contribution to the economy of Ghana is provided. Secondly, the problem domain coupled with the initiation of research objectives and questions for the study that justified the methodology adopted are presented. The methodology adopted in conducting the main research is discussed thoroughly.

RESEARCH PROBLEM

The author's interest in the financial aspects of construction projects and financing practices of construction firms from a contractor's point of view was the main force behind this research. This interest has been intensified over the years as the author saw for himself both positive and negative effects of finance on construction projects while working as a consultant to contractors in Ghana. Despite the significant role of financial issues, financing practices and financial choices play in the day-to-day business operations firms, it is hard to find any empirical research, which investigates and analyzes the financing practices of construction firms in Ghana particularly with equipment finance. This has created a huge research gap in terms of industry bottlenecks and what could be done to remove these setbacks and potential problems. With the rising need of construction firms for accessible and competitive finance options to boost their business operations and accommodate the finance of their investment activities, a research study, which includes reference to their current practices and the problems, will have a significant contribution to the literature in this field. There is also a general perception that finance gap exists among construction firms and financial institutions in Ghana.

Whilst some researchers identified financing gaps in developed countries, others were of the view that there are no such gaps. Unfortunately, there are no indications of empirical studies in developing countries that attempt to validate the above claims. There is no idea of what factors might cause this imbalance and possible measures to bridge the finance gap are not known. This has created empirical research gap in Ghana and a study conducted in this line will be meaningful. Again, it has also been established that the ability for managers of construction corporations to assimilate financial data, integrate financial and accounting data into business operations and make informed financing decisions depend largely on the level of their financial capability. However, the variables that contribute to better understanding and application of financial information into financial decision remain unexplored. Literature is completely silent on the need to achieve financial capability and no empirical study has been conducted in this respect. This has created an empirical research gap in Ghana. Such empirical knowledge is important because it would offer policy makers deep insight about the industry and how they could garner considerable efforts to meet potential challenges.

Finally, it should be recognized that both theoretical and empirical studies on firms' financing practices have generated many results that attempt to explain the determinants of financing choices. Some few empirical studies utilized macroeconomic variables such as interest rate, tax, and inflation to explain firms' decision to choose between debt and equity. These variables change from country to country and their results may not be able to explain directly the situation in the context of a developing country like Ghana, where there is visible volatility of these variables. It is clear that most of these studies so far discussed in the preceding sections to date were based on data from developed countries with no trace of empirical studies that provide evidence from developing countries. It is possible that other factors or determinants would explain the financing choices and practices of construction firms better in developing countries apart from those mentioned ealier in literature. Unfortunately, no empirical research has attempted to explore these new possibilities. This suggests that there is still more work to be done in developing countries and that is the precise challenge of embarking on this study. The need to fully understand the financing practices, problems and how best stakeholders could integrate efforts to achieve the financial stability, growth and success of the firm provided a personal challenge in doing this research.

RESEARCH AIM, OBJECTIVES AND QUESTIONS

As in any other empirical study, the investigation needed theories, which provided the framework for the systematic analysis and accumulation of the existing stock of knowledge, as well as to serve as a guide for developing research directions. This involved defining the problem; identifying essential variables of the studies; formulating research questions, establishing the research goal and objectives; determining the data gathering techniques and choosing the drivers for data analysis once gathered and providing solution to the problem. The primary goal of the research was to investigate the strategic decision choices and decision criteria involved with contractors' financing practices in Ghana and to examine the determinants or factors that influence their financing practices. Wahab (1996) has stressed that meaningful research in the area of firm's finance must bring us to a better understanding of the characteristics of the firm, financing needs and constraint. The aim of the study was therefore to contribute to a better understanding of the finance practices and problems of these large construction firms. In order to achieve the above goal, the following objectives were articulated:

1. To outline alternative financing techniques

available for equipment acquisition; and to conduct a strategic evaluation to determine how large construction firms in Ghana finance equipment purchase.
2. To identify whether there is a lending gap in financing equipment acquisition with the view to developing strategies to bridge any identifiable gaps.
3. To identify the underpinning financial variables that affect firms' financial conditions, establish their significance and examine managements' proficiency in these variables.
4. To derive the determinants of financing strategy and empirically examine how these factors influence financing decision choices of construction firms.

However, Collis and Hussey (2003) suggested the choice of research questions instead of hypotheses as the appropriate method of defining research propositions in phenomenological study. The preference of research questions for this study is further justified by the exploratory nature of this research. The following research questions were therefore articulated based on the identified theoretical gaps, to fulfil the stated aims and objectives of the study. This takes the form of four 'grand tour' questions (Collis and Hussey, 2003), each with sub 'questions'.

1. What are the current finance practices of large contractors in Ghana?
    i. In the context of Ghana, which of the finance methods is mostly used?
    ii. What are the industry problems and how can they be removed?

2. Is there a gap in the lending system regarding construction finance?
    iii. What is the nature of the gap?
    iv. What are the main causes of these gaps if any?
    v. What are the strategies that should be put in place to close those gaps?

3. What are the underpinning financial variables that affect the financial Condition of construction firms?
    vi. Are decision-makers proficient in these variables?
    vii. Are these variables significant in the acquisition decisions?

4. What are the determinants that influence financing strategy of firms?
    viii. How does each determinant explain the decision to use one finance strategy?

RESEARCH METHODOLOGY

Thurairajah et al (2006) quoted Collis and Hussey (2003) referring research methodology as the overall approach to the design process from the theoretical underpinnings to the collection of data and analysis of the data. The conceptual model in Figure 1 below maintains the direction and cohesion of elements in representing a holistic research methodology (Kagioglou et al (1998). Within this nested approach, the research philosophy found at the outer ring guides and energizes the inner research approaches and research techniques. In order to distinguish between the different types of research, it is important to discuss the diversity of methods employed as a backdrop to this research. In broad terms, researchers adopt either an objective 'engineering orientation' where the emphasis is on discovering something factual about the world it focuses on, or a subjectivist approach where the aim is to understand how different realities are constituted. This notwithstanding, the choice of research methodology must not be influenced by more popular adopted scientific strategies, but rather careful consideration should be given to the relevance and usefulness of the research and the researcher must select the most befitting strategy to accomplish his purpose (Wahab, 1996).

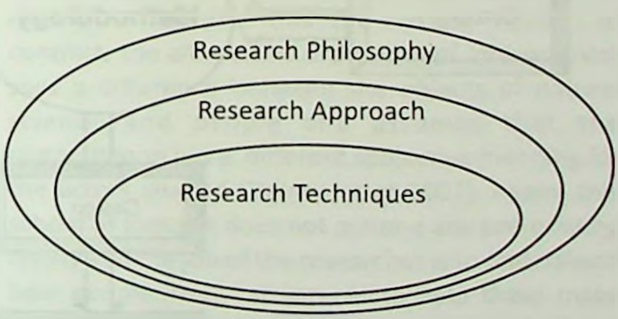
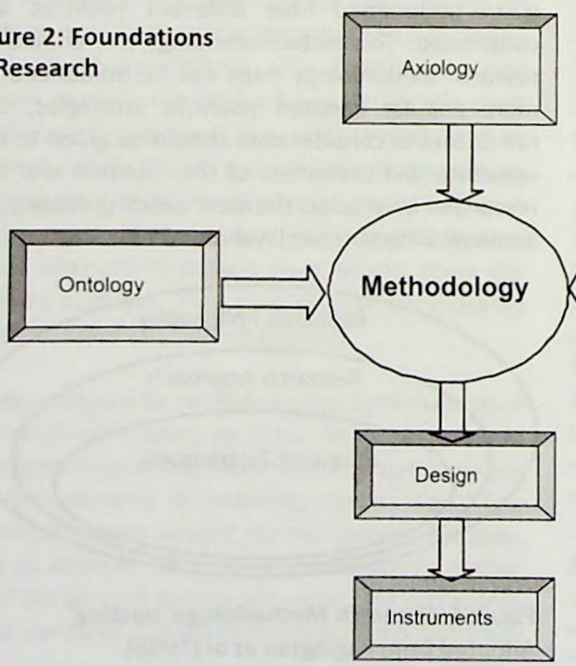


Figure 1: Research Methodology 'nesting' Adopted from Kagioglou et al (1998)

However, Kumar (1995) stressed the importance of review of methodologies and reported that: to make original contribution to knowledge, the review should demonstrate that the researcher has a comprehensive grasp of existing knowledge on methodological underpinnings. Later, Wahab (1996) emphatically stated that the central research strategy to good and quality research is the preference given to available data and methodological tools. A recent report by Dainty (2007) confirmed this by stating that understanding the influence of competing methodologies is fundamental to understanding the contribution it makes to knowledge. With this in mind, it became imperative to review literature relating to questionnaire design, interview and case study design and data analysis. The positive contribution of the review was the stimulation of fresh thinking about a range of issues relevant to methodological concerns of studies in management and finance research. The progress towards this goal was guided by the state of the researcher to move ahead with a rationalized and guided-process of conceptualization, measurements, data collection, data analyses and documentation involved in undertaking the study.

Figure 2: Foundations of Research



RESEARCH PHILOSOPHY

As earlier mentioned, the aim of the study was to advance knowledge and increase the understanding of financing practices of construction firms in Ghana. A fundamental question confronting anyone doing research is therefore, to construct a philosophical position and orientation towards the enquiry (Dainty, 2007). The research philosophy is principally concerned with the assumptions that a researcher brings to an investigation (Dainty, 2007). Situating the study within its appropriate philosophical tradition requires consideration of the contrasting implications of positivism and social constructionism traditions. Apparently, situating this research within its appropriate philosophical tradition would require discussions on the diversity of available philosophical continuum as a backdrop to this research. According to Creswell (1994) and Collis and Hussey (2003), philosophical thinking revolves around ontological, epistemological, axiological and methodological assumptions. While ontological, epistemological and axiological assumptions position the philosophical stance of a research, rhetorical and methodological assumptions are concerned with language and process of the research respectively (Thurairajah, et al 2006). As shown in Figure 2, ontology, epistemology and axiology influence methodology and this guides the choice of research design and instruments.

In ontological position, the researcher is to decide whether the reality is objective and external to the researcher, or socially constructed and only understood by examining the perceptions of the human actors (Collis and Hussey, 2003 and Thurairajah, et al 2006). Although there is considerable blurring of research philosophy, it should be noted that, two main traditions of philosophies exist namely; positivism and social constructionism (Thurairajah, et al 2006; Harty and Leiringer, 2007 and Dainty, 2007). While positivists argue that the world exists externally and its literature. However, these variables have not been utilized in explaining the financing practices of construction firms in the context of developing countries. Accordingly, it was anticipated that integration of some of the variables could measure the same underlying dimensions which would require investigation. The research also viewed the investigation to be conducted as practical rather than abstract. However, the study does not support extreme pre-existing realist tradition but aims to interpret and understand how construction firms can address the challenges associated with their financing practices and needs.

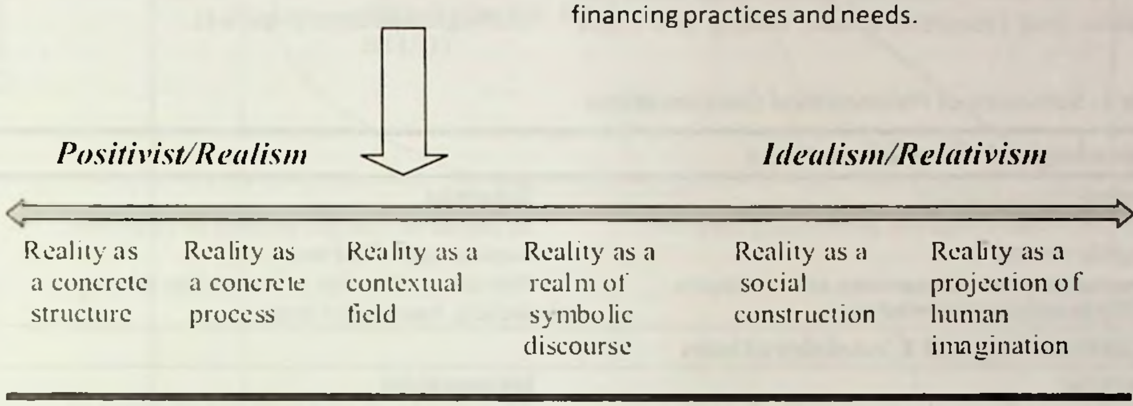


Figure 3: Continuum of Core Ontological, Adopted and Adapted from Thurairajah et al (2006)

properties should be measured through objective methods, social constructionists hold the view that the reality is not objective and exterior but is socially constructed and given meaning by people. However, Johnson and Duberly (2000) referred positivist ontological assumptions as realist whilst Gummesson (1991) maintained social constructionist as idealist or relativist. In ontological position, the researcher is to decide whether the reality is objective and external to the researcher, or socially constructed and only understood by examining the perceptions of the human actors (Collis and Hussey, 2003; Thurairajah, et al 2006). These two ontological assumptions are known as realist (Johnson and Duberly, 2000) and idealist/relativism (Gummesson, 1991). There are two strands of ontology, mainly; *objectivist ontology and constructivist ontology.* At the ontological level, this research adopted a ***realist position*** as indicated in Figure 3. This is because the variables that explain the financing practices of firms largely existed in

Epistemological positioning deals with questions about how and what is possible to know (Thurairajah, et al 2006). One side of the epistemological continuum is bounded by the positivist view that the methods of the natural sciences should be applied to the study of natural phenomena. This school of thought assumes that there is a reality which exists independently of the observer and hence the job of the researcher is merely to identify this pre-existing reality. In contrast, the alternative orthodoxy of interpretivist sees a difference between the objects of natural science and people and assumes that the phenomenon has a different subjective meaning for the actors studied (Dainty, et al 2007). Again, this school of thought does not assume any pre-existing reality and the job of the researcher is to understand how people invent structures to help them make sense in what is happening around them (Thurairajah, et al 2006). Epistemologically, this research was of the belief that the complex interactions of financing practices of construction firms could be explored through a systematic but simplified steady approach. The conduct of the research could also be carried out without bias and that objective conclusions could be drawn from data collected from an isolated position. The adopted epistemological position in this research was, therefore, *positivist tradition*.

Axiological positioning is concerned with values. Positivists believe that science and process is value free. At the other extreme, social constructionists consider that researchers have values, and these values help to determine what are recognized as facts and the interpretations which are drawn from them (Collis and Hussey, 2003).

By considering the argument put forward in relation to the objectives stated, the study assumes an idealist view in ontological assumptions, whilst holding social constructionist stance in epistemological undertakings with value laden axiological position. While taking a realist view in ontological assumptions, it holds positivist stance in epistemological undertakings with value free axiological position (Figure 4).

Table 1: Summary of Philosophical Considerations

Ontological Considerations	
Realist External world comprises pre-existing hard and tangible structures **Structures exist independent of individual's ability to acquire knowledge**	**Relativist** Existence of multiple realities as subjective construction of the mind Perception of reality is directed by varying socially transmitted terms
Epistemological Considerations	
Positivist Application of natural science methods to the study of social reality and beyond World conforms to the laws of causation and complex issues can be resolved by reductionism	**Interpretivist** Absence of universal truth and emphasis on realism of context Understanding and interpretation come from researcher's own frame of reference
Axiological Considerations	
Positivist Science and process are value free	**Social Constructionist** Researchers values influence research

Source: Adopted and Modified from Baiden (2006)

RESEARCH APPROACH AND TECHNIQUES

Research approach and strategy are about organizing research activity embodying data collection in ways that are most likely to achieve the research aims (Thurairajah, et al 2006). Making decisions about research approach, strategy and design is fundamental to both the philosophy underpinning the research and the contributions that the research is likely to make (Thurairajah, et al 2006; Harty and Leiringer, 2007; Dainty, 2007). These in turn influence the actual research methods that are used to investigate the problem and to collect, analyse and interpret data. A continuum of methods that underlie philosophical position of research is largely manifested as experiment, survey, case study, interviews, action research and ethnography. In other words, research methods cannot be viewed in isolation from the ontological, epistemological and axiological position adopted by the researcher (Dainty, 2007). In broad terms, the term 'research design' refers to the process of situating the researcher in the empirical world and connecting research questions to data. It describes the ways which the data will be collected and analysed in order to answer the research questions posed and so provides a framework for undertaking the research (Bryman and Bell, 2003). Research techniques include both data collection and data

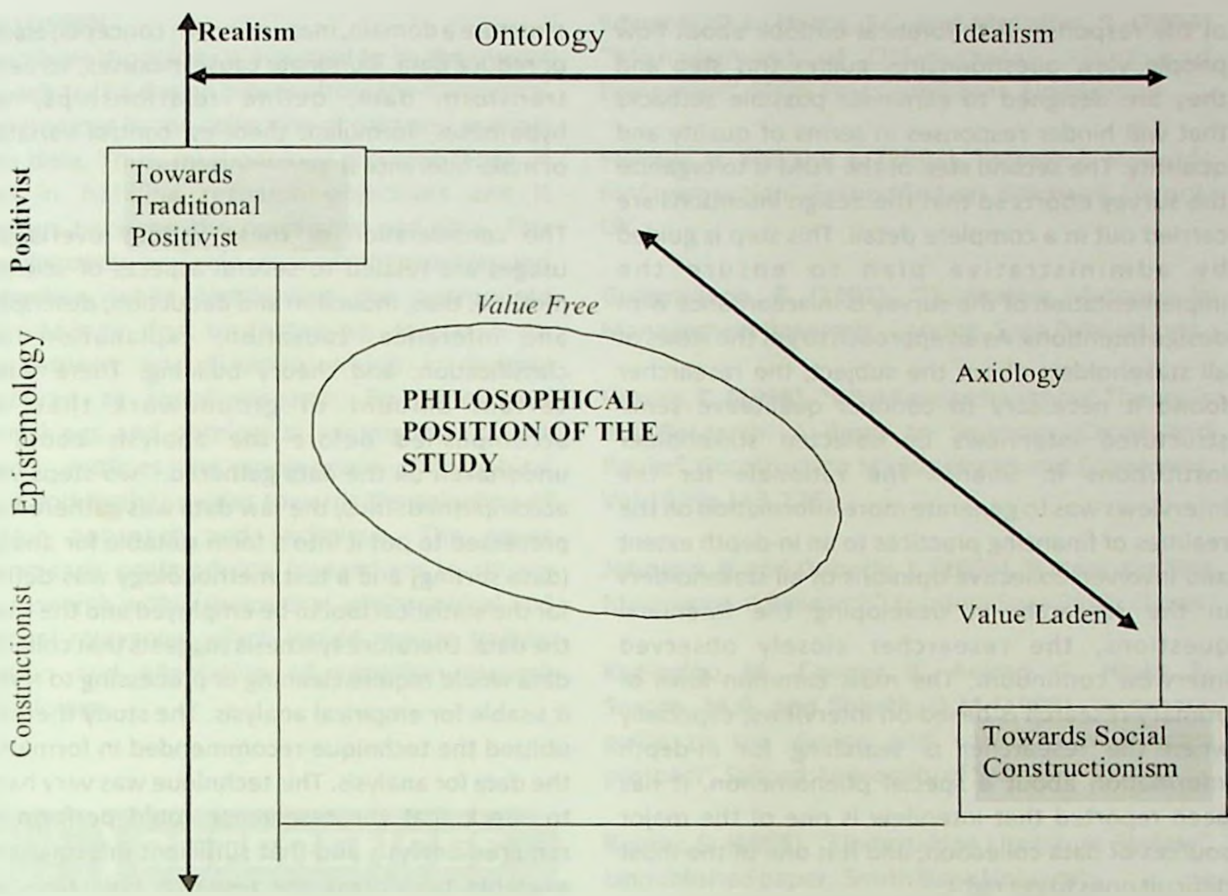


Figure 4: Philosophical Assumptions, Adopted and Adapted from Collis and Hussey (2003)

analysis, which belong to the inner ring of the nested research methodology presented earlier. Data collection and analysis are developed together in an iterative process (Thurairajah, et al 2006). Intended data collection techniques depict the ways and means to fulfil the aims and objectives of the study by carefully addressing the research questions and concerns.

As could be expected given the polarized debate which divides those in the positivist and interpretivist camps, combining methodologies is not without its critics. Indeed, a range of philosophical, cultural and psychological hurdles confront the multi-paradigm approach which renders it a highly problematic undertaking. Both methods have their own strengths and weaknesses and the logical intersection of their respective strengths and weaknesses that justified the rationale for integrating them, thereby achieving the best possible output and results (Bryman, 1992). Accordingly, Brannen (1992) described multiple research strategy as the most appropriate ways in which problems are conceptualized and studied. Despite the popularity of questionnaires among researchers and the fact that questionnaires have been widely explored in literature as a good method of collecting both qualitative and quantitative research data, its use needs tact and careful considerations.

In order to obtain full use of the benefits of survey questionnaires and minimize associated weaknesses, this research adapted the Total Design Method (TDM). According to Wahab (1996), the implementation of the TDM involves two steps. The first step is to identify each aspect of the survey process that may affect either the quality or quantity of the response. A theoretical outlook about how people view questionnaires guides this step and they are designed to eliminate possible setbacks that will hinder responses in terms of quality and quantity. The second step of the TDM is to organize the survey efforts so that the design intentions are carried out in a complete detail. This step is guided by administrative plan to ensure the implementation of the survey is in accordance with design intentions. As an approach to get the views of all stakeholders about the subject, the researcher found it necessary to conduct qualitative semi-structured interviews on selected stakeholder institutions in Ghana. The rationale for the interviews was to generate more information on the realities of financing practices to an in-depth extent and involved collective opinions of all stakeholders in the research. In developing the interview questions, the researcher closely observed interview continuum. The most common form of primary research is based on interviews, especially when the researcher is searching for in-depth information about a special phenomenon. It has been reported that interview is one of the major sources of data collection, and it is one of the most difficult ones to get right.

However, data analysis consists of examining, categorizing, tabulating, testing or otherwise integrating both quantitative and qualitative evidence to address the initial research objectives and questions of the study (Thurairajah, et al 2006). In this research, defining the general analytic strategy by relying on theoretical propositions was preferred over setting up a framework based on rival explanations. Due to the explanatory nature of the study, 'Explanation Building Analytic Technique' (EBAT) was more suitable and was therefore adopted for this research. The explanations were made possible by closely observing and interpreting the quantitative results presented by factor analysis. Factor analysis is a standard mathematical procedure that aims at transforming a large set of variables that are possibly correlated into a smaller number of uncorrelated variables called *principal components* and could be applied in order to do one or more of the following: explore a content area, structure a domain, map unknown concepts, classify or reduce data, illuminate causal nexuses, screen or transform data, define relationships, test hypotheses, formulate theories, control variables, or make inferences.

The consideration of these various overlapping usages are related to several aspects of scientific method, thus, induction and deduction; description and inference; causation, explanation, and classification; and theory building. There was a certain amount of groundwork that was accomplished before the analysis could be undertaken on the data gathered. Two steps were accomplished: thus, the raw data was gathered and processed to put it into a form suitable for analysis (data sorting) and a test methodology was defined for the statistical tool to be employed and the use of the data. Literature synthesis suggests that collected data would require cleaning or processing to render it usable for empirical analysis. The study therefore utilized the technique recommended in formatting the data for analysis. This technique was very handy to check that the researcher could perform the required analysis and that sufficient information is available to address the research objectives and concerns.

This technique utilized a four-scale classifications scheme and this is illustrated in a tabular form. The first column of the table lists all research objectives. This was to ensure that the researcher is clear about the data that has been collected. The second column of the table identifies which specific question(s) on the questionnaire would address which objective. This was useful in two ways, first, it ensured all objectives were addressed on the questionnaire and two, it allowed the researcher to ensure that every question on the questionnaire is necessary. The third column of the table identifies the level of data and scale of measurement for the various data collected. The final column of the table identifies the proposed data analytic technique that was performed on the data. It helped the researcher to clearly define and specify the kind of analysis performed on each question, thereby making the process quite simple.

CONCLUSION

Research methodology is assumed to be the overall approach to the design process from the theoretical underpinnings to the collection of data and analysis of the data. Thus, methodology provides sense of vision in fulfilling research objectives and it interplays between the researcher and data. This paper discusses available research philosophies and approaches, while highlighting the appropriate methodology for undertaking research in management and finance which is largely considered as social research. Epistemological undertakings and ontological assumptions of the research outlines the appropriate philosophical stance and further guides towards the selection of research approach and technique. The paper recommends postgraduate researchers to situate their research within theoretical, philosophical and empirical relevance, which would require holistic adoption and adaptation of apposite research methodology.

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Investment Decisions By Users Of Annual Financial Reports

John Gartchie Gatsi & Richard Akoto

Abstract

The study focuses on the use of annual financial report information as a basis for investment decisions by individual educated investors in Ghana. This is informed by the assumption inherent in financial reporting standards that investors allocate funds to portfolio firms based on information from the annual reports. It is a descriptive study which uses legitimacy and agency theories as the theoretical foundation.

The study concludes that individual investors in Ghana do not use information from annual reports for their investment decision making. They depend instead on media adverts on the companies and daily stock price movements.

Keywords: Financial reports, investor decisions, legitimacy and agency theories

Introduction

The increasing sophistication of investors and the investment environment, both domestic and international, is primarily due to globalisation which is thriving on information technology. The increasing effects of globalisation and information technology in the world markets coupled with both formal and informal business education place demand and supply pressures on the information content of annual reports by stakeholders including shareholders. All financial reporting standards assume that the information provided by financial reports systematically influence the investment decisions of individual users. This assumption is in line with the assertion of behavioural finance which focuses on how investors interpret and act on information to make investment decisions. Weetman (2006) posits that investors as owners have a fixed expectation that dividend and capital gains will be earned as a result of investing in a particular entity and therefore rely on the financial information in the annual reports to decide whether to reduce or increase their investments in the entity. She further explained that the financial reports may also attract potential investors to invest in the entity. Stolowy and Lebas (2004) explain that investors do not make their investment decisions contingent only on the improved figures but also on how trustworthy the report is in the face of recent accounting and financial scandals in major corporations such as Enron.

According to Levy and Post (2005) , awareness of the risks inherent in corporate activities and the recent corporate scandals, led investors, both existing and potential , to place a high premium on the kind of financial information provided by corporate managers.

From the above, it can be argued that one good source of such information is the financial statement of firms. Saunders et al. (2004), state that a financial statement of a firm consists of two basic documents. These are the profit and loss account and the report of condition or the balance sheet. Research findings have shown that financial statements are value relevant and assist investors in making prudent investment decisions (Barth et al. 2001; Kothari 2001). The fact is that investors place greater

emphasis on the relevance of financial reports in forecasting firms' future earnings or financial position. The relevance, reliability and consistency of financial information have been the key characteristic requirements of accounting standards in the world

It has been generally accepted in finance literature that financial information assists institutional investors in making excellent investment decisions. Nonetheless, despite the numerous benefits that financial information can provide, it is not clear whether financial information of firms affects individual investment decisions in Ghana. This paper therefore explores whether financial information influences individual investor decisions in Ghana.

Generally, financial reports provide relevant and timely corporate information that guides existing and potential investors to make informed investment decisions. It is, however, not known if educated individuals make investment decisions based on financial information from the annual reports. The study therefore focuses on the use of financial information by educated individual investors when making investment in companies in Ghana. This paper will then set the pace for a focused behavioural finance research in Ghana in the face of increasing patronage of equity investment.

Equity investment has been increasing in Ghana to the extent that most of the initial public offerings undertaken so far, except Golden Star Resource Ltd, did not meet their expectations though others, especially banking stocks, were over subscribed. Financial misreporting and scandals are being reported in Ghana. The paper also provides value added research information to the Ghanaian financial literature I chose only educated individual investors located in Accra. The time frame within which the work is supposed to be submitted could not allow me to consider at least individual investors from across the entire country to provide untainted generalisation of the findings to represent the link between financial reports and investor decisions in Ghana. Also, the work is limited, in that, it considered only listed companies, even though, there are many companies involved in the preparation of financial reports which are not listed. It therefore implies that the findings could not be practically applicable to non-listed companies in Ghana.

Literature Review and Theoretical Framework

The theoretical foundation and review of prior literature were discussed from the perspective of financial reports, globalisation and information technology, investors and investor expectations as well as legitimacy and agency theories

Financial Reports

Financial reporting is an important component of financial accounting. Financial accounting focuses on monetary transactions by recording , analysing and reporting to stakeholders in accordance with the requirements of given accounting standards and other regulatory demands (Stolowy and Lebas , 2004). This is commonly referred to as mandatory reporting. Even though financial accounting which provides corporate financial information to stakeholders, is a response to mandatory requirements, the annual reports provide both mandatory and voluntary information to stakeholders (Deegan and Voght , 2000). The mandatory reports in the annual reports discuss quantitative information such as the income statement, balance sheet and the cash flow statement while the voluntary reports discuss information beyond what is required by relevant standards. According to Van Der Lean (2004), voluntary information is normally engaged by firms to foster their good image and market them to stakeholders. Weetman (2006) also explains that preparers of accounting reports engage in accounting manipulation to position their performance to attract investors and please their existing shareholders. The financial reports are therefore the main communication conduit being utilised by corporate entities to inform stakeholders about the performance of managers, the firm and the business prospects in the future. A financial report can also be described as the gathering and dissemination of economic information to stakeholders for the purpose of making informed decisions about the reporting entity. This description does not provide non-economic information which is crucial in the present global business environment. The non economic data about the firm such as the number and experience of board of directors as well as the operating environment of the firm are very important for investor analysis and decision making. Reports on political environment and contribution to communities and social institutions form part of the voluntary report. As a result of the argument above the study considers a financial report to be a corporate document that reports both non-economic and economic information relevant to the decision making of stakeholders covering a defined period. Thus in accordance with accounting standards and other market regulatory provisions we have annual, semi-annual and quarterly financial reports. Sutton (2004) explains that while the financial report provides a timely and reliable source of both quantitative and qualitative information to stakeholders, it is the main proof of accountability by the stewards of the corporation. The corporate stewards are the managers. In contributing to accounting manipulation, Sutton (2004) further outlined that reduction in tax and regulatory burden, reduction in cost of capital, avoidance of debt contracts and improvement in wealth maximisation for managers are some cogent reasons for the engagement in creative accounting by the preparers of financial reports. This implies in the presence of taxation and the agency conflict creative accounting remains a permanent part of financial reports even if they are not detected. The International Financial Reporting Standards[(IFRS, 2004)] explain that it adopts principle based reporting standards while the Financial Accounting Standards Board of the United States of America is rule based in the sense that IFRS provides comprehensive but discretionary approach to standard setting, application and interpretation. Tracy (1999) explains that since financial reports can contain honest mistakes and intentional dishonesty, external auditors must provide their independent professional judgment on the financial reports before publication and utilisation by stakeholders. This adious challenge is required at a time in the global financial world where scandals affected not only corporate preparers of financial reports but also auditing firms. This paper does not consider implication of accounting firms in accounting and financial scandals to reduce the role of external auditing in the credibility of published financial reports. Tracy (1999) further argued that even though the annual reports contain both financial statement reports and non-financial statement reports, the financial statement is the most important document primarily because it is the only direct source of information on profit and financial condition of the firm.

Financial reports provide direct input to corporate governance of the firm since management's financial actions are audited by independent external auditors. Corporate governance has now become a key component of corporate discussions because it is believed that improved performance is a function of quality decision making by experienced and qualified managers who act in the interest of corporate wealth creation.

Investor Decision

Sutton (2004) and Walker (2006) classify users of financial reports as management, employees, creditors, government agencies, shareholders and potential investors. These writers further imput that all these stakeholders make their investment decisions based on information from the financial reports. It is a fact that institutional investors are normally guided by information from the financial reports, however, many individual investors lack the ability to understand the reports and end up not using it. Improved education especially in business, may enhance the ability of individual investors to make their investment decisions based on information from the financial reports. Hooke (1998) argued that data from accounting reports provide limitations and make it unreliable for investors to base their investment decisions on such reports. He argued further that preparation of accounting reports is too flexible to produce a perfect reliance. He explained that when auditors audit the accounts, they return to management for discussions and exchange of ideas and information to bridge any gaps hence by the time the report is prepared it is highly diluted. The question, however, is not about the reliability of the reports but whether investors both existing and potential make their investment decisions by relying on financial report information. He also argued that different methods in estimating profits, sales and costs weakens the reflection of the true nature of the firm's performance. In terms of investors using financial reports information, Hooke (1998), believes many do but are perhaps relying on incomplete information. Levy and Post (2005) explain that investor decision based on the financial reports is largely explained by their risk disposition. Investors who are risk averse tend to rely heavily on financial reports to make asset allocation decisions especially when the financial reports are analysed by analysts.

Even though corporate financial reports are the main source of performance information about the future prospects of the firm, it is possible for many individual investors to make investment decisions without referring to them. Normally these individual investors are carried by adverts about the initial public offerings of the firm or analysts discussions and by the image mere of the firm. It is, therefore, not a fact that all investors will depend on the reports to make investment choice in firms.

The economy of Ghana

The Ghanaian economy started improving since the late 1980s due to the focused review of economic policies and many structural reforms (for example, Financial Sector Adjustment Programme I & II) that have been put in place since the late 1980s and the increased macro-economic stability the Country has begun to chalk up from the 2000s. Specifically, real GDP surged from about 4.0% to 4.5% between 1998 to 2002. By the end of 2006, real GDP recorded 6.2% (Ghana Banking Survey, 2007). Furthermore, the upsurge of growth in 2001 and thereafter is also due to a recovery in agricultural production aided by improvement in macroeconomic management. Improvement in economic management was underlined by significant improvement in public finances. As a result of greater domestic tax effort and prudence in government spending, the country's budget achieved its highest ever primary balance in 2001. The agricultural-led growth is attributable to the strong performance of Cocoa and Gold exports. Currently, agriculture leads the growth of the Ghanaian economy with 6.1% followed by industry at 5.6% and services at 5.24% (Ghana Banking Survey, 2007). It is argued that economic growth would have been better had it not been for the drag from high world crude prices and further, the energy crises towards the end of 2006.

It is also important for us to know that Ghana has benefited from immediate debt relief from the World Bank and the IMF as well as most other bilateral creditors as part of the HIPC debt relief initiative since 2002 which might also have contributed to Ghana's economic growth. As part of the HIPC initiative, Ghana has also finalised a poverty Reduction Strategy Paper (GPRS), which is expected to enhance the considerable stride already made in reducing poverty since the early 1990s.

Monetary discipline, underlined by growing confidence in domestic assets and a deepening in financial intermediation, has contributed to reduction in inflation and interest rates as well as a return of relative stability in the foreign exchange market. For example, year-on-year inflation generally trended downward from 15.2% in 2002 to 10.96% by the close of 2006. The Cedi also remained fairly stable against the currencies of the Country's major trading partners. For example, in 2004, the cedi traded at an average of ¢9,047 to the United States dollar on the Inter-bank market. At the end of 2006, the Cedi traded at ¢9,210.23 to the dollar. Thus over the two year period, the Cedi depreciated by less than 2% against the dollar which is better as compared to the 1990s.

It is crucial for us to note that, Ghana's macroeconomic policy in 2001 was dictated by the weakening of the country's economic fundamentals in the 1970s and 80s and thus a collective attempt to redeem the economy. In fact by 1981, the World Bank and the IMF had described Ghana as a "collapsed state" due to enormous and worsening balance of payment deficits. The evidence is that before 1983, the Government of Ghana controlled and regulated almost all sectors of the economy especially the financial services sector. What this means is that there was absolutely no trade liberalisation in Ghana before 1983. The IMF and the World Bank blamed the Country's economic woes at the time on this economic ideology. The government's macroeconomic policies in 2001 and beyond achieved marked improvement in both the fiscal and monetary spheres, which enhanced reductions in inflation and interest rates and created some stability in the foreign exchange market as noted above. Consequently, macroeconomic policies for 2002 aimed at laying the foundations for sustained economic growth, are to build on the progress made in 2001, particularly towards a sustained financial stability and intensifying efforts to strengthen public sector financial management.

Currently on the fiscal front, prudence has led to overall fiscal deficit decline from 11.2% in 2002 to 4.9% by 2006. Domestic debt-to GDP ratio also reduced from 29% in 2002 to 10.1% by 2006 (Ghana Banking Survey, 2007). This fiscal prudence paid off as the reduction in domestic borrowing by Government meant that there was more liquidity available to lend to the private sector and thus prevented the crowding-out effect which is detrimental to the private sector of every economy. This marked a tremendous departure from the past where over 50 per cent of budget deficits have to be financed through borrowing from the banking sector. This shift from dependence on the banking sector contributed to easing interest rates. On the average, banks currently lend in Ghana at 20% per annum with the Bank of Ghana's prime rate at 17.1%. On the revenue side, tax revenue increased by nearly 40 per cent in absolute terms in response to several new taxes and changes in the tax structure since 2001. As a percentage of GDP the tax effort increased from 16.3% in 2000 to 17.2% in 2001. The major yields in taxes in Ghana include VAT collections, the imposition of a concessionary 5 per cent tax rate on all previously zero-rated imports (except some materials for manufacturing and manufacturing raw materials); the removal of import tax exemptions on all NGO imports or imports of gifts of charitable nature except in areas of health and education; and the imposition of an import duty of 5 per cent on the *cif* value of previously exempted materials for manufacturing and processing of timber contributed to significant increase in import duties. It is important to mention that Government expenditure has also increased over the years. For example, millions of dollars has been spent on road construction, the building and renovation of stadia and other facilities to host 'CAN 2008'; the lavish spending on Ghana at '50 celebrations'; and the increase in the government's wage bill due to increase in the salaries of workers' among others.

Ghana's monetary policy since 2001 has focused on reducing the rate of inflation and the rate of depreciation of the cedi. This was necessitated as a result of the turbulence in 2000, which saw the rate of inflation at 40.5% at the end of December 2000 and the depreciation of the Cedi by 49.5% in 2000. In order to refocus the operations of the BOG to ensure the maintenance of price stability, the formulation and implementation of monetary policy and support for the general economic policy of the government, Parliament passed a new Bank of Ghana law in December 2001. The law also commits the government to fiscal discipline by limiting the total government borrowing to an amount not exceeding 10 per cent of total revenue at the close of the fiscal year in which the advances were made. Presently, to create a monetary environment that is favourable for business expansion, the Bank of Ghana (BOG) has reduced its prime rate from 24.5% in 2002 to 12.5% in 2006; and abolished the 15% secondary reserve requirement of banks and has thus freed up significant liquidity for lending to businesses (Ghana Banking survey 2006, and 2007). However, by mid 2008, the Bank of Ghana's prime rate stood at 17.1%. Nonetheless, it has been argued that it is in response to the continual increase in the World's food and energy prices.

From the foregoing discussion, it is clear that the macro-economy in Ghana has been fairly stable and liquidity has increased than ever before. With all these evidence in hand, one would therefore expect a surge in economic activities or more specifically an increase in both institutional and individual investment activities. However, the issue of concern is to investigate whether this increase in investment activities is done based on the influence of the financial information provided by the companies into which these investments are made.

Legitimacy Theory

Many theoretical frameworks are utilised in both accounting and finance literature to explain the investment decisions of investors. Agency, complementarities and legitimacy theories are some of the common ones. For the purpose of studying whether individual investors use financial information to make investment decisions in Ghana, legitimacy and agency theories are considered most appropriate.

According Van Der Lean (2004), legitimacy theory is one of the widely utilised theories to explain why corporate entities report relevant information to their stakeholders. Many accounting standards clearly indicate that the purpose of the existence of corporations is to act on behalf of their stakeholders and in adherence to accounting standards and other financial regulations, corporate entities are to prepare and publish both economic and social performance to these stakeholders to be well informed about the investment made and compare the performance to their expectations about the companies. In contributing to the legitimacy literature, Lindblom (1994) claims corporate entities seek to operate in the best interest of their stakeholders. In referring to Lindblom (1994), Gatsi and Debrah (2005) argued that legitimacy theory assumes that the action of an entity should respond to some socially constituted system of norms, values and definitions such that the entity acts in congruence with the socially constituted system. In the pursuance of the going concern of all businesses, Guthrie and Parker (1989), firmly elaborate that corporations are bound by social contracts both written and unwritten in which they agree to act in socially desired ways in return for continual approval of its objectives and other rewards. In the recent past companies' legitimacy was derived from profit performance and adherence to legal requirements. Mathews (1993), however, indicates that corporate legitimacy is now inclusively derived based on economic, social including environmental performance, abiding by legal requirements as well as toeing the line of norms and values of stakeholders. Levy and Post (2005) posits that the overriding corporate goal of the firm is to maximise shareholder value. Companies need the investment support of their shareholders by maintaining their shareholdings, vote in favour of enhanced investment and fundraising strategies of their portfolio firms. By these actions shareholders provide the legitimacy corporate entities need to foster the going concern objectives of corporations. Thus, shareholders can remove their legitimacy if financial reports provide contrary information to shareholders, on the other hand shareholders may support or maintain corporate legitimacy by increasing investment in portfolio companies.

Our paper agrees with Deegan (2000) and Gray et al. (1996) that legitimacy is greatly system oriented in that it considers corporate entities as part of a larger society within which they exist, and ensure that their operations are perceived by the outside stakeholders as legitimate. Legitimacy is thus stakeholder support for corporate entities. The investor is part of the stakeholders of any entity.

Failure to comply with the expectations of outside stakeholders such as creditors, shareholders, environmentalists and media groups is likely to result in the revocation of the social contract that implicitly and explicitly exist between the entity and its stakeholders (Deegan and Rankin, 1996). Willingness by investors to pay a premium to corporate entities for complying with socially constituted norms and values has been indicated by Pava and Krauze, (1996) and Toms, (2000).

Legitimacy is so important that when corporations are facing legitimacy problems, they quickly take remedial measures to mitigate the problems in order to meet shareholder expectations.

Legitimisation Strategies

Gatsi and Debrah (2005) explain that legitimacy theory has been identified as system-focused hence there is the need to carve workable strategies to ensure that corporations maintain or do not entirely loose their legitimacy. Legitimisation is the process of gaining legitimacy. They further state that legitimisation strategy is all about managing the core issues inherent in gaining and loosing stakeholder support for continuous operation by manipulating stakeholder perception. The effectiveness of legitimisation strategy depends on the effectiveness of corporate communication. Potential individual investors also grant legitimacy to the firm as soon as they allocate capital to the firm.

Agency Theory

Agency theory is a common and important theory being utilized in finance, economics, political economics and can be explored in the demanding field of corporate reporting and investor decisions. According to Jensen (1976) there is principal agent relationship between investors and corporate entities.

Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Berle and Means 1932; Pratt and Zeckhauser 1985). In the agency theory, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercised direct control of the corporation (Jensen and Meckling 1976). The individual investor is thus part of the body of principals of a corporate entity.

Agency theory specifies mechanisms which reduce agency loss (Eisenhardt 1989). These include incentive schemes for managers which reward them financially for maximizing shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders (Jensen and Meckling 1976). Other similar schemes tie executive compensation and levels of benefits to shareholders returns and have part of executive compensation deferred to the future to reward long-run value maximization of the corporation and deter short-run executive action which harms corporate value. In addition to incentive schemes, quality board characteristics is also crucial in ensuring shareholder value maximization. Board independence is one typical component of board quality which reduces agency costs. This is due to the independent views and monitoring they bring to bear in the running of corporations. Another mechanism specified is the use of debt from the financial markets, which subject managers to external monitoring, thereby reducing the extent of managerial power in taking decisions that maximize shareholder wealth (Donaldson and Davis, 1991).

Segregation of ownership from management does not come without cost. Berle and Means (1932), introduced the conical agency problem by suggesting that dispersed ownership leads to less corporate monitoring. Jensen and Meckling (1976), further spurred interest in the theoretical and empirical aspects of modern corporate finance by formalizing agency cost as a conflict between managers and shareholders.

Agency Costs

As with any other costs, agency problems will be captured by financial markets and reflected in a company's share price. Agency costs can be seen as the value loss to shareholders, arising from divergences of interests between shareholders and corporate managers. Jensen and Meckling (1976) defined agency costs as the sum of monitoring costs, bonding costs, and residual loss. These agency costs are explained in turn.

Monitoring Costs

Monitoring costs are expenditures paid by the principal to measure, observe and control an agents behaviour. They may include the cost of audits, writing executive compensation contracts and ultimately the cost of firing managers. Initially these costs are paid by the principal, but some academics argue that they will ultimately be borne by an agent as their compensation will be adjusted to cover these costs. Certain aspects of monitoring may also be imposed by legislative practices. In the UK companies are required to provide statements of compliance with the Cadbury (1992) and Greenbury (1995) reports on corporate governance. Non-compliance must be disclosed and explained, and the attention brought by statements of non-compliance represents an additional source of monitoring. Such monitors must have the necessary expertise and incentives to fully monitor management, in addition such monitors must provide a credible threat to managements control of the company. Such monitors include institutional or block shareholders who at will can elect representatives onto the board to represent their interests. These block holders may also sell or offload their shares to prospective takeover bids if they are satisfied that managers are not doing a good job. Burkhart et al. (1997) provide a contradictory view of monitoring, arguing that too much will constrain managerial initiative. In this sense, the extent of monitoring will have to seriously consider its benefits and costs in a bid to reduce managerial opportunism.

Bonding Costs

Given that agents ultimately bear monitoring costs, they are likely to set up structures that will see them act in shareholders best interests, or compensate them accordingly if they do not. The cost of establishing and adhering to these systems are known as bonding costs. They are borne by the agent, but are not always financial. They may include the cost of additional information disclosures to shareholders, but management will obviously have the benefit of preparing these themselves. Agents will stop incurring bonding costs when the marginal reduction in monitoring equals the marginal increase in bonding costs. Denis (2001) argues that the optimal bonding contract should aim at enticing managers into making all decisions that are in the shareholders best interests. However, since managers cannot be made to do everything that shareholders would wish, bonding provides a means of making managers do some of the things that shareholders would like by writing a less than perfect contract.

Residual Loss

Despite monitoring and bonding, the interest of managers and shareholders are still unlikely to be fully aligned. Therefore, there are still agency losses arising from conflicts of interest. These are known as residual loss. They arise because it is generally observed that the cost of fully enforcing principal-agent contracts would far outweigh the benefits derived from doing so. Since managerial actions are unobservable ex ante, to fully contract for every state of nature is impractical. The result of this is an optimal level or residual loss, which may represent a trade-off between overly constraining management and enforcing contractual mechanisms designed to reduce agency problems (Denis et al, 2001).

Sources Of Agency Conflicts In Firms

The occurrence of agency conflict is due to certain conditions that exist within the firm. Circumstances under which agency conflict occur fall under four themes namely moral-hazard, earnings retention, risk aversion and time horizon (McColgan, 2001).

Moral-Hazard Agency Conflicts

Jensen and Meckling (1976) first proposed a moral-hazard explanation of agency conflicts. Assuming a situation where a single manager owns the firm, his incentive to consume private perquisites, rather than investing in positive net present value (NPV) projects, increases as his ownership stake in the company declines. This framework is easily applied in companies where ownership structure is diverse and the majority of the company's shares are not controlled by corporate managers. Shleifer and Vishny (1989) argue that rather than not investing, managers may choose investments best suited to their own personal skills. Such investments increase the value to the firm of the individual manager and increase the cost of replacing him, allowing managers to extract higher levels of remuneration from the company. However it is important to note that Moral-hazard problems are likely to be more paramount in larger companies. While larger firms attract more external monitoring, increasing firm size expands the complexity of the firms contracting nexus exponentially. This will have the effect of increasing the difficulty of monitoring, and therefore, increase these costs.

Furthermore, Jensen (1986) argues that in larger and mature companies, free cash flow problems will heighten the difficulties created by moral hazard. Where managers have such funds at their disposal, without any strong requirements for investment, the scope for private perquisite consumption is vastly increased, as it becomes more difficult to monitor how corporate funds are utilized. Moral-hazard problems are also related to a lack of managerial effort. That is, managers become effort averse as they own smaller equity stakes in their companies.

Agency Conflicts Due to Earnings Retention

Moral-hazard based theories over-simplify the agency problem as one of effort aversion. High-flying managerial visions and cash distribution to shareholders may be of more concern. Here, the problem of over-investing may be more paramount than that of perquisite consumption and under-investment. Studies of compensation structure have generally found that director remuneration is an increasing function of company size, providing management with a direct incentive to focus on size growth, rather than growth in shareholder returns. Jensen (1986) furthers this, arguing that managers prefer to retain earnings, whereas shareholders prefer higher levels of cash distributions, especially where the company has few internal positive NPV investment opportunities.

Managers benefit from retained earnings as size growth grants a larger power base, greater prestige, and an ability to dominate the board and award themselves higher levels of remuneration, Jensen (1986, 1993). This reduces the amount of firm specific risk within the company, and therefore, strengthens executive job security. Empirical evidence suggests that such a strategy is ultimately damaging to shareholder wealth. Lang and Stulz (1994) find that returns to shareholders in undiversified firms are greater for those who had attempted to reduce their exposure to risk through this diversification. Also, they found that the value of these firms is reduced as they diversified further. Such earnings retentions reduce the need for outside financing when managers require funds for investment projects. However, despite the potential costs of raising new capital, external markets provide a useful monitoring function in constraining flamboyant managerial investment policies (Easterbrook,1984). Earnings retention reduces the likelihood of this external monitoring. This study is premised on the agency conflicts resulting from the retention of earnings. The amount of earnings retained is inversely related to dividend payout. Therefore, if firms make higher payout, retained earnings will be reduced and effectively reduce agency costs of retained earnings.

Time Horizon Agency Conflicts

Conflicts of interest may also arise between shareholders and managers with respect to the timing of cash flows. Shareholders will be concerned with all future cash flows of the company into the indefinite future. However, management may only be concerned with company cash flows for their term of employment, leading to a bias in favour of short term high accounting returns projects at the expense of long-term positive NPV projects. The extent of this problem is heightened as top executives approach their retirement, or has made plans to leave the company. Dechow and Sloan (1991) examine research and development (R&D) expenditures as top executives approach retirement and find that these tend to decline. R&D expenditures reduce executive compensation in the short-term, and since retiring executives will not be around to reap the benefits of such investments; this could explain the above findings. Such a problem may also lead to management using subjective accounting practices to manipulate earnings prior to leaving their office in an attempt to maximize performance-based bonuses (Healy, 1985). Weisbach (1988) finds that accounting earnings tend to be significantly higher in the year prior to a Chief Executive Officer (CEO) leaving their position, and attributes such findings to the problem of earnings manipulations.

Agency Conflicts due To Managerial Risk Aversion

Conflicts relating to managerial risk aversion arise because of portfolio diversification constraints with respect to managerial income. Should private investors wish to diversify their holdings they can do so at little cost. However, company managers are more akin to individuals holding a single or very small number of stocks. Denis (2001) comments that the majority of company directors human capital is tied to the firm they work for, and therefore, their income is largely dependent upon the performance of their company. As such, they may seek to minimise the risk of their company's stock. Therefore, they may seek to avoid investment decisions which increase the risk of their company, and pursue diversifying investments which will reduce risk(Jensen, 1986). Demsetz and Lehn (1985) document an inverse relation between the risk of a firm's stock and levels of ownership concentration. Executives in high-risk companies prefer to place a smaller fraction of their personal wealth in the company. This problem may be heightened when executive compensation is composed largely of a fixed salary, or where their specific skills are difficult to transfer from one company to another. In addition, risk increasing investment decisions may also increase the likelihood of bankruptcy. Such a corporate event will severely damage a manager's reputation, making it difficult to find alternative employment. Managerial risk aversion will also affect the financial policy of the firm. Higher debt is expected to reduce agency conflicts, (Jensen,1986), and also carries potentially valuable tax shields, (Haugen and Senbet, 1978). However, Brennan (1995) contends that risk averse managers will prefer equity financing because debt increases the risk of bankruptcy and default.

In summary, both internal and external mechanisms have been suggested by financial economists as solution to the agency problem. Internal mechanisms include compensation, bonding and monitoring activities within the firm. External mechanisms include activities by capital markets, legislators, investment professionals and investors. The focus of this study is to establish whether compensation as an internal mechanism can help reduce agency costs.

The agency theory provides a coordinated relationship between individual Ghanaian investors and management of their portfolio firms. However, the individual investors are much dispersed and lack the potent mechanisms recommended by (Jensen, 1986) to reduce the agency problem. Infact this relationship further promotes deeper agency problems if the individual shareholders do not make use of financial reports information. Information asymmetry will deepen as a result. Therefore the overall corporate governance inherent in principal agent relationship is totally weakened.

Our position is that the agency conflict is basically due to information asymmetry because managers tend to be acquainted with corporate activities and possess relevant corporate information than principals. Gathering information from the annual reports helps investors to align their expectations with the corporate financial results.

Methodological Issues

Researchers argue that no meaningful research is conducted without a particular or combination of research method(s). Among writers of research methodology, Amaratunga et al. (2001) describe research as a process of enquiry and investigation in a systematic and methodical way to increase knowledge while Remenyi et al. (1998) advance that research methodology is the procedural framework within which research is conducted.

Qualitative and quantitative methods are the main methodological approaches applied in accounting and finance research. Silverman (1997) explains that methodology is about a general approach to studying research topics while method is a specific research technique or tool to gather empirical data.

We have chosen a combination of both qualitative and quantitative research methods for the purpose of studying the research problem. The methodological issues will now consider mainly the views of prior researchers on quantitative and qualitative methods.

Researchers believe that quantitative methods of conducting research have been broadly associated with American researchers while qualitative methods are common with European researchers. It is, however, obvious that quantitative and qualitative research have advantages and disadvantages. Gilmore and Carson (1996) in reviewing the work of Patton (1980) explained that qualitative method of conducting research is flexible and adaptable throughout the research process. It also consists of detailed descriptions of events, situations and interactions between people and things which help to provide in-depth findings. In the view of Van Maanen (1979), qualitative research concentrates on unfolding the process rather than on the social structures. He claimed qualitative research lays emphasis on data interpretation, holistic picture or outlook of issues, describes, decodes, translates and come to terms with the meaning of certain naturally occurring phenomena in the social world. He further stated that in utilising qualitative research, interviews, visual recordings, written reports and or questionnaires are used. We have used questionnaire to collect data for the analysis.

Fitzgerald and Rumrill (2005) reported that quantitative research is very important to conducting a study because it is quick, simple and objective to assess effective relationship observed among a set of related studies to produce empirical findings. They acknowledged that quantitative research involves the use of mathematical and statistical techniques to establish relationships that exist between or among variables. Even though, qualitative research is holistic, they claimed it is a subjective evaluation of accumulated evidence from a set of studies. Whatever method is preferred should be informed by the research question and objective (Rimmel, 2003). Cook (1992) suggests that quantitative research is limited in the sense that it produces a generalisation premised on restricted specific settings, times, concepts and research populations that only explain one small piece of a larger phenomenon.

It is believed that both quantitative and qualitative forms of research are very important to increase the understanding of any research projects . Precision of research problems and prior research findings determine the choice of research approach. Research approach can be of exploratory, descriptive or hypothesis testing characteristics.

In order to provide well informed understanding about financial reports and investor decisions in Ghana, a descriptive study is preferred. A descriptive study is used in order to discover and describe the characteristics of the variables of interest in a certain situation. The goal is to offer a profile or to describe relevant aspects of the phenomena of interest to the researcher from an individual, organisational, industry-oriented or other perspective (Sekaran, 2003). Descriptive studies may or may not have the potential for drawing powerful conclusions and do not explain why an event occurred or why variables interact the way they do (Cooper and Schindler, 1998). In brief a descriptive study provides comprehensive understanding of research event. According to Aaker et al. (1995), a descriptive study seeks data about a well-defined question; the purpose is to describe how the present situation looks without explaining why. In line with the explanations given by Sekaran (2003), Cooper and Schindler (1998) and Aaker et al. (1995), we described the specific financial reporting issues peculiar to investor decision - making.

Data Collection

Sekaran (2003) presents different techniques on how to collect data. The chosen alternative depends on which method best answers the question of the research.

Data collection is done through primary and secondary sources. Primary data is deemed necessary to study the investor decision based on the annual financial reports in Ghana while secondary data broadly reviewed the thoughts and findings of earlier researchers to lay a firm basis for the paper.

Primary Data

Primary source is a record of events as they are first documented without interpretations. Also, primary data refer to information obtained firsthand by the researcher on the variables of interest for the specific purpose of the study (Sekaran, 2003). Some examples of sources of primary data are individuals, focus groups, panels of respondents specifically set up by the researcher and from whom opinions may be sought on specific issues from time to time. The internet could also serve as a primary data source when questionnaires are administered over it (Sekaran, 2003).

In order to collect the primary data, openended and close-ended questionnaires were administered to some selected educated individual investors in Accra in order to explore the use of annual financial information by users. The respondents are largely those who have some business education. The questionnaire was designed to ensure maximum response from respondents who are individual investors who at least made some investment in any of the recent IPOs in Ghana. The questionnaire was chosen for the data collection because it would help collect relatively quick, standardised and objective responses from respondents. The self administered questionnaire is useful for the work since respondents can answer the questions after reflecting on them very well and at their own comfort. To ensure a high response rate, few straightforward questions were asked to achieve the objectives of the paper.

The questions asked in the questionnaire were informed by information gathered in the review of prior research, the annual reports and other reports on investment decision making by investors.

Selection of Respondents

One hundred and six individual investors were selected which implies that the sample size is (106). We chose to work on only eighty individual investors to be able to do in-depth studies of their investment decisions.

The results obtained from the completed questionnaire were analysed and interpreted using descriptive analysis, tables and graphs. These descriptive statistical tools were chosen to display a quick visual impression of the responses given by the respondents.

Data Analysis

Table 1: Categories of Survey

Respondents	Number of Questionnaire sent
Senior High School Graduates	56
Graduates from tertiary Institutions	50
TOTAL	106

Analysis of Responses

From Table 1 above, one hundred and six questionnaires were administered to individual investors. Their responses are now analysed. Each table below studies and analyses a question from the questionnaire sent out. A total of one hundred and six questionnaires were administered on individual investors who completed senior High School and Tertiary Institutions such as universities and polytechnics.

Table 2: Responses by category of individual investors

Category	Number of questionnaires Administered	Number of responses received	Percentage of responses received
Senior High School Graduates	56	43	76.78%
Tertiary Graduates	50	35	70%
Totals	106	78	73.58%

Source: Authors' Survey (2008)

Table 2 above displays the responses received from senior high school graduates and tertiary graduates. Forty three(43) responses were received out of fifty six from the senior high school graduates forming 76.78% .Thirty five (35) were received from tertiary graduates forming 70%. Therefore, in terms of aggregate, we are working with seventy eight questionnaires making 73.58%.

Table 3: Study of a Business course

Individual Investor Category	Number Responding to this question	Number Responding Yes	Number Responding No	Percentages	
				Yes	No
Senior High School Graduates	43	31	12	72.09	27.91
Tertiary Graduates	35	28	7	80	20
Totals	78	59	19	75.64	24.36

Source: Authors' Survey (2008)

From table 3 below, respondents were asked to indicate whether they have previously studied a business course. This would indicate whether they had some idea about businesses. A total of seventy eight individual investors responded to the question. More than 75% of the respondents claimed they had studied a business course before. Only about 24% did not have any prior knowledge of a business course at both

Table 4: Study of portfolio firm's financial reports

Individual Investor Category	Number Responding to this question	Number Responding Yes	Number Responding No	Percentages	
				Yes	No
Senior High School Graduates	43	2	41	4.65	95.35
Tertiary Graduates	35	7	28	20	80
Totals	78	9	69	11.54	88.46

From the above table, respondents were asked if they ever studied the financial reports of their portfolio firms. This question is at the core of the research problem. In responding to this question, more than 95% of secondary school graduates and about 80% tertiary graduates have never studied the financial reports of their portfolio firms.

Cumulatively, more than 88% of the respondents never studied the financial reports of their portfolio firms indicating that they do not rely on the information provided by the financial reports. Thus, the financial reports have no effect on their investment decisions such as asset allocation and granting of investment legitimacy. This revelation is crucial because most accounting standards have the inherent assumption that investors make use of information from the financial reports to guide their investment decisions in a firm. This implies that Ghanaian entities who think investors will find positive information about them to invest and grant them legitimacy should adhere to Caruthers (1995) that companies are not only granted legitimacy by their stakeholders but they also go out for it through proactive voluntary information disclosures by manipulating social perceptions by associating themselves with symbols, values or institutions which possess a strong legitimacy base. Hence Ghanaian firms should devise alternative means of letting their investors get relevant information from them.

Table 5 confirms that individual investors do not rely on the financial reports to make investment decisions in Ghana.

Table 5: Investment Decisions based on financial reports

Individual Investor Category	Number Responding to this question	Number Responding Yes	Number Responding No	Percentages	
				Yes	No
Senior High School Graduates	43	2	41	4.65	95.35
Tertiary Graduates	35	7	28	20	80
Totals	78	19	56	11.54	88.46

From table 6 above, about 64.10% of respondents indicate that they depend on adverts in the media to make investment decisions in firms while 35.90% do not but did not state what guide their investment decisions. More of secondary school graduates (69.77%) rely on adverts in the media while 57.14% of tertiary graduates do same.

Table 6: Investment because of Adverts in the Media

Individual Investor Category	Number Responding to this question	Number Responding Yes	Number Responding No	Percentages	
				Yes	No
Senior High School Graduates	43	30	13	69.77	30.23
Tertiary Graduates	35	20	15	57.14	42.86
Totals	78	50	28	64.10	35.90

Table 7: Investment Drive in Firms

Individual Investor Category	Number Responding to this question	Financial Reports (FR)	Daily Stock Prices (DSP)	Percentages	
				FR	DSP
Senior High School Graduates	28	1	27	3.57	96.43
Tertiary Graduates	29	3	26	10.34	89.66
Totals	57	4	53	7.55	92.98

When asked what drives their investment decisions in a firm, the respondents clearly indicated daily stock prices which accounted for more than 92%. This indicates that individual investors tend to understand stock price movements than financial reports which need some technical knowledge to understand. Again, 3.57% and 10.34% for financial reports by senior high school graduates and tertiary graduates respectively indicate that higher education does not influence the propensity to use financial reports.

Findings

The purpose of this paper is to find out the effects of financial reports on investor decision by users in Ghana since financial reports are prepared for the consumption of stakeholders including shareholders.

Accounting standards impose the obligation of preparing and publishing financial reports in a manner that provides adequate, reliable, timely and consistent information believed to form the basis of investor decision making.

The findings consider the analysis of the data in relation to the research problem.

The notion that financial reports provide useful information to guide the investment decision by investors is not supported by the findings.

While it is empirically correct that investor decision affects the legitimacy of corporate entities, the finding of this research is not in line with the theoretical framework proposition that if financial reports do not project the interest of shareholders then there will be legitimacy problems. Hence the quest by companies in Ghana to disclose voluntary Information mainly to earn, maintain or improve legitimacy from their stakeholders may not be effective from the perspective of individual investors since they do not read or study the financial reports. However, to attract the interest of individual shareholders to make use of financial reports and drive the objective of legitimisation, Ghanaian firms can make use of various types of media to communicate with stakeholders.

It has been empirically established from the study that respondents have some idea about business studies but do not use information from financial reports because they do not appreciate it.

From the theoretical framework, we posited that companies' main purpose of voluntary disclosure is to earn, maintain and improve their legitimacy with their stakeholders.

Individual investors in Ghana prefer to fashioning their investment decisions about a company on adverts in the media to finding information from the financial reports. A few respondents who did not indicate media adverts as their preferred information guide for investment explain that their investment in firms is either based on the reputation of the firm or advice from friends and relatives. They also seem to understand the implication of improvement in the stock prices than studying to get some meaning from income statement and balance sheet figures.

Conclusions

The study set out to find out whether educated individual investors in Ghana depend on financial reports to make investment decisions by utilising the legitimacy and agency theories as the theoretical foundation. The issues investigated were based on the general reasons for voluntary disclosure by prior researchers such as Meek and Gray (1989) and Deegan et al. (2000).

Descriptive study which is part of qualitative methods was adopted for broader and comprehensive understanding of the effects of financial reports on investor decision in Ghana. Primary data was used through open and closed ended questionnaires administered on educated individual investors within Accra.

The analysis provided tables that captured simple percentages of responses collected for the primary data which were related to the research question and the theoretical framework.

Generally, the findings are not in consonance with the view that financial reports guide investor choice in Ghana but that they rather rely on daily stock price movement and adverts in the media to allocate their investment capital.

Since the work was specifically based on a few educated individual investors who are in Accra , it is impractical to generalise it across the country though it can be argued that Accra captures more business minded investors than other parts of the country. The study however, indicates that investors follow share price movements.

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PROFESSIONAL ACCOUNTANT
The Challenges of the Next Decade (AGENDA 2015 PLUS)

Prof. B. Omane-Antwi

ABSTRACT
In the next 10 years, professional accountants will need to modify the way they perceive and carry out their mission. They will have to join the ranks of decision makers while keeping their roles of support and constructive critic to managers. They will need to extend their information management skills to the handling of non financial data to support a new definition of performance that is reflected in the Total Quality Management and value chain cultures.

The mission will change because the context or management has changed, e.g., flat organizations, fuzzy organizational boundaries reflecting partnerships with customers and suppliers, globalization, and a new emphasis on service activities.

The time horizons the professional accountant is used to will no longer be applicable. Such changes as target cost management, life-cycle thinking, and anticipatory crisis management are some of the reasons that will require professional accountants to become proactively involved in "managing for the future."
Based on a greater attention to the understanding and analysis of the causes of resource consumption, the professional accountant will become more interventionist and will be involved in both organizational engineering and becoming a change agent in the whole product cycle, from strategic intent identification to strategic performance analysis, through change management and communication.

The picture depicted of the professional accountant of the year 2015 plus is radically different from what is seen today, Training for these professionals will need to encompass this new mission in its new context. Managers also will have to embrace and value the rich potential that resides in their close cooperation with this "new" professional accountant.

Key words: Professional accountant, decision accountant, interventionist accountant, cost accounting, managerial accounting, flat organizations, fuzzy organizational boundaries, contingency theory, agency theory, human information processing, total quality management, performance measurement, team-based organization, hierarchical model, matrix organization, networking organization , globalization, target cost management, responsibility accounting, zero-based budgeting (ZBB), lifecycle thinking, co-responsibility, information highways, tableau de bord, information Economics.

INTRODUCTION
Accounting in the year 2015 (the millennium challenge goal's target year) will be different from what is practiced today.

The last decade has seen a major evolution of manufacturing and sourcing with, for example, lean manufacturing, Total Quality Management, and sourcing partnerships. Accounting has been lagging behind, holding onto a model defined in the '50s/'60s. It is time to chart the course of and evolution that is budding in many leading-edge companies in Europe across the Atlantic as well as in Africa. This paper will be both descriptive and normative, in that it will extrapolate from the author's experience of "best practices" in a myriad of businesses to suggest how accounting could (and should) fill the new demands formulated by managers in the current competitive environment.

It is important to bear in mind that if professional accountants do not give satisfactory answers to the needs of managers in the coming decade, engineers in information technology, quality managers, computer and software experts, sociologists, psychologists and theologians interested in human development and team work will step in and fulfill these needs.

Professional accountants must become bilingual. Bilingual in that they must "speak" both accounting and management. They have to push the term "cost accounting" to the background and focus clearly on "decision accounting". In the later expression, the word we emphasize is management not accounting. Management is the purpose; accounting is a process and a technique. Product costing or responsibility centre costing can no longer be the key issue for most professional accountants. Rather, the focal point of their attention would be to make sure that the cost, all the costs, is appropriate for the strategy that is being implemented. It means that they must identify and contribute to the management of the causes of the existence of all costs.

In short, professional accountants over the next decade will need to become part of management and decision- making. This statement might be seen by some as imperialist challenges to the jobs of managers and a threat to the sacrosanct separation between those who keep the accounts and those who manage. It is neither. Just as in the `60s the new wave brought movie critics and reviewers behind the camera to put their concepts to the test, the professional accountant will in the next decade necessarily mix the roles of information evaluator and decision- maker (or at least participant in decision-making), because, as we will see, trans-functional management requires it.

Our argument will be made in six sections. The first five describing the changes that will be required in defining and carrying out the professional accountants' mission, are;

1. the current state of accounting
2. the changing mission of the professional accountant;
3. the changing context of that mission;
4. new time horizons for that mission;
5. a changing focus for the mission.

The sixth section will present, in a synthetic way, a view of the key roles of the new professional accountants in their organizational engineering role and in their managerial roles.

1. THE CURRENT STATE OF ACCOUNTING

The current state of accounting is not reflected in a unified theory or a coherent set of practices. Perhaps the ultimate test of an accounting system is whether or not it motivates and assists managers in achieving organizational control. In general, among the various approaches that have guided practitioners in the design of an accounting system, a concern for organizational control per se has not been paramount. Moreover, there has been a lack of balance between accounting research and practice. This may be due to the fact that academic research is simply not relevant to practice or that research has moved away from rather than being ahead of practice. Explanations for these differences might include;

(i) The tendency for academics to investigate "respectable" topics rather than useful ones
(ii) The absence of a unifying conceptual framework;
(iii) The dearth of empirically oriented research (cf. medicine or engineering); and
(iv) The absence of documented case histories, etc, written by practitioners with the result that there is a limited awareness among practitioners themselves as well as between academics and practitioners as to the state of current accounting practice.

The partiality of accounting systems (in so far as they only include financial information) is at variance with the need to understand more fully the factors that are critical to the effectiveness of organizations. To this end, the design of accounting systems needs to facilitate the production of a broader range of performance indicators to cover such matters as;

- productivity;
- quality;
- manufacturing flexibility; and
- delivery performance.

Contemporary Developments

Since the 1970s, several approaches have developed that seek to provide broader conceptual frameworks for the development of accounting. These include;

(i) *The contingency theory approach*, which seeks to define specific aspects of an accounting system's design that are appropriate to a given set of circumstances. Such theories aim to be both descriptive (in explaining why organizations have the accounting systems that are in operation) and prescriptive (in recommending the design of accounting systems that ought to be operated in order that desired ends might be achieved). The critical weakness of work to date lies in the tendency of contingency theorists to over look the fact that accounting systems design is but one part of the design of an overall organizational control system, and this inhibits the prescriptive potential of contingency theory. There is a risk, with this approach in that the central tenets of a contingency theory of accounting (i.e., that there should be a matching of and organization's accounting system with its context and that there is no single, universally applicable design for an accounting system) are likely to be a statement of the obvious to the average practitioner who devotes much of his effort to ensuring that this is so.

(Ii) *The information economics approach*, which sees information as a commodity that can be bought and sold. As with other commodities, information has costs associated with it (stemming from its generation) and value to potential users. In principle, it is correct to take cognizance of the cost of producing (or acquiring) information of a specified quality relative to the value of that information to the user. Up to the present time, however, it has not proved possible to develop operationally useful means of incorporating, the cost benefit analysis of information into the design of an accounting systems.

(iii) *The agency theory approach*, which stems from the recognition that the act of measuring and reporting an individual's actions affects those actions. This, in turn, locates the accounting system within a larger system of accountability in which the manager (or agent) is seen as being accountable to his principal for the effective use of the latter's resources. The central question posed by agency theory is one that is relevant to the professional accountant since it is fundamental to organizational control; how can a superior (principal) who has imperfect information about the running of an organization (or division) motivate his subordinate (agent) to act in the organization's best interests?

(iv) *Human information processing (HIP) studies*, which focus on the process of individual decision-making and are based on theories derived from psychology. The main problem has been the trade-off between methodological rigeur and the usefulness of the findings; the emphasis on methodological issues has tended to limit the research studies undertaken to the less significant aspects of accounting. In addition, few HIP studies have examined individuals in organizational settings. A recent development from HIP is that of expert systems. Useful models of simple, repetitive decisions have been built to help individuals with their decision-making, and there is logic in seeking to extend this approach and to build models based on more complex decisions requiring expert knowledge. This line of work is likely to be prominent in future developments.

(v) *Accounting as a social and organizational phenomenon*, which involves a shift from the psychological and social psychological approaches underlying HIP, for example, to approaches representing sociological and anthropological points of view. One can contrast the conventional view that accounting exists as a set of techniques for collecting and processing useful facts about organizational life in a supposedly objective way (i.e untainted by social values or ideology) with the view that sees accounting as being both social and political in itself. Thus, the information that is produced by accounting systems is itself a social product that only has meaning in the context of the culture in which it is produced.

(vi) *The linking of accounting with competitive and strategic considerations* (although further work is needed to develop a satisfactory framework for strategic management accounting). The case has been well made for the design of accounting systems that are explicitly directed at the various stages of the strategic management process and which combine elements of financial analysis, value chain analysis, strategic positioning analysis, and cost driver analysis. The adoption of a shift in perspective—from inward and backward to outward and forward.

Contemporary developments can be linked to one of two distinct avenues;

- the construction of qualitative decision-making or decision support techniques;
- the development of behavioural and organizational insights into the functioning of accounting systems

2. THE CHANGING MISSION OF THE PROFESSIONAL ACCOUNTANT.

The basic missions of the professional accountant have not changed greatly from the definitions Gordon Shillinglaw and Charles Horngren gave in the early 60s in their first textbooks. These popularized, in North America first and in Europe shortly after, William Vatter's concept of relevant costing. In France, although Andre Cibert had been teaching these concepts since the late, 50s in his course at the Ecole des Haures Etudes Commerciales, his ideas remained confidential, despite a first publication in 1964, until his very influential Comptabilite Analytique, published in 1968. Relevant costing meant a departure from product costing for valuation. It also meant that decision-making support was a central element of the mission of the professional accountant.

The study of controllership published in 1954 by H.A. Simon et al. highlighted the second element of the professional accountant's mission. Measurement and monitoring of performance have since been seen as essential components to the motivation of managers and workers alike. Since the early, 60s, the management accounting field has known very few conceptual modifications, all new techniques or tools being nothing more than permutations on the relationship between relevant costing and motivation.

At present these elements of the mission are fulfilled with great talent and competence. A profusion of excellent training programs all over the world, contribute to the preparation of future accountants and perpetuation of the same " value system."

Decision support will remain a key component of the mission of the professional accountant whatever the evolution of the field. However, the definition of the concept of performance is changing very rapidly, particularly in the wake of the Total Quality Management approach, but also because of changes in the legitimacy basis of business. New components of the mission are being defined as a consequence. Performance is not only measured and monitored; it is now managed and constructed. And motivation of individuals is complemented by the development of goal congruence, a basis for a collective achievement of the strategic objectives. These three changes in the mission of the professional accountant are explored further below

A new definition of performance

Let me indicate that the development of green accounting, a resurgence of human resource accounting, and a push for social responsibility accounting might affect the job of the professional accountant in the future, but the author does not feel such evolution will be significant before the time horizon of these paper, namely the year 2015 therefore will take a microeconomic approach in this essay and look at performance mainly from the business's viewpoint.

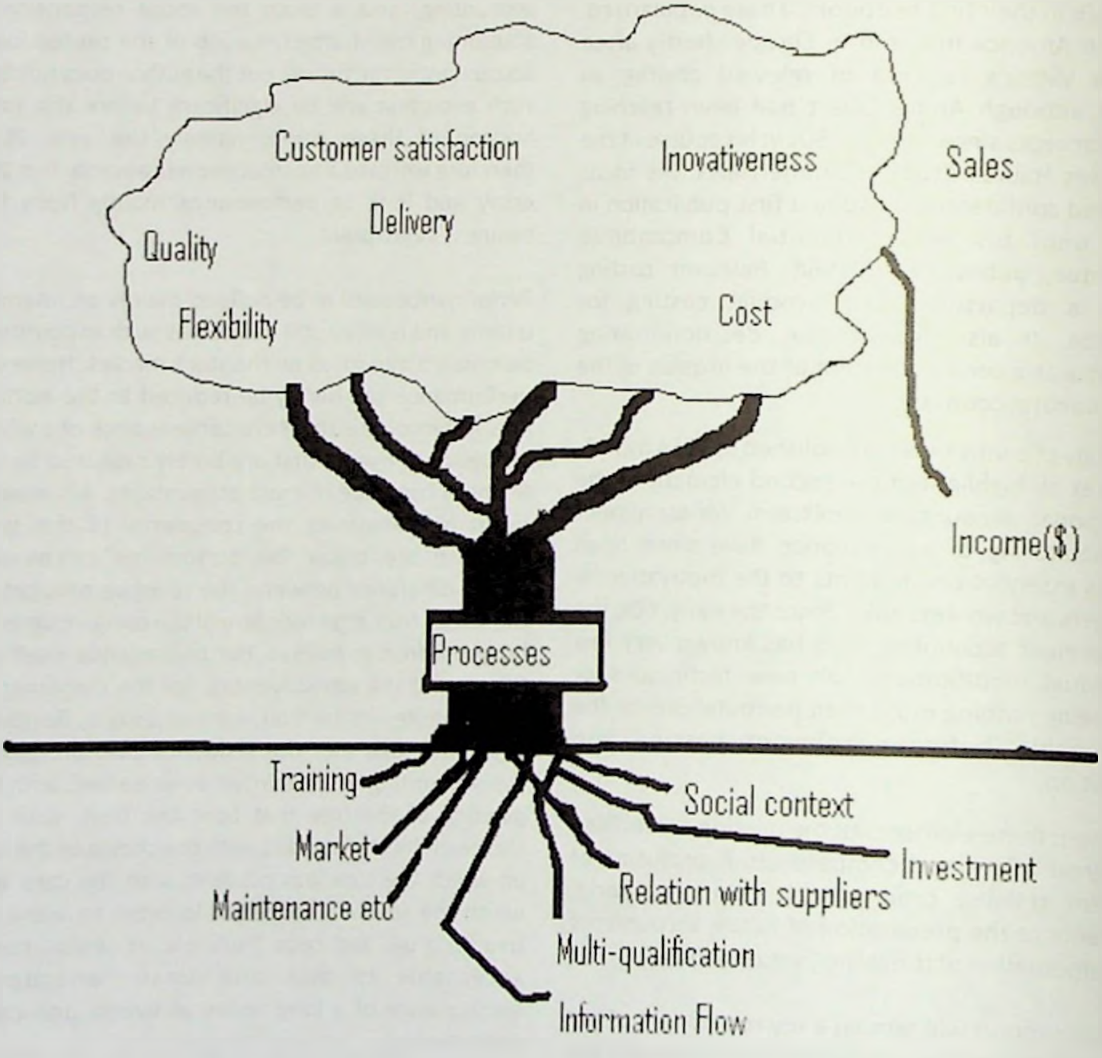
Performance used to be defined mainly on financial criteria and is often still defined as such in countries dominated by a focus on the stock market. However, performance can hardly be reduced to the bottom line. Net income is the mere consequence of a whole sequence of events that are barely captured by the financial language of most accountants. An analogy might help illustrate the complexity of the term "performance "today. The "bottom line" can be seen as the difference between the revenue brought by the sale of fruit after recovery of the costs incurred to bring the fruit to market. But the revenue itself is a function of the attractiveness, for the customer, of the attributes of the fruit, such as quality, flexibility, innovativeness, etc. The sequence that brought in the accounting result started even earlier, with the planting of the tree that bore the fruit, with the choice of the tree species, with the choice of the land on which the tree was planted, with the care with which the soil was nourished in order to allow the tree to grow and bear fruit, etc. It seems hardly acceptable to pick one small "anecdotal" consequence of a long series of events and call it performance.

If we want to talk about performance, we have to consider the whole chain of events and all the steps in that chain. A "performing" tree is one that will continue to bear highly marketable fruit for a long time, not just the tree that happens to have produced the highest profit this year. Performance is not only a destination, it is also a journey.

The diagram of Figure I illustrates some of the process of sales generation. It shows that performance is multifaceted and that most of the descriptors of a "performing" tree are not financial.

Figure 1
The performance causal model
(Adapted from an idea of Douglas McBeth, U.K.

The holistic view of performance that derives from Figure1 implies that, just as in value chain management or in Total Quality Management, we cannot be satisfied with the end result alone. The process must be managed at all stages in order to create long-run performance. Cost information comes, by construction, too late for such a purpose. Costs are nothing more than a record of the financial consequences of what took place. They are history. While history is very important as a basis for the development of causal and anticipatory models, history is not an end in itself. Shaping the future is the end purpose of management. What is important, therefore, is the way the business processes are organized and the congruent motivation of managers and workers.



Performance management

Performance is not simply measured, it is proactively created. The professional accountant must use his or her skills to contribute to the creation of the ex ante context that will, before the actions are selected and implemented, maximize the likelihood that ex post results will be satisfactory. Results are not simply recorded passively, they are purposefully created. One of the contributions of the professional accountant to such a creation is cost management.

Cost management is not synonymous with cost minimization. Rather, it is the search for the "adequate and requisite" level of costs for the strategy intended by managers. Since processes are constructed and costs derive from these choices, costs can no longer be considered a burden. They result from the manager's decisions. They are therefore not critical measures of performance. Productivity, market share, cycle time, quality, flexibility, and many more non-financial measures critically condition the final result long before the financial result can be even estimated. In order to be a good cost manager, the professional accountant must apply him or herself to the management of factors that cause costs, and these factors are essentially non-financial.

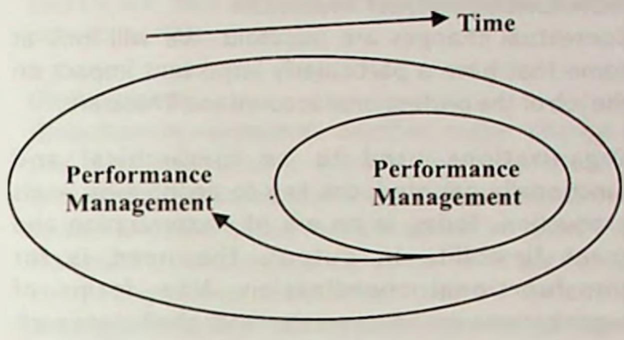
The emphases of the professional accountant's work must not continue to be based on measurement alone. Simply counting the "fruits of the tree" using any metric appropriate, whether financial or non-financial, is not enough. The professional accountant must contribute to creating the conditions for the managers and the workers to produce a fertile soil and to care for the long-term health of the tree, as well as to pick the fruit when ripe and to take it to market.

Measures (and support to the management) of both the "fertility of the soil" and the condition of the processes of "transformation of the nutrients into fruit and structural wood" are just a few examples of the wide ranging domain the professional accountant will report on in the next decade.

Professional accountants used to see their responsibility limited to that of performance measurement, but in the next decade the professional accountant will become an active participant in performance management. Performance management precedes measurement and encompasses it, as represented in Figure 2;

Figure 2

Performance management precedes and encompasses performance measurement



It is important to redefine the professional accountant's mission to include the whole set of actions and activities called performance management. Clearly, the accountant is by far, not the only one involved in this task, but he or she can play a critical role in creating the conditions for performance to occur. While measurement is important, especially because of its feedback role, it is a necessary action but not a sufficient condition.

Goal congruence enhancement and facilitation

Management is a behavioural science, not a hard science. All the measurement and communication the professional accountant is involved in have one primary purpose; to create goal congruence. That is getting people to work together; guiding their behaviour. so that the strategic intent is fulfilled. It does not matter whether this is accomplished through performance evaluation or through budgeting or planning or through communication or through any of the tools professional accountants have at their disposal. What matters is the result; coordinated, purposeful behaviour that helps to achieve strategic objectives. Supporting goal congruence is a challenge professional accountants have to face today more than ever.

No more will professional accountants just deal in numbers; they will be dealing with people for people. Part of creating performance involves contributing to the creation of the conditions necessary for performance to occur. For example, timely cross-functional feedback information, based on non-financial data, can certainly create the conditions for motivation, goal congruence, and effective reactivity to customer demands, thus paving the way for long-term performance.

3. CHANGES IN THE CONTEXT OF THE PROFESSIONAL ACCOUNTANT'S MISSION

Contextual changes are manifold. We will look at some that have a particularly important impact on the job of the professional accountant. These are;

Organizations used to be hierarchical and functionally oriented, the key to economical mass production. Today, in an era of customization and great flexibility in output, the need is for transfunctional coordination. New forms of organizations are being created that challenges such long accepted concepts as the exclusive and additive responsibility of managers. We are now in the process of managing the "white spaces between the cells on the organizational chart."

Whether we deal with matrix of team-based organizations, the new motto is "coresponsibility." The time has come for the flat, team-based organization.

Most firms know they must concentrate on their core competence. They must therefore rely on "partners" to provide the services the customers require. Cost management begins with cooperation with suppliers and customers. Many firms have entered into alliance pacts and participate in networks.

Market used to be limited to the domestic territory, but, today competition and sales are global-thanks to the ICT revolution.

Service activities are replacing manufacturing as the main component of businesses. Even in manufacturing firms, the support functions (i.e, services) represent more costs today than production does. Such contextual changes touch upon and reinforce the need to redefine the role of the professional accountant.

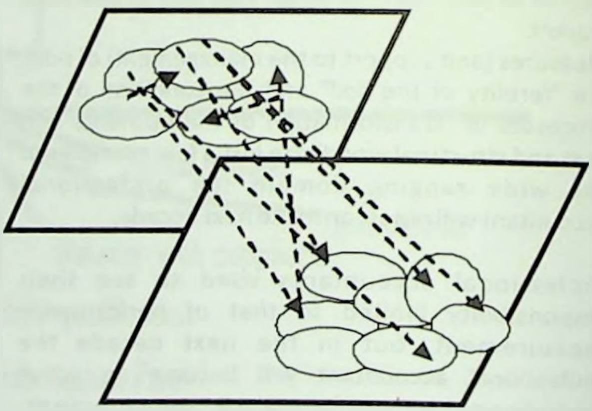
Flat organizations

The once sacrosanct hierarchical model of the organization is being challenged on all sides. Two important challengers in this area are flat team-based organizations and matrix organizations. Today, such high performing organizations as Alcatel, ICL Digital, IBM, and Saint Gobain, just to name a few, are moving away from a strict hierarchical model and toward flat organizations. One of the best examples of flattening the organization has been observed at Digital. And in my country, Ghana, a sensational company in the mineral water business called **VOLTIC GHANA LTD.**

Digital sells solutions to its customers' problems. To do this, it develops and manufactures components for computers; develops and sells software for computers; and may make the computers themselves, if that would offer its customers better solutions than what is on the market. In each of these three business segments there are only three levels between the customer and the worker, between headquarters there are only three levels between the customer and the worker, between headquarters and the shop floor or the field sales branch. "Hierarchy" has essentially been "abolished" because the entire organization is defined around customer service and that gives meaning to everyone's actions at all times. Of course, there are supervisors and subordinates, but they are interrelated in such a complex matrix organization (see Figure 3) that the traditional hierarchy is essentially dead. Each domain of responsibility is defined by a circle that overlaps with others on the same plane, thus defining large areas of co-responsibility. Everyone must communicate with everyone else, within and between "planes," because everyone's close cooperation is required to serve the customer the Voltic Ghana Ltd Management concept and model.

Figure 3

An illustration of the new version of the matrix organization



In such a flat organization accounting is one of the linking elements that supports the creation of performance, because it offers the simplest, best-structured communication tools, 'information highways.' Clearly, in the context, measurement can no longer be limited to and by the border of responsibility centres. It must now focus on the processes that will satisfy the customers' expectations and demands.

Network organizations
Partnership agreements between customers, manufacturers, and suppliers are proliferating all over the globe. These partnership agreements change the data with which the professional accountant is working. When the automotive manufacturer Renault seeks a partner for the design of the front end of their city-car (sold in Europe under the name TWINGO). They are changing the relationship of the firm to the product, to the suppliers, and the customer beyond the simple problem of `accounting' beyond the organizational borders.

For example, professional accountants will need to explore the causal models that determine the costs in the suppliers' process. They will have to look at the ways the customers are going to use the product because that will not only affect the cost to the user but also impact on the warranty and the after sales costs for the manufacturer. Another example of a network organization is ABB (this Swedish-Swiss electromechanical giant is the result of the merger between ASEA and Brown- Bovery). All units in ABB are both supplier and customer to other units in the organization worldwide. Although legally independent of one another, each shares information with units that have nothing to do with one another directly, but are part of the process of serving customers. The suppliers and customers as well are integrated in the design of the products. The marketing concept of "prosumer" or in my newly coined term "prosusumer" (meaning the meeting of the minds and actions of producers, suppliers and consumers in creating a product)

In this kind of organization, the professional accountant needs to have an integrated view, from the supplier to the customer. He or she joins the team of managers involved in value chain management, across organizational boundaries. Most of the gains in productivity and efficiency lie in the close coordination of the participant to the whole value chain. To meet these new challenges, professional accountants will have to leave their offices and their computers. They will have to go to the shop floor and sales floor; they will need to visit their customers and those of the firm, and understand their preoccupations.

Globalization
Globalization represents another major change in the context within which the professional accountant operates. The impact of globalization is so well known that not much time will be spent here elaborating on its impact. European firms are not just competing against one another; they are competing, among others, against America, .Japanese, Asia and Korean firms, and against the subsidiaries these firms have built in the tax-free zone in China and elsewhere. Professional accountants must change to adapt to this situation. For example, they will have to understand how competitors produce and market their products and where they remain vulnerable. Professional accountants must go beyond competitive benchmarking and become analysts of the competition. They must also begin accounting for foreign currency fluctuations and for a variety of risks that were hitherto omitted from their mental representations and operational perspectives.

New technologies of communication and information technology
Developments in new technologies of communication and in information technology open up new possibilities to the professional accountant. The "bit" of information can be captured, stored and transmitted very cheaply today. One can communicate worldwide for not much more, and often less, than it used to cost only a few years ago to communicate with a plant or a branch a few miles away. Massive amounts of information can be transmitted almost instantly around the globe for little more than the cost of international postage for a simple letter. This technology allows the professional accountant to count in seconds or minutes what used to be counted in days or months.

It is generally accepted that transaction accounting, or ABC, would not have been possible if bar codes and electronic transmission of information had not been available. Professional accountants must explore these new possibilities opening to them. The time has come to break through the "view of accounting and to develop creative ways and means to use new technologies to their fullest.

The increased importance of service activities

Another change in the environment of the professional accountant's work is the tilt to service activities. Any industrial firm is internally a service firm (or more exactly a network of service firms). Businesses are spending most of their resources (outside raw materials and energy) on support services that assist the manufacturing and selling activities. All organizations, in one way or another, are moving toward service activities.

In the Gulf War, the U.S. armed forces had ten support personnel for one in combat. The French armed forces, using another strategy in the field, had only four support personnel for one in combat. But even with different strategic approaches in both countries' forces, service activities dominated.

This development of the importance of services completely modifies the field of measurement and the ways by which to measure. Professional accountants on the cutting edge today are no longer focusing on the valuation of inventories (the zero stock policy and Just-in Time reduced the importance of such valuation), they are looking at the process of delivery of the many faceted services the customers require.

4. A NEW CONCEPT OF TIME AND OF TIME HORIZON

Not only is the environment changing, but the very notion of time is changing as well. At first, the words "accounting" and "retrospective" were viewed as almost synonymous. Then, in the 1930s when management accounting was born and budgeting took form, accounting became a way of structuring the future.

Today, businesses manage for the future; target cost, life cycle, anticipatory crisis management, and discontinuity of time are four topics that revolutionize the mission of the professional accountant, as per explanation below.

Target-cost management

Managers and engineers design products and processes for markets in which the price is a given element. Instead of finding the price through a cost-plus approach, the manager must reverse the equation completely. Today, the price is given by the market (or by comparison with other products and by estimating what the different functions of the product are worth to the customer); the profit must be considered as a given that is required by the firm's long-term strategy; and, therefore the target cost is equal to "selling price minus profit margin." The manager's role is to design the product and the processes to fit the target cost. The professional accountant's role is to assist the manager in such a task, and that task begins well before there is any output to measure or any financial data to handle.

Just as in the case of performance management, the professional accountant's role starts very early in the process. As early as the design of the product, the accountant can make a contribution. Professional accountants have cost statistics about the past. Some of the most modern professional accountants may even have identified relations between costs and physical performance measures. The costs capture part of the past reality and allow for the identification of causal relationships; why do (and did) costs occur? While this causal view may not necessarily lead to the same understanding as that of engineers or salespeople, the accountant's vision is based on economic rationality and will contribute to the dialogue within the management team. Professional accountants who are involved as early as the design of the product help design engineers evaluate the cost of design or process proposals. Target-cost management simply reverses the scale of time. Instead of limiting the professional accountant to "after the product has been manufactured" the target-cost philosophy extends the scope of the job to start "before the product is even conceived".

Life-cycle thinking

Another aspect of the modification of the relationship to time encompasses the concept of a time horizon. The introduction of life-cycle thinking upsets the old annualized model. Professional accountants have long been ruled by the idea that they must slice time in periods of twelve months and that they must break these down even further. Professional accountants think they must calculate costs and results every so many days or every so many months. Professional accountants must get beyond these past habits.

Professional accountants should not worry about how to allocate costs of departments to product until they handle the fact that cost of development and of phasing out the product are essential part of the total life-cycle costs. And this is becoming even truer when we take into account the fact that, today, the life- cycle is getting shorter and shorter for many products. Consider the life cycle of a laptop computer; In 1992, the commercial life cycle was around nine (9) months, with a development cycle of about twelve (12) months, and this was thought to be very short. Today, the commercial life-cycle of such a product is in the area of six (6) months, with a development cycle of about nine (9) months; i.e, a producer of laptop computers, notebooks, or powerbooks has to come up with a new product every six (6) months (possibly three months by 2015) in order to keep its market share.

Instead of just thinking about manufacturing and selling costs, professional accountants will increasingly need to think in terms of product development costs, market development costs, and cost, of product or facility phase-out. The phase-out costs are often surprisingly important, particularly with all the new attitudes toward pollution and recycling. The omission of such costs from the product launch decision has definitely affected past managerial choices that might not have gone in the same direction had these costs been included.

Anticipatory crisis management

The degree of uncertainty about the future is increasing greatly. Professional accountants have to change the questions they are accustomed to asking and answering. They are used to asking, for example, "What are we going to do?" The answers used to come from budgeting and planning, using large simulation models, which is too often mathematical, that allowed extrapolations of ideas about what the organization was going to do. But it is common knowledge that such computer generated budgets were and are obsolete the minute they are printed.

Many firms are now turning away from the "sacred" full-year budgeting exercise and are turning to frequent and reactive rolling forecasts. In fact we are evolving from a budget process that asks "what are we going to do (to master our environment)?"to a process that asks "What are we going to do if this or that happens?" (i.e anticipatory reactivity).

Figure 4 shows that as the turbulence of the future increases, the effectiveness of the "routine management tools (generally based on ex post control) diminishes to the point of being useless. As the old tools lose effectiveness, the managerial techniques used to "condition the organization" for the uncertain situations it will face become more effective. It is a switch from ex post control not even to ex ante control, but to creating conditions in which everyone, managers and workers alike, will know how to react in all situations.

In this regard, the professional accountant is not only contributing to goal congruence, but he or she is involved in exploring various possible scenarios that will help condition the organization to be responsive. Professional accountants have much to learn here from experts in crisis management in such areas as emergency medical services, disaster relief, or even air traffic control.

Discontinuity of time

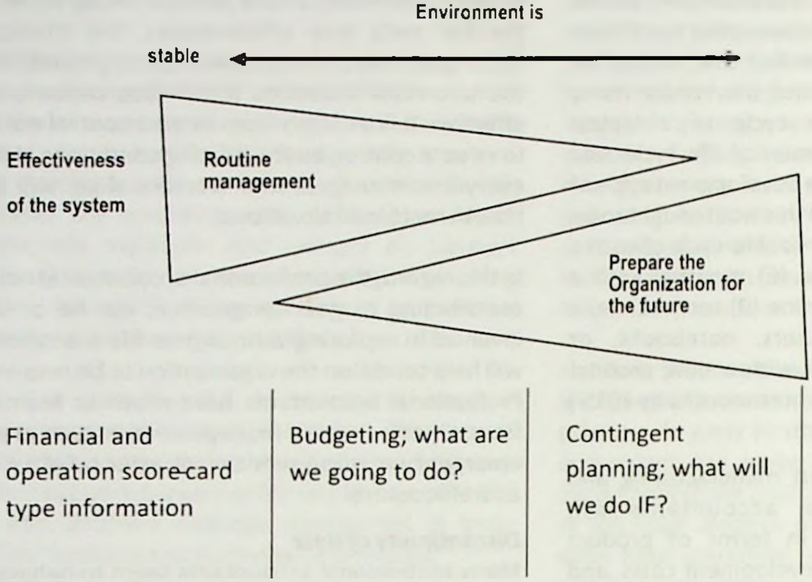
Many professional accountants seem to behave as if time were continuous and all annual or monthly time slices were equivalent. However, customer contracts happen at random. New techniques and new processes are introduced at various times, essentially when they become available or when the organization feels it has mastered them. All the events in the life of a firm do not happen conveniently on January 1st or on June 30th In addition, events in the life of a firm have consequences well beyond the fiscal year time horizon. It would be absurd for professional accountants to remain focused, as they have been for so many years, on a "magical" twelve (12) month cycle, or even on a one month or one-week periodicity.

It is the cycle time of product and technological innovation that defines the time horizon and time should be sliced according to the phases of the life cycle of the "projects" that compose the firm. Since each project has its own time horizon and cycle time, professional accountants must be able to handle multiple time horizons simultaneously. They must invent information systems that allow for such flexibility while continuing providing the annual legal aggregation of "results."

To be Continued

Figure 4

The managerial tools lose effectiveness with increased uncertainty, so preparing the organization for anticipatory crisis management is crucial when turbulence is increasing.



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ECONOMIC AND FINANCIAL REPORT

Databank

Leadership

Africa: Investors Cut their Losses; take Profits on African Markets

- There were no advancers among African markets this week as Global markets lost their way in huge declines
- The worst decliners were markets in Mauritius, South Africa, Zambia and Egypt, with index levels down between 10%-20%
- Bearish Investor Sentiments seem to be arriving late on African markets as investors have decided to cut their losses, thereby deepening the already sour performances on the various markets. This is attributable to both local and foreign investors, with foreign investments also drying up on some markets. Every indication points to the fact that this trend will persist for the rest of the year

WORLD BANK REPORT:
Impact of Global Financial Crisis on Africa's Development

- Financial crisis threatens to undermine progress achieved in Africa over the last decade
- African ministers call on the World Bank to support the region amidst the crisis
- The World Bank Group will allocate several billion dollars over the next three years to help temper the impact of the crisis around the world

Impact on Africa

The financial crisis is threatening to turn back the clock on progress achieved during decades of reforms that have geared economic policy toward ensuring Africa is a more attractive destination for private capital. The crisis has triggered quick depreciation of currencies and major declines in stock market prices with foreign investors in securities and equities selling off large shares of their holdings.

The impact of the global financial crisis and ensuing recession on Africa will be three- fold, according to World Bank Chief Economist for Africa Shanta Devarajan.

"First, a slowdown in private capital flows will adversely affect economies that had been relying on these flows to finance much-needed investment, particularly infrastructure investment. Already Ghana and Kenya have postponed sovereign bond issues worth about $800 million," he said. "Second, commodity prices are falling, which hurts exporters but helps importers."

"Third," he said, "remittances, which run at about $15 billion a year to Africa, and foreign aid, are likely to be affected."

PERFORMANCE OF STOCK MARKETS ACROSS AFRICA

COUNTRIES	STOCK MARKET		CHANGE (%)			P/E (X)	MKT CAP (US$BN)	LATEST INFLATION (%)
	NAME	INDEX LEVEL	WEEKLY (USD)	YTD (LC)	YTD (USD)			
Tanzania	DSEI	1249.42	-1.05%	22.19%	8.28%	na	3.13	9.8
Kenya	NSE 20	3527.5	-1.24%	-35.21%	-47.32%	14.50	10.10	28.2
Ghana	DSI	12149.93	-1.42%	43.56%	17.54%	13.80	15.19	17.89
Uganda	ALSI	827.82	-1.85%	-16.48%	-28.37%	13.59	3.23	15.2
BRVM	BRVM Comp	177.15	-2.09%	-11.18%	-24.34%	na	7.43	na
Tunisia	TUNINDEX	3039.91	-2.71%	16.29%	1.37%	12.20	4.96	5.3
Botswana	DCI	7892.67	-4.72%	-6.34%	-29.46%	15.00	4.05	15.1
Malawi	Domestic	4921.46	-5.05%	28.72%	26.49%	12.20	1.53	9.1
Morocco	MASI	11126.89	-6.46%	-12.35%	-23.75%	na	62.59	4.8
Nigeria	All Share	34660.65	-8.00%	-40.23%	-40.40%	na	64.59	13.9
Namibia	Overall	495.31	-9.87%	-46.71%	-65.32%	8.70	138.52	12
Mauritius	SEMDEX	1181.05	-10.37%	-36.24%	-45.50%	11.00	3.26	9.8
South Africa	JSE All Share	18066.38	-10.64%	-37.61%	-59.62%	na	na	13.7
Zambia	All Share	3064.27	-12.41%	-13.28%	-27.29%	16.14	4.93	14.2
Egypt	CASE 30	3878.11	-19.85%	-63.24%	-63.48%	5.22	97.16	23.6

Global Commodity MarketUpdate and Outlook

Oil prices fell below $50 per barrel this week as Coffee prices also declined. Gold and Cocoa prices however gained on the International Commodities Market this week.

Oil and Coffee lost $7.42 and 3.95 cents to $48.39 per barrel and 111.35 cents per lb respectively.

Cocoa however gained $117 to $2,061 per metric tonne while Gold prices were up $36.2 to $767.70 per ounce.

Global Recession is now well in sight and this is showing in oil price slumps. Some analysts believe that the market is overreacting and swinging to wide extremes. This could mean that a steep recovery is anticipated early next year.

Piracy along the coastlines of East Africa has raised fears of oil tankers having to use diversionary routes. This could reflect in supply constraints and therefore price declines. Oil prices could climb back to $50 per barrel.

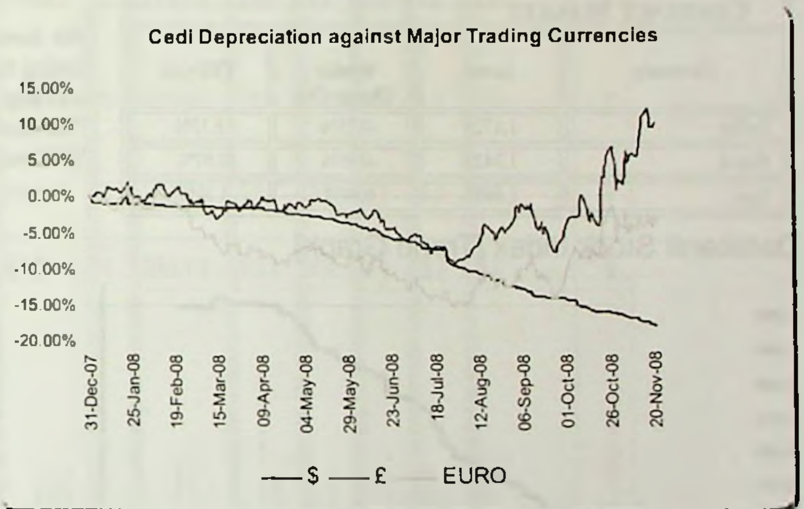
GLOBAL COMMODITIES/METAL MARKET

Commodity/Metal	Year Open	Week Open	Week Close
Cocoa ($, per metric tonne)	2,050.00	1,944.00	2,061.00
Gold ($, per ounce)	840.60	731.50	767.70
Coffee (cents, per lb)	133.35	115.30	111.35
Oil ($, per barrel)	94.21	55.81	48.39

MUTUAL FUNDS (AS AT NOVEMBER 20, 2008)

Fund Name	Price	Weekly Change (%)	YTD Change
Epa¢k Investment Fund	0.8432	-0.27%	-2.05%
Balanced Fund (Bid)	0.1207	0.08%	20.70%
Balanced Fund (Offer)	0.1219	0.08%	

Fund Name	Price	Change (%)	Annualized Yield
MFund (Bid)	0.1888	2.83%	17.08%
MFund (Offer)	0.1907	2.86%	



Ghana Currency Market Update

The Ghana cedi depreciated against the dollar and pound but gained against the euro on the Interbank market this week. The cedi lost GH¢0.0088 and GH¢0.0166 against the dollar and pound to GH¢ 1.1724 and GH¢ 1.7423 respectively. It however appreciated by GH¢0.0138 against the euro to GH¢1.4693.

Mrket Statistics

Indicators	Level	Change (%)	YTD (%)
DSI (GH ¢)	12.149.93	-0.68%	43.56%
DSI ($)	1.04	-1.42%	17.54%
GSE (GH ¢)	10.563.54	-0.42%	60.06%
Mkt Cap (GH¢'bn)	17.81	-0.16%	35.32%
P/E (x)	13.81	-0.04	–
Dividend Yield (%)	3.33	0.01	–
Earnings Yield (%)	7.24	0.02	–

Share Price Movement

Equity Ticker	Price (GH¢)	Change (%)	YTD (%)
GOIL	0.34	▼5.56%	9.68%
CAL	0.60	▼4.76%	35.75%
GGBL	2.00	▼4.76%	62.60%
SIC	0.54	▼1.82%	80.00%
BOPP	1.16	▼0.85%	136.73%
EIC	3.14	▼0.32%	141.54%

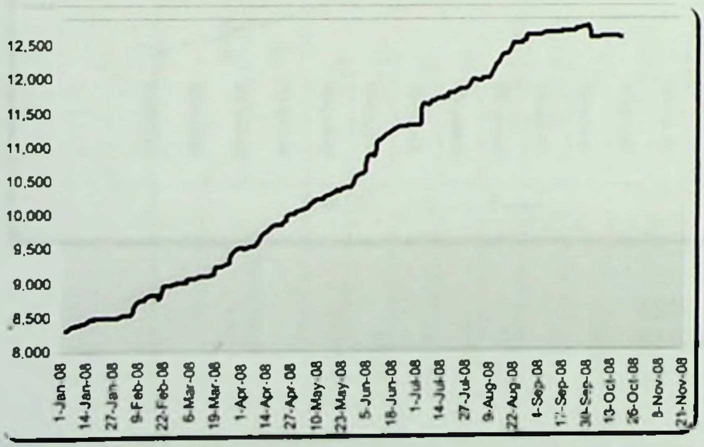
Fixed Income

Security	Year Open	Week Open	Week Close
91 Day Bill (%)	10.62	24.68	24.68
182 Day Bill (%)	10.80	26.25	26.26
1 Year Note (%)	12.30	20.00	20.00
2 Year Note (%)	12.80	21.00	21.00
3 Year Bond (%)	-	-	-

Currency Market

Currency	Level	Weekly Change (%)	YTD (%)
Dollar	1.1724	-0.75%	-18.13%
Pound	1.7423	-0.95%	10.07%
Euro	1.4693	0.94%	-3.73%

Databank Stock Index [Trend Graph]



TRANSOL Trades 11% of its Issued Shares

Aggregate volume of shares traded received a boost on Wednesday when TRANSOL traded a block of 8.4 million shares. On the price front, six equities recorded price declines as compared to three last week, resulting in a 0.68% decrease in the Databank Stock Index [DSI] to 12,149.93 points. This represented a year-to-date gain of 43.56%.

Total volume of shares traded was in excess of 8.5 million, up by over 3000% compared to that traded last week. Market turnover also increased by over 1000% to GH¢ 1.13 million. TRANSOL accounted for 99% of aggregate shares traded and 82% of market turnover.

Outlook

The market continues to dip instead of fall en masse and this is expected to continue next week. The listing of UT Financial Services on the Ghana Stock Exchange next week will probably cause a slight surge in volumes traded as well as improve the market's positive breadth.

We however expect the full impact of UT's listing to begin next year as most investors are waiting for the New Year to make decisions. The Databank Stock Index will close at 43% YTD return.

RETURN ANALYSIS SHEET (GH¢)

1Month High (GH¢)	Low (GH¢)	LISTED EQUITY	TICKER	Year Open (GH ¢)	Week Open (GH ¢)	Week Close (GH ¢)	Week-on-Week Change	Year-to-Date Change	MARKET STATISTICS Volume	Turnover (GH ¢)	KEY FINANCIAL RATIOS P/E (x)	P/BVS (x)	Div Yield (%)	ROE (%)	PER SHARE DATA (GH¢) EPS	DPS	BVS	Capitalisation (GH ¢ million)
											15.84	4.78	1.75	29.68				
2.70	0.39	Cal Bank	CAL	0.44	0.63	0.60	-4.76%	35.75%	7,217	1,349	9.15	3.11	1.72	33.97	0.07	0.01	0.19	99 081,230
4.80	1.65	Ecobank Ghana Limited	EBG	2.00	4.70	4.70	0.00%	135.00%	31,357	139,150	26.27	13.76	1.43	52.39	0.18	0.07	0.34	757,757 500
2.32	2.45	Ecobank Transnational Incorporated	ETI	0.26	0.45	0.45	0.00%	75.58%	0	0	16.16	4.61	1.10	28.54	0.03	0.01	0.10	3 048 645 584
1.38	2.87	Ghana Commercial Bank	GCB	1.00	1.14	1.14	0.00%	14.57%	3,392	3,867	7.83	1.67	3.00	21.28	0.15	0.03	0.68	302,100 000
1.62	2.50	HFC Bank	HFC	0.54	0.62	0.62	0.00%	14.81%	0	0	17.86	5.28	1.29	29.59	0.03	0.01	0.12	78 197,263
38.00	26.13	Standard Chartered Bank	SCB	26.00	38.00	38.00	0.00%	46.15%	0	0	18.53	6.91	3.82	37.27	2.05	1.45	5.50	868 649 598
1.46	1.10	SG-SSB	SG-SSB	1.25	1.35	1.35	0.00%	8.00%	250	338	12.74	3.12	3.33	24.51	0.11	0.05	0.43	192,375 000
1.33	1.32	Trust Bank Ltd (The Gambia)	TBL	1.33	1.33	1.33	0.00%	0.00%	0	0	10.57	7.70	0.72	72.81	0.13	0.01	0.17	79 500 000
											22.41	4.78	1.09	34.33				
0.12	0.12	Accra Brewery	ABL	0.12	0.12	0.12	0.00%	0.00%	0	0	27.24	2.85	0.87	10.47	0.00	0.00	0.04	28,666,750
2.10	1.23	Guinness Ghana Breweries	GGBL	1.23	2.10	2.00	-4.76%	62.60%	12,249	24,498	22.07	5.06	2.09	23.01	0.09	0.04	0.39	329 342 950
		Consumer Goods Industry (Participants, Averages)									11.71	4.88	2.36	41.83				
1.12	1.03	PZ Cussons	PZ	0.83	1.12	1.12	0.00%	34.74%	0	0	8.94	1.71	0.94	19.16	0.13	0.01	0.65	31,360 000
0.12	1.03	Super Paper Products	SPPC	0.03	0.10	0.10	0.00%	203.03%	3,380	338	-2.98	1.66	4.49	-56.23	-0.03	0.00	0.36	3,244,000
4.40	2.15	Unilever Ghana	UNIL	2.11	4.40	4.40	0.00%	108.53%	2,808	12,355	11.45	6.36	2.30	55.50	0.38	0.11	0.69	275,000,000
		Distribution & Trading Industry (Participants, Averages)									18.04	2.91	2.30	18.13				
0.04	0.04	CFAO	CFAO	0.04	0.04	0.04	0.00%	14.29%	1,490	60	2.55	2.01	1.05	78.81	0.02	0.00	0.02	3,860,000
0.21	0.21	Mechanical Lloyd	MLC	0.21	0.21	0.21	0.00%	0.00%	0	0	6.99	0.84	2.86	12.00	0.03	0.21	2.25	10,520,144
7.80	5.49	Total Petroleum Gh. Ltd	TOTAL	5.49	7.80	7.80	0.00%	38.41%	0	0	13.65	1.85	3.81	13.52	0.50	0.27	4.12	136,290,768
0.40	0.32	Ghana Oil Company Ltd	GOIL	0.31	0.36	0.34	-5.56%	0.68%	10,658	3,664	18.45	3.11	2.06	18.82	0.02	0.01	0.11	71,463,322
0.24	0.22	Produce Buying Company	PBC	0.24	0.22	0.22	0.00%	-8.33%	0	0	nm	16.50	1.18	-0.56	0.00	0.00	0.21	125,000,000
		Food Industry (Participants, Averages)									14.62	4.40	1.02	43.79				
5.00	2.37	Fan Milk	FM	2.39	4.50	4.50	0.00%	88.28%	580	2,610	14.62	4.40	1.02	43.79	0.31	0.05	0.70	86,230,400
		Manufacturing Industry (Participants, Averages)									nm	2.14	1.38	-2.98				
0.74	1.40	Aluworks	ALW	0.71	0.81	0.81	0.00%	12.68%	157	97	nm	3.43	2.42	45.62	-0.08	0.02	0.19	25,840,309
0.17	0.18	Camelot Ghana	CMLT	0.17	0.18	0.18	0.00%	5.88%	0	0	nm	3.00	2.81	15.21	0.01	0.00	0.06	1,048,752
0.05	0.05	Cocoa Processing Company	CPC	0.05	0.05	0.05	0.00%	0.00%	20,700	1,040	153.54	1.63	0.75	1.18	0.00	0.00	0.03	58,343,793
0.08	0.07	Pioneer Kitchenware Limited	PKL	0.08	0.07	0.07	0.00%	-12.50%	0	0	nm	2.85	1.77	-22.78	-0.01	0.00	0.33	2,533,662
0.03	0.03	Sam Woode Limited	SWL	0.03	0.03	0.03	0.00%	0.00%	0	0	nm	1.53	13.21	-2.30	0.00	0.00	0.22	379,443
		Mining Industry (Participants, Averages)									nm	2.07	0.70	-18.01				
30.00	25.00	AngloGold Ashanti	AGA	30.00	30.00	30.00	0.00%	0.00%	0	0	nm	4.43	3.01	-29.39	-1.75	0.26	6.00	10,391,218,470
0.35	0.35	AngloGold Ashanti Ghanaian Depository Shares	AADS	0.35	0.35	0.35	0.00%	0.00%	0	0	nm	n.a	1.66	n.a	-1.79	0.00	6.67	33,170,155
3.10	3.10	Golden Star Resources	GSR	3.00	3.10	3.10	0.00%	3.33%	0	0	5.8655	1.1166	0.0000	18.3879	0.53	0.00	2.73	729829424.000
		Insurance Industry (Participants, Averages)									17.71	3.00	0.87	17.30				
3.30	1.20	Enterprise Insurance	EIC	1.30	3.15	3.14	-0.32%	141.54%	4,002	12,567	28.70	5.15	0.38	17.83	0.11	0.01	0.61	80,290,238
0.65	0.25	State Insurance Company	SIC	0.30	0.55	0.54	-1.82%	80.00%	2,521	1,362	13.12	2.30	1.23	17.18	3.36	0.01	0.23	105,848,300
		ICT Industry (Participants, Averages)									-10.24	3.41	2.07	-97.72				
0.08	0.08	Clydestone	CLYD	0.08	0.08	0.08	0.00%	0.00%	0	0	nm	4.82	3.75	8.30	0.00	0.00	0.02	2,720,000
0.12	0.11	Transactions Solutions Ltd	TRANSOL	0.12	0.11	0.11	0.00%	8.33%	8,490,015	924,002	-15.84	3.13	2.73	10.69	-0.01	0.00	0.04	8,800,000
		Agriculture									6.73	2.12	1.25	33.33				
1.20	0.48	Benso Oil Palm Plantation	BOPP	0.49	1.17	1.18	-0.85%	116.73%	1,035	1,201	6.31	2.23	1.29	35.15	0.18	0.02	0.52	40,368,000
0.06	0.05	Golden Web Limited	GWEB	0.06	0.05	0.05	0.00%	0.00%	0	0	nm	1.34	0.00	-13.55	-0.01	0.00	0.04	1,488,315
		Pharmaceuticals Industry (Participants, Averages)									30.46	4.11	1.13	18.84				
0.17	0.10	Ayrton Drug Manufacturing	AYRTN	0.10	0.16	0.16	0.00%	63.00%	0	0	20.11	4.60	1.24	24.32	0.01	0.00	0.03	34,400,000
0.06	0.05	Starwin Products	SPL	0.06	0.05	0.05	0.00%	0.00%	5,000	250	23.50	1.70	0.00	7.21	0.00	0.00	0.03	3,703,866
		Market with AGA							8,501,903	1,129,769	nm	3.47	1.13	-4.79	-0.02	0.02	0.43	17,807,480 381
		Market without AGA									13.81	3.44	1.59	24.82	0.05	0.01	0.19	7,382,400,457
		Preference Shares																
		Standard Chartered Bank Preference Shares	SCB P	0.52	0.52	0.52	0.00%	0.00%	0	0								

KENYA

Market Falls

Big drops in Sasini, Centum Investment and National Bank brought the Nairobi Stock Exchange crashing this week. Subsequently the NSE 20 lost 2.71% to close at a level of 3,527.50 points. This brought year-to-date return to -35.21%.

Market capitalisation has also reached $10.10 billion.

Outlook

The market will continue to trudge downwards as the Global Financial Crisis prompts some global investors to dump some of their shares. A number of local investors are also trying to cut their losses and is more of the reason for the slump of the market.

NSE 20 could reach below a loss of -40% YTD. .

Market Statistics

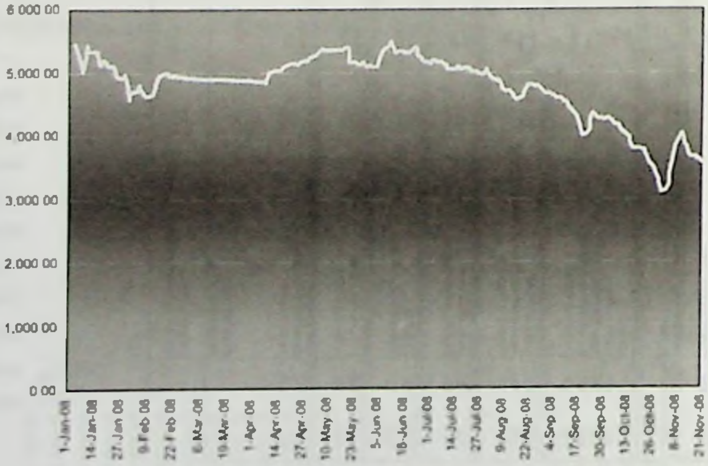
Indicators	Week Open	Week Close	YTD (%)
NSE 20 (Kshs)	3,625.59	3,527.50	-35.21
NSE 20 ($)	43.40	42.86	-47.32
Mkt Cap (Kshs'bn)	852.78	831.12	-2.35
Mkt Cap ($'bn)	10.21	10.10	-20.60
P/E (x)	14.85	14.50	-

Top Gainers

Equity Ticker	Price (Kshs)	Change	YTD (%)
Mumias	6.75	▲3.85%	-54.39
Jubilee Holdings	133	▲2.31%	-37.56
Rea Vipingo	15	▲1.69%	-32.58
Pan Africa Ins. Hold	73	▲1.39%	-26.63
CFC Stanbic Holding	83.5	▲1.21%	-35.27

Top Losers

Equity Ticker	Price (Kshs)	Change	YTD (%)
Sasini	6.8	▼15.53%	-61.14
Centum Investment	13.95	▼14.68%	-53.11
National Bank	40.75	▼11.89%	-12.83
Car & Gen	40	▼9.60%	-29.82
TPS Eastern Africa	59	▼9.23%	-24.84



RETURN ANALYSIS SHEET (Kshs)

Listed Equity	Year Open (Ksh)	Week Open (Ksh)	Week Close (Ksh)	Week Change	Year-to-Date Change	KEY FINANCIAL RATIOS P/E (x)	P/BV (x)	Div. Yield (%)	ROE (%)	(Kshs)	Capitalisation
Agricultural							38.56	0.87	0.01	1.84	[illegible]
Unilever Tea	65.00	45.00	45.00	0.00%	-30.77%	(29.93)		0.80	-	(3.81)	2 199 375 000
Kakuzi	36.25	21.00	21.00	-8.70%	-42.07%	2.17		nm	-	nm	411 500 879
Rea Vipingo	22.25	14.75	15.00	1.69%	-32.58%	7.81		nm	0.05	nm	900 000 000
Sasini Ltd	17.50	8.05	6.80	-15.53%	-61.14%	(45.33)		0.51	-	(1.12)	1 550 777 400
Commercial and Allied							27.38	1.92	0.01	27.43	[illegible]
AccessKenya Group Ltd	23.25	23.25	21.50	-7.53%	-7.53%	22.16		7.79	0.01	35.16	4 297 539 027
Car & Gen	57.00	44.25	40.00	-9.60%	-29.82%	6.19		Nm	0.02	nm	801 184 640
CMC	18.40	15.80	15.60	-1.27%	-15.22%	7.68		8.12	0.02	66.67	9 090 267 264
Kenya Airways Ltd	63.50	29.25	28.25	-3.42%	-55.51%	3.16		0.76	0.06	23.76	13 040 637 423
Marshalls	39.00	30.00	30.00	0.00%	-23.08%	10.20		Nm	0.03	nm	431 793 180
Nation Media Group	326.00	142.00	143.00	0.70%	-56.13%	18.72		5.65	0.04	30.18	20 383 304 380
Safaricom limited	5.00	3.85	3.65	-5.19%	-27.00%	nm	nm	nm	nm	146 000 00 1000	
Scangroup Ltd	29.75	26.50	26.50	0.00%	-10.92%	17.79		0.14	0.01	51.36	4 213 500,000
Standard Group Ltd	57.00	52.00	50.00	-3.85%	-12.28%	16.61		14.90	0.02	89.72	3 663 751,450
TPS Eastern Africa (Serena) Ltd	78.50	65.00	59.00	-9.23%	-24.84%	15.08		1.49	0.02	9.91	6,246 018 778
Uchumi Supermarkets	14.50	14.50	14.50	0.00%	0.00%	41.43		nm	-	nm	2 610 000 000
Finance & Investment							11.17	3.16	0.02	36.89	[illegible]
Barclays Bank	79.00	52.50	50.00	-4.76%	-36.71%	13.89		4.27	0.01	30.72	67,894,200 000
Centum Investment Co. Ltd	29.75	16.35	13.95	-14.68%	-53.11%	6.87		0.03	0.01	13.53	7 671 826 726
CFC Stanbic Holding	129.00	82.50	83.50	1.21%	-35.27%	3.87		2.29	0.24	58.23	22 852,831,819
Diamond Trust	94.50	71.00	67.50	-4.93%	-28.57%	14.30		3.57	0.02	24.97	11 005 004 790
Equity Bank Ltd	150.00	164.00	164.00	0.00%	9.33%	24.37		16.04	0.01	65.81	60 725 543 128
Housing Finance	45.75	18.00	18.35	-9.17%	-64.26%	51.08		2.78	0.01	5.44	3 760 500 000
K C B Bank	28.50	23.25	23.00	-1.08%	-19.30%	15.44		3.86	0.03	25.01	45 808 000 000
Kenya Re Insurance Corp	16.95	13.20	12.35	-6.44%	-27.14%	10.21		1.15	0.03	11.31	7 410 000,000
National Bank	46.75	46.25	40.75	-11.89%	-12.83%	7.20		1.89	-	26.95	8 150 000 000
National Industrial Credit	62.50	44.25	43.75	-1.13%	-30.00%	17.02		12.19	0.02	71.59	12 980 291,756
Pan Africa Insurance Holdings Ltd	99.50	72.00	73.00	1.39%	-26.63%	17.42		2.76	0.02	15.83	3,504 000 000
Standard Chartered Bank	206.00	173.00	166.00	-4.05%	-19.42%	8.01		1.65	0.14	30.79	10 851 850 130
Industrial & Allied							13.79	2.29	0.05	11.33	[illegible]
Athi River Mining Ltd	93.00	95.50	92.00	-3.66%	1.08%	21.80		5.85	0.01	27.11	8 648 000 000
BOC (K)	160.00	160.00	160.00	0.00%	0.00%	11.75		2.50	0.06	21.28	3 124 071 360
Bamburi	196.00	175.00	175.00	0.00%	-10.71%	17.06		4.61	0.03	27.21	63 517 873 175
British American Tobacco	139.00	153.00	150.00	-1.96%	7.91%	10.82		3.50	0.11	33.14	15 000 000 000
Carbacid	137.00	137.00	137.00	0.00%	0.00%	10.00		Nm	0.07	nm	1,551 761 435
Crown Berger	50.50	26.25	25.00	-4.76%	-50.50%	14.37		Nm	0.04	nm	583 175 000
E A Cables	42.00	27.00	26.75	-0.93%	-36.31%	14.46		6.90	0.03	48.17	5 416 875 000
E A Portland	140.00	90.00	90.00	0.00%	-35.71%	10.60		2.22	0.03	20.92	8,100 000 000
E A Breweries	168.00	148.00	147.00	-0.68%	-12.50%	15.79		6.83	0.05	43.25	110 243 630 332
Eveready East Africa Ltd	7.95	4.65	4.55	0.00%	-42.77%	7.58		nm	0.10	nm	955 500 000
Kenol	115.00	79.00	73.00	-7.59%	-36.52%	8.35		2.26	0.02	27.08	10 743 856 760
K Pow & L	217.00	141.00	139.00	-1.42%	-35.94%	6.40		2.38	0.07	37.21	10 998,182 000
KenGen	27.75	17.55	17.60	0.28%	-36.58%	15.86		0.59	0.05	3.70	38 691 161 826
Mumias	14.80	6.50	6.75	3.85%	-54.39%	7.42		1.21	0.07	18.25	13 327 500 000
Olympia Capital Holdings	14.55	10.85	10.85	0.00%	-25.43%	7.33		nm	-	nm	434 000 000
Sameer Africa Ltd	12.10	6.85	6.35	-7.30%	-47.52%	14.77		0.81	-	6.22	1,767,474 186
Total	33.75	33.50	33.00	-1.49%	-2.22%	10.91		1.21	0.06	11.21	5,709 429 000
Unga	15.45	13.00	13.05	0.38%	-15.53%	9.96		nm	-	nm	823 334 000
Total Market							14.59	3.21	0.04	22.34	[illegible]

Mrket Statistics

Indicators	Week Open	Week Close	YTD (%)
NSE (N, points)	37,876.06	34,660.65	-40.23%
Mkt Cap (N'bn)	8,309	7,649	-
Volume (bn shares)*	0.41	0.54	-
Value (N'bn)*	4.34	4.50	-

*Volume and Value figures for Friday 14th November and 21st November, 2008

Top Gainers*

Equity Ticker	Price (N)	Change (N)
UACN	32.53	▲1.53
UBN	19.50	▲0.53
ZENITHBANK	26.25	▲0.38
UPL	7.98	▲0.38

*Gainers for Friday, 21st November, 2008

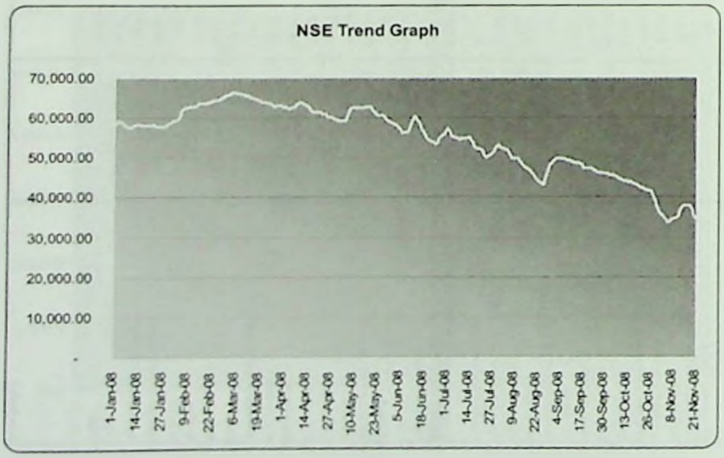
Top Losers*

Equity Ticker	Price (N)	Change (N)
OANDO	96.95	▼5.10
GUINNESS	93.47	▼4.91
NB	37.16	▼1.95
BCC	26.00	▼1.36

*Losers for Friday, 21st November, 2008

Fixed Income

Security	12-May-08	30-June-08
91 Day	8.70	9.25
182 Day	9.10	9.54
364 day	7.99	-



NIGERIA

NSE in U-Turn

In an unexpected turnaround, the Nigerian Market plunged again this week. This was after two weeks of rallies and hopes of a recovery. This meant that the NSE Index lost 3,215.41 points to close at 34,660.65 points. Year-to-date return has dropped to -40.23%.

Market capitalisation lost N660 billion to N7.6 trillion [$64.59 billion].

Outlook

The anticipated surge never happened as the NSE promptly went back to bearish ways. There is reason to believe that investors moved in too quickly to recover their losses; raising bids and therefore causing further declines.

Next week will define where the market will go for the rest of the year and we still forecast a gain on the market next week.

Top 5 Trades*

Equity Ticker	Volume	Value (N bn)
FCMB	219,652,403	1.30
SKYEBANK	64,180,200	0.55
SPRINGBANK	37,665,799	0.21
IAINSURE	35,428,933	0.02
ZENITHBANK	18,414,956	0.47

*Top trades for Tuesday, 21st November, 2008

Market Statistics

Indicators	Week Open	Week Close	YTD (%)
ALSI (Ushs)	809 36	827 82	-16.48
ALSI ($)	0.43	0 42	-28.37
Mkt Cap (Ushs 'bn)	6,320 26	6,388	7.45
Mkt Cap ($ bn)	3 33	3.23	-7.85
P/E (x)	13.40	13 59	-

Gainers

Equity Ticker	Price	Change	YTD (%)
Uganda Clays	160	▲23.08%	197 67
DFCU	730	▲5.04%	4.29
Stanbic Bank Uganda	145	▲3.57%	-36.96
Kenya Airways	739	▲0.54%	-53.73
East African Breweries	3,716	▲0.43%	-14.46

Losers

Equity Ticker	Price	Change	YTD (%)
New Vision	1,570	▼3.68%	36 52
British American Tob	900	▼3.23%	15.38
Jubilee Holding	3,388	▼1.22%	-40 54

Fixed Income

Security	Year Open	Week Open	Week Close
91 Day Bill (%)	8.03%	9 74%	8.67%
182 Day Bill (%)	-	13 37%	13.10%
1 Year Note (%)	-	14.33%	14.42%
2 Year Bond (%)	-	14 78%	14 78%
3 Year Bond (%)	-	13.32%	13.32%
5 Year Bond (%)	-	14.07%	14.07%

Currency Market

Currency	Week Open	Week Close	YTD (%)
Dollar	1,900	1,980	-
Pound	2,839	2,916	-
Euro	2,378	2,448	-

ALSI (Trend Graph)

UGANDA

Uganda Clays Up 20% as ALSI Steps Up

The Ugandan Securities Exchange recovered this week after a series of declines, posting a 2.28% rise in its level to 827.82 points. The Year-to-date return is now -18.34%.

Uganda Clays posted an impressive recovery after losses last week with a 23% gain on its share price. Market capitalisation has now improved to Ushs 6,388 billion [$3.23 billion].

Outlook

The market is showing signs of a recovery as local stocks begin to find their feet again. If this persists we should expect the ALSI to end the year with a better return.

Upward momentum remains in Kenya Airways and East African Breweries.

RETURN ANALYSIS SHEET (Ushs)

Listed Equity	Ticker	Year Open (Ushs)	Week Open (Ushs)	Week Close (Ushs)	Week Change	Year-to Date Change	KEY FINANCIAL RATIOS P/E (x)	P/BVS (x)	Div. Yield (%)	ROE (%)	Capitalisation (Ushs)
Local							**30.12**	**7.02**	**2.52**	**23.31**	**1,523,956,342,027**
British America Tobacco	BATU	780	930	900	-3.23%	15.38%	7.20	(290.32)	-	(4,032.26)	44,172,000,000
Uganda Clays Limited	UCL	54	130	160	23.08%	197.67%	68.37	13.46	0.14	19.68	144,000,000,000
Bank of Baroda	BOBU	227	830	830	0.00%	266.45%	30.73	8.74	0.85	28.45	332,000,000,000
DFCU Limited	DFCU	700	695	730	5.04%	4.29%	21.30	3.46	1.82	16.25	181,478,631,377
Stanbic Bank Uganda	SBU	230	140	145	3.57%	-36.96%	14.00	7.48	4.18	53.42	742,235,710,650
Cross Listed							**10.91**	**3.00**	**5.46**	**27.46**	**3,405,338,396,692**
East African Breweries Limited	EABL	4,344	3,700	3,716	0.43%	-14.46%	15.28	5.80	5.50	37.96	2,942,236,554,016
Kenya Airways	KA	1,597	735	739	0.54%	-53.73%	3.20	0.61	6.16	18.89	341,133,842,676
Jubilee Holding Limited	JHL	5,698	3,430	3,388	-1.22%	-40.54%	9.30	1.86	2.38	20.00	121,968,000,000
KCB	KCB	590	580	580	0.00%	-1.69%	na	na	na	na	na
Total Market							13.59	3.64	4.55	26.80	**4,929,294,738,719**

BANK OF GHANA
Monetary Policy Report

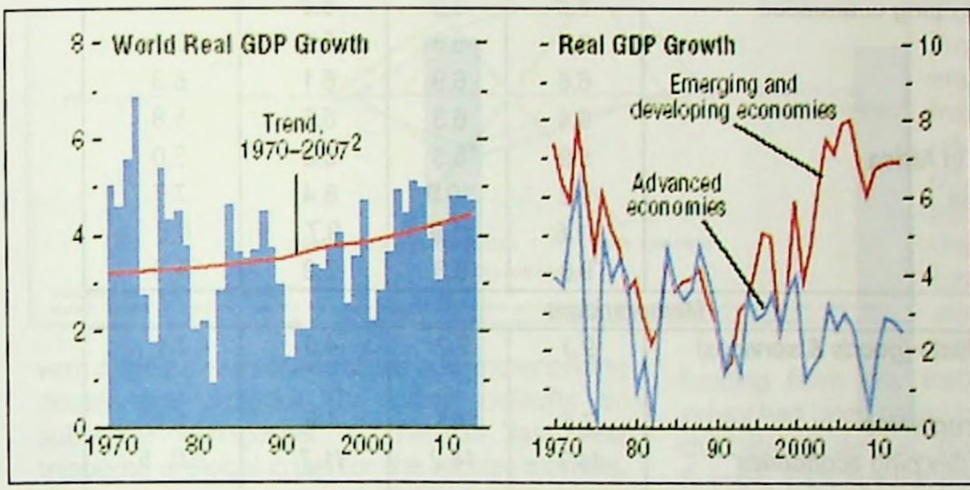
VOLUME 4 NO. 5/2008 OCTOBER 2008

WORLD ECONOMIC OUTLOOK & EXTERNAL SECTOR DEVELOPMENTS

A. Global Economic Outlook and Monetary Policy Stance in Key Economies

4.1 Global GDP growth

According to the International Monetary Fund (IMF), the world economy is now (2008:Q4) entering a major downturn in the face of the worst shock in mature financial markets since the 1930s. Against this very uncertain background, global growth projections for 2008 have been marked down to 3.9 percent and to 3.0 percent in 2009 - the slowest pace since 2002. And further mark-downs are very probable with intensification of recessionary pressures in the global economy.



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Even this outlook is subject to considerable downside risks.

The major advanced economies are already in or close to recession[1], and, although a recovery is projected to take hold progressively in 2009, the pickup is likely to be unusually gradual, held back by continued financial market deleveraging. The advanced economies grew at a collective annualized rate of only 1 percent during the period from the fourth quarter of 2007 through the second quarter of 2008, down from 2½ percent during the first three quarters of 2007. The U.S. economy has suffered most from the direct effects of the financial crisis that originated in its own subprime mortgage market. But UK is the economy seen to be at greatest risk of a severe downturn.

[1] A recession is defined by NBER as two consecutive quarters of negative growth. A different meaning is attached to the concept of global recession, in a world where China, Russia and India account for half of global growth and are growing at an annual rate of 9.7, 7.0 and 7.9 percent respectively. A 3.0 percent rate of global growth qualifies as global recession.

The emerging and developing economies have not decoupled from this downturn. Growth in these countries eased from 8 percent in the first three quarters of 2007 to 71/2 percent in the subsequent three quarters, as domestic demand (particularly business investment) and net exports have moderated.

Growth has been most resilient in commodity-exporting countries, which are benefiting from still-high export prices. By contrast, countries with the strongest trade links with the United States and Europe are slowing markedly, while some countries that relied on bank-related or portfolio inflows to finance large current account deficits have been hit hard by an abrupt tightening of external financing.

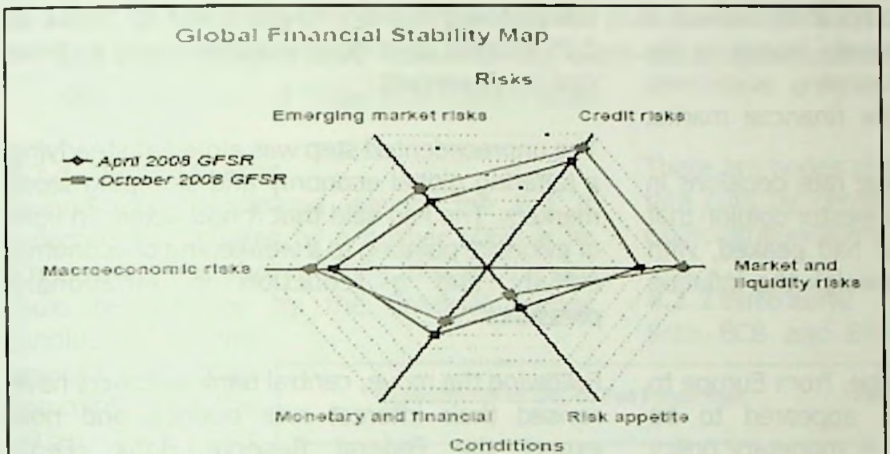
The Global Economy - IMF Forecasts, 2008 & 2009				
	Real GDP Growth (%)			
	Actual		Current Projections	
	2006	2007	2008	2009
World	5.1	5.0	3.9	3.0
Advanced economies	3.0	2.6	1.5	0.5
US	2.8	2.0	1.6	0.1
Euro	2.8	2.6	1.3	0.2
Japan	2.4	2.1	0.7	0.5
UK	2.8	3.0	1.0	-0.1
Emerging & dev'ping economies	7.9	8.0	6.9	6.1
Africa	6.1	6.3	5.9	6.0
Sub-Sahara	6.6	6.9	6.1	6.3
Ghana	6.4	6.3	6.5	5.8
Oil importers in Africa	5.9	5.3	5.0	5.0
Developing Asia	9.9	10.0	8.4	7.7
China	11.6	11.9	9.7	9.3
India	9.8	9.3	7.9	6.9
Memorandum				
World trade volume (goods & services)	*9.3*	*7.2*	*4.9*	*4.1*
Imports				
Advanced economies	*7.5*	*4.5*	*1.9*	*1.1*
Emerging & dev'ping economies	*14.7*	*14.2*	*11.7*	*10. 5*
Exports				
Advanced economies	*8.4*	*5.9*	*4. 3*	*2.5*
Emerging & dev'ping economies	*11.0*	*9.5*	*6. 3*	*7.4*
Consumer prices				
Advanced economies	*2.4*	*2.2*	*3.6*	*2.0*
Emerging & dev'ping economies	*5.4*	*6.4*	*9.4*	*7. 8*

4.1.1 Global inflation

Despite the deceleration of global growth, headline inflation has risen around the world to the highest rates since the late 1990s, pushed up by the surge in fuel and food prices. In the advanced economies, 12-month headline inflation registered 41/4 percent in August 2008, down modestly from a peak in July in the wake of some commodity price easing. While inflation appears to be peaking around the world, it is not set to collapse.

4.1.2 Global financial stability

The resurgence in inflation has been more marked in the emerging and developing economies, with headline inflation reaching 81/4 percent in the aggregate in August and



Source: IMF staff estimates.
Note: Closer to center signifies less risk, tighter monetary and financial conditions, or reduced risk appetite.

with a wide swath of countries now experiencing double-digit inflation.The rising defaults on subprime mortgages in the US last year triggered a global crisis for the money markets. The crisis has become one of the most radical reshaping of the global banking sector, as governments and the private sector battle to shore up the financial system following the disappearance (in the US) of Fannie Mae and Freddie Mac and more than 300 mortgage lenders, Lehman[2] and Merrill as independent entities and $85 billion government rescue of AIG; and several banks in Europe.

In the he chart above, IMF shows how, within six months, the elements of the crisis have deteriorated from its April Global Financial Stability Report.

Credit crunch

Defined as "a severe shortage of money or credit", the phenomenon has been part of the crisis since August 2007. But when the US authorities drew a line and let Lehman Brothers fail in September, the crisis escalated sharply further as a money market fund exposed to Lehman "broke the buck" and a run on money market funds ensued. Credit markets froze as banks became reluctant to lend to each other, not knowing how many bad loans could be on their counterparties' books. Lending between banks also dried up as investors scrambled to pull their funding from any institution or sector whose safety had been called into doubt. In the wake of the Lehman default, the crisis also intensified in Europe, with several banks failing or forced into "shotgun marriages". Barometers of financial stress hit peaks across the world.

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[2] In March, JPMorgan Chase had been provided with a US$29 billion credit line from the Fed discount window in its purchase of Bear Stearns arranged by the Treasury. In early September, the US Treasury seized control of two troubled government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac with a $200 billion capital injection against a $4.5 trillion liability, concurrent with another government arranged "shotgun marriage" that induced Bank of America to acquire Merrill Lynch at a fire sale price of $50 billion.

Lehman was forced to file bankruptcy protection at midnight on Sunday, September 14.

How central banks have responded

The crisis is now claiming victims in the "real" economy as coincident and leading indicators from surveys around the world show slowdowns for manufacturers and consumers in Japan, UK, EU and US. Consequently, governments across the world have stepped up their interventions to stem the worst financial crisis in decades.

They have taken a variety of measures including interest rate cuts, capital injections, and lending guarantees to restore liquidity, revive the ailing banking system and rebuild investors' confidence.

4.2 Survey of Monetary Policy stance

The growth versus inflation dilemma is playing out around the world, collapsing into a growth concern being driven by credit crunch, realised in the advanced world and largely feared in the emerging market and developing economies (EMEs), emanating from the financial market crisis.

A raft of central bank interest rate decisions in early September reinforced investor opinion that the international rates cycle had peaked, with growth risks starting to outweigh the inflation worries of policymakers.

Central banks across the globe, from Europe to Australia and even China, appeared to be undergoing a "sea-change" in monetary policy thinking, with attention having turned away from inflation and on to preventing a too-rapid economic slowdown.

This opinion was confirmed in an unprecedented global monetary policy easing on 08 October which highlighted the gravity of the unfolding financial crisis, and signalled further easing ahead. In a coordinated move, the ECB, Fed, BoE, SNB, Riksbank and BOC each cut their key policy rates by 50 bps simultaneously.

It was preceded on 07 October by RBA delivering a massive one percentage point cut in interest rates, its biggest rate cut since May 1992.

The exceptional nature of the action was reinforced by the fact that the Peoples' Bank of China (PBoC) simultaneously lowered its key interest rates by 27bps and its reserve requirements. Overnight, the central banks of South Korea, Taiwan and Hong Kong joined the global monetary policy action, with the Bank of Korea lowering the seven-day repurchase rate by 25bps to 5.0 percent, the Central Bank of the Republic of China (Taiwan) trimming 25bps off the discount rate on 10-day loans to banks to 3.25 percent, and Hong Kong lowering its base rate to 2.0 percent.

The unprecedented step was aimed at steadying a faltering global economy and slumping stock markets. The Fed said that it had acted "in light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures".

Following the move, central bank watchers have revised their interest rate outlook and now expect the Federal Reserve Bank (Fed), European Central Bank (ECB) and Bank of England (BoE) to all lower their policy rates further.

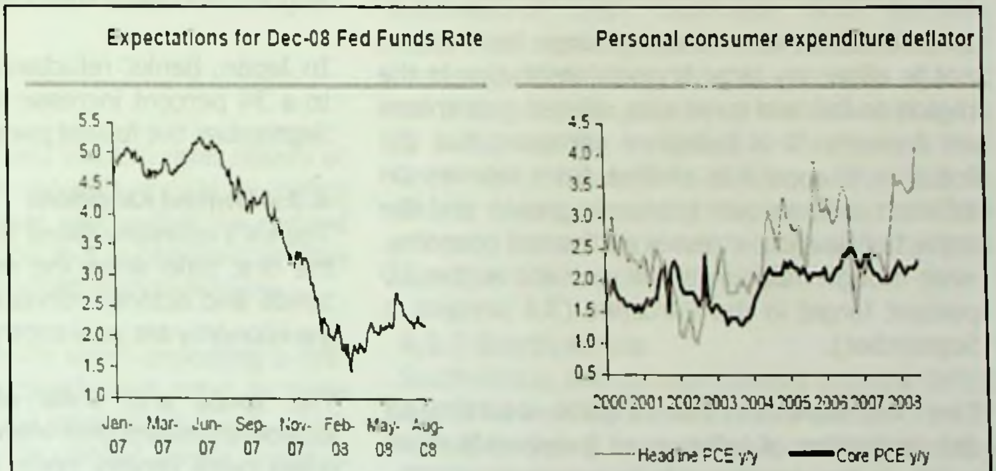
The average of the policy rates of the five central banks that set policy rates for the G7 countries declined by 40 basis points to 2.55 percent after the coordinated easing (see table below).

	G7 AVG	FED	BOJ	ECB	BOE	BOC	SARB	CBT	BOG
End-2004	2.30	2.25	0.00	2.00	4.75	2.50	7.50	18.00	18.50
End-2005	2.85	4.25	0.00	2.25	4.50	3.25	7.00	13.50	15.50
End-2006	3.65	5.25	0.25	3.50	5.00	4.25	9.00	17.50	12.50
End-2007	3.70	4.25	0.50	4.00	5.50	4.25	11.00	15.75	13.50
Jan-08	3.40	3.00	0.50	4.00	5.50	4.00	11.00	15.75	13.50
Feb-08	3.35	"	"	"	5.25	"	"	15.25	"
Mar-08	3.00	2.25	"	"	"	3.50	"	"	14.25
Apr-08	2.90	2.00	"	"	5.00	3.00	11.50	"	"
May-08	2.90	"	"	"	"	"	"	15.75	16.00
Jun-08	2.90	"	"	"	"	"	12.00	16.25	"
Jul-08	2.95	"	"	4.25	"	"	"	16.75	17.00
Aug-08	2.95	"	"	"	"	"	"	"	"
Sep-08	2.95	"	"	"	"	"	"	"	"
Oct-08	2.55	1.50	"	3.75	4.50	2.50	"	"	?

FED - US Federal Reserve; BOJ - Bank of Japan; ECB - European Central Bank
BOE - Bank of England; BOC - Bank of Canada; SARB - South African Reserve Bank
CBT - Central Bank of Turkey; BOG - Bank of Ghana

4.2.1 United States

Beyond the coordinated easing, the Fed is expected to cut rates by a further 50bp at its scheduled 29 October meeting, though the size could be affected by the financial market conditions at the time of the meeting. Assuming that the 50bp Fed cut materialises, in the context of such extremely high Libor spreads[3], the ECB will also lower its policy rate by another 50bp to 3.25% at its 6 November Governing Council meeting.



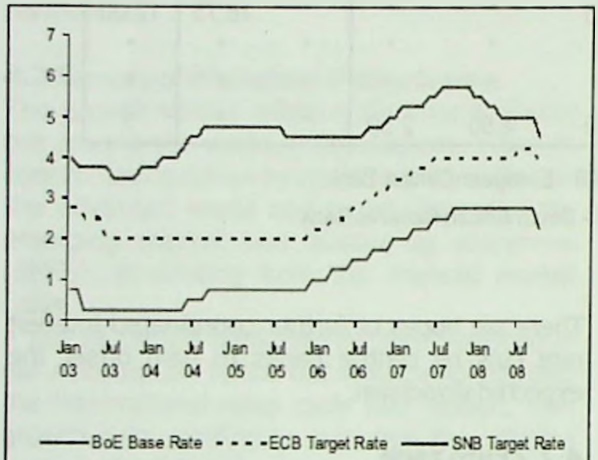
There are hopes of further coordinated interest rate cuts by central banks to help offset the expected slowdown.

4.2.2 Euro zone

Both ECB and BOE had, since the financial

[3] One measure that is being used to summarize the strain in financial markets is the TED spread. This is calculated as the gap between 3-month LIBOR (an average of interest rates offered in the London interbank market for 3-month dollar-denominated loans) and the 3-month Treasury bill rate. The size of this gap presumably reflects some sort of risk or liquidity premium. TED is an acronym formed from T-Bill and ED, the ticker symbol for the Eurodollar futures contract.

market crisis began in August 2007, separated monetary policy (aimed at tackling inflation) from measures to deal with the liquidity squeeze. At its scheduled policy meeting On 02 October, the ECB left leading interest rates unchanged at 4.25 percent but softened the tone on inflation saying "upside risks to price stability have diminished somewhat, but they have not disappeared" and stressed the downward risk to growth stemming from the financial turmoil. The picture changed with the coordinated rate cuts of 08 October.



Source: Bloomberg

Since then, Governments in Europe have vowed not to allow any large financial institution in the region to fail and have also offered guarantees on deposits. It is therefore apparent that the focus in Europe has shifted from worries on inflation to fears over economic growth and the impact of financial stresses on the real economy, even though inflation is still way above the 2.0 percent target in the Eurozone (3.6 percent in September).

The outlook is for ECB's continued deprioritization of inflation as it responds more swiftly to the deterioration in economic activity. The market now expects policy rate at 3.25 percent by end 2008, 2.75 percent at end 2009:Q1 and 2.5 percent by end 2009:Q2.

4.2.3 Japan

At an unscheduled meeting on 14 October, the policy board of BOJ kept the target rate on hold in a unanimous vote. The bank, which did not participate in the coordinated rate cut by central banks in North America and Europe, said that Japan's borrowing costs are already "very low.'" Bank of Japan said it will offer lenders as many dollars as they want, joining European counterparts in attempting to lower borrowing costs in money markets and freeing up credit worldwide.

Regarding the financial crisis, the central bank announced that it will provide dollars at fixed interest rates for an "unlimited amount against pooled collateral'. It also announced measures to improve companies' access to cash, expanded the range of Japanese government bonds it buys from lenders, and suspended a program of selling shares it bought from banks between 2002 and 2004.

The Bank of Japan's supply of dollars comes from an agreement with the U.S. Federal Reserve in September to swap as much as $120 billion for yen. The increase to unlimited dollar supply came a day after the Fed removed caps on swap lines with the European Central Bank, Bank of England and Swiss National Bank.

In Japan, banks' reluctance to lend contributed to a 34 percent increase in business failures in September, the fastest pace in eight years.

4.2.4 United Kingdom

The UK's economy failed to grow in 2008:Q2 for the first time since the recession of the early 1990s and activity surveys show most parts of the economy are now contracting.

The speed and scale of Britain's economic slowdown means that interest rates could come down quite rapidly once inflation more than double (5.2 percent in September) the central bank's 2.0 percent target - has peaked.

The emergency 50 bps coordinated rate cut from BOE is widely seen as the beginning of sustained easing. At 4.5 percent, the base rate is still seen as restrictive, especially as spreads over the bank rate have widened. Consequently, the policy rate is expected to fall to 3.5 percent by year-end.

4.2.5 Hungary

Regulators have announced steps in response to the loss of confidence in Hungarian assets in an attempt to boost credibility and improve liquidity conditions. Asset swap spreads have neared 300bp as liquidity has dried up in domestic bond markets, and the 5-year sovereign CDS spread jumped by 100bp on 10 October. The forint peaked above 270 against the euro representing a depreciation of more than 8.0 percent within 24 hours.

Monetary measures:

The NBH has opened a new O/N EUR/HUF swap auction for domestic banks as of 13 October, where it will act as a clearing house to eliminate counterparty risk. The NBH will only act as an intermediary within banks and will not take FX positions that would affect its FX reserves.

The IMF has announced its readiness to provide all technical and financial support for Hungary rapidly.

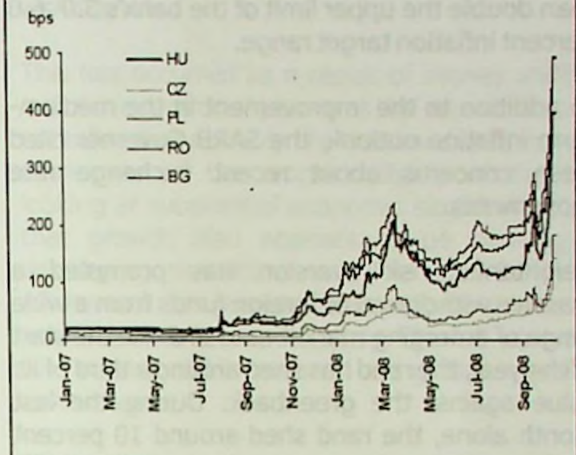
4.2.6 Chile

Chile's central bank held interest rates steady at 8.25 percent at its monthly monetary policy meeting on 09 October, saying that the current global financial turmoil that is expected to slow growth would douse inflationary pressures.

Economists had initially been expecting a fifth straight rise in the benchmark rate, to tame inflation running at 9.3 percent (August), which is more than triple the central bank's target of 3.0 percent and at a 14-year high.

But the bank switched its stance after a coordinated global interest rate cut on 08 October by major world banks designed to calm

Figure 1. CEE 5-year Sovereign CDS Spreads



Source: Reuters, Citi.

plunging markets and restore faith in the fractured world financial system. "Inflation remains high and the risks of alternative scenarios have increased," it said in a statement.
Chile has long prided itself on prudent management of its economy, but soaring energy prices have battered its inflation and growth expectations, leading the government to unveil a $1 billion inflation-busting package and $1 billion in fuel subsidies in recent months before the international crisis exploded. With markets worldwide crashing, demand for dollars sent the Chilean peso tumbling to a four-year low against the dollar and the government announced steps to boost liquidity in dollars.Analysts note that Chile which has some $27 billion in funds from excess revenue from high copper prices and $24 billion in central bank reserves is better placed than ever to withstand the crisis.

4.2.7 South Africa

South Africa, with a huge current account deficit and a weakening currency, was on 09 October forced to leave interest rates on hold to keep offering high yields to investors.
Tito Mboweni, the hawkish governor, said falling commodity prices had improved the outlook for inflation which looks close to peaking at 13.6 per cent and emphasised the risks to growth in an already slowing economy. The South African

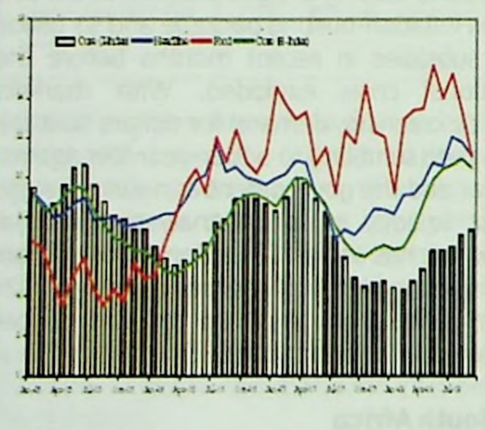
Reserve Bank's targeted annual inflation gauge, the CPIX, surged 13.6 percent in August, more than double the upper limit of the bank's 3.0 6.0 percent inflation target range.

In addition to the improvement in the medium-term inflation outlook, the SARB Governor cited fresh concerns about recent exchange rate movements.

Heightened risk aversion has prompted a massive withdrawal of foreign funds from a wide range of emerging market assets. Since the start of the year, the rand has shed around a third of its value against the greenback. During the last month alone, the rand shed around 10 percent against the dollar, recently breaching the psychologically important $ per 9 rands level for the first time in almost seven years.

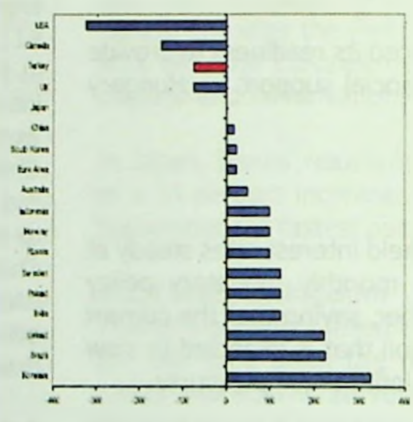
The country's equity markets have also taken a beating, with the JSE all-share index plummeting more than 20 percent since mid-September.

Figure 3. CPI Components (Percent Change, YoY)



Source: TURKSTAT and CBT

Figure 4. Central bank policy rates (Change since Aug 07, bp)



4.2.8 Turkey

At 11.1 percent, September's inflation came in lower than consensus forecast. Despite the lower-than-expected outturn in September, there is no significant evidence that underlying inflationary pressures are abating (both H and I indices the core measuresdisplay no marked improvement, chart below).

The CBT's recent statements have led analysts to believe that the Bank has become more biased towards easing. In view of the risks associated with inflation and the need to bolster credibility, it appears that the CBT's willingness to consider easing this year is a risky strategyparticularly when the CBT's rate moves are compared with other central banks in the world (chart below).

While a premature easing cannot be ruled out, the CBT is likely to keep rates on hold for the remainder of this year owing to the need to bolster its credibility and the skittish market conditions.

B. Commodity and Foreign Exchange Markets

4.3 Commodities outlook

Commodity price indices have plunged significantly since July. Prices have dropped on a combination of investor deleveraging, concerns over global growth, and USD strength. For September alone, the Dow Jones AIG commodity index was down 14.0 percent m/m and 17.0 percent ytd. The sell-off has been across all sectors with the exception of gold which has, at times, attracted safe-haven flows.

In light of the current global financial markets turmoil, global conditions are no longer commodity supportive. Liquidity has contracted sharply. Deleveraging has led to a withdrawal of funds from the commodity markets. Even though gold has benefited from safe haven flows, the impact has been offset by general fund withdrawals.

This has occurred as a result of money shifting out of the commodity story as the investors come to realise that not only are the developed market economies of the world, outside of the US, looking at substantial economic slowdowns, but that growth also appears to be slowing in developing markets as well. The rapid fall in US oil demand has provided the real-world impetus as demand falls below supply. The US accounts for around 35.0 percent of global gasoline consumption.

Global GDP growth is slowing, with China's GDP growth expected to slow from 11.4 percent in 2007 to 9.5 percent in 2008, and to 8.2 percent in 2009. While China is a dominant factor, the US is still important to the outlook for commodity markets both directly through its own demand, and indirectly through its impact on the rest of the global economy.

Table 1: Global commodity index performance

	Latest	Change		
	08-Oct	m/m %	ytd %	y/y %
Dow Jones AIG	152	-13.9	-18.1	-12.6
S&P Goldman Sachs	550	-14.6	-9.8	3.0
Reuters/Jeffries CRB	312	-13.6	-13.1	-4.4
DJ-AIG EUR	153	-10.8	-12.2	-9.8
DJ-AIG JPY	113	-19.9	-26.7	-25.3

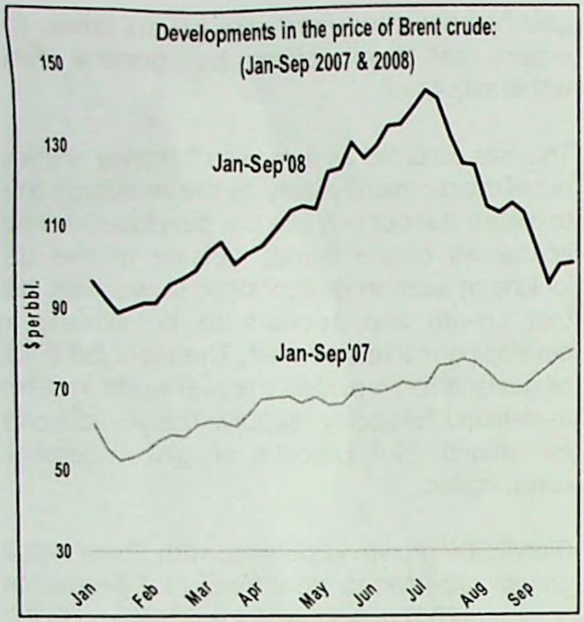
Source: Bloomberg

4.3.1 Oil

The ability of the oil market to withstand higher and higher prices was a persistent dilemma until prices began their correction in July and currently (Mid-October), crude oil

OVERVIEW OF THE COMMODITIES MARKET

Commodity	Unit	Mkt Close (30 Sep)	Change (%) m/m	ytd	y/y	Period Average 2006 a	2007 a	2008:Q1 a	2008:Q2 a	2008:Q3 a	2008:Q4 f	2009 f
Crude Oil												
Brent (nr future)	USD/bbl	100.55	-11.0	6.9	27.5	66.10	73.00	96.36	123.20	116.99	85.00	85.00
Precious metals												
Gold (spot)	USD/oz	849.00	3.0	2.2	16.5	605.00	697.00	925.16	898.48	869.95	975.00	875.00
Softs												
Cocoa (LIFFE)	USD/tonne	2,671	-6.1	43.8	52.5	1,581	1,882	2,530	2,975	2,777	2,567	2,438



prices are down 38 percent from their peak; the main driver being the general process of deleveraging as the global financial crisis deepens and spreads.

The demand outlook deteriorates with worsening of the crisis, but it is expected that OPEC will provide a price floor by being more vigilant in keeping to quotas now that prices have slipped below USD 90.

Price developments

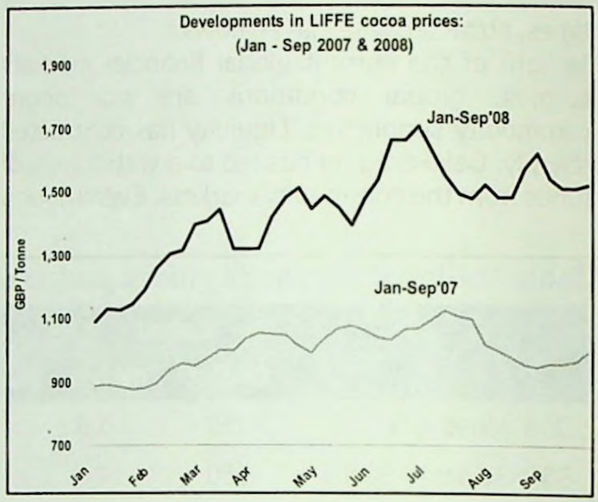
The average weekly price per barrel of the benchmark Brent crude closed September 2008 at $100.55 and declined further to $78.44 by mid-October. For the month of September alone, the benchmark price declined 11.0 percent. The end-September price however represented a firming of 6.9 percent from the end-2007 level and an increase of 27.5 percent in year-on-year terms.

4.3.2 Cocoa

Cocoa bean deliveries at Côte d'Ivoire's two ports last season reached around 1.35 million metric tonnes (m/t) by the end of 2008:Q3, up from 1.29 million m/t in the same period the previous year.

In Ghana, the 2007/2008 total purchases amounted to 680,626 m/t, a 10.7 percent increase over the previous crop year's 614,700 m/t.Côte d'Ivoire also raised its indicative farm-gate price by 40 percent to XOF700 per kilo (about USD1.48) up from XOF500 the previous quarter.

Ghana's 2007/08 main crop season was ended earlier due the smuggling of the beans to Cote d'Ivoire after the price increase.



The London International Financial Futures Exchange (LIFFE) weekly average price in the year-opening was £1,055.00 per metric tonne. Y-t-d (end-September), the average weekly LIFFE price is £1,430.43, compared with the average of £997.64 over the same period in 2007.

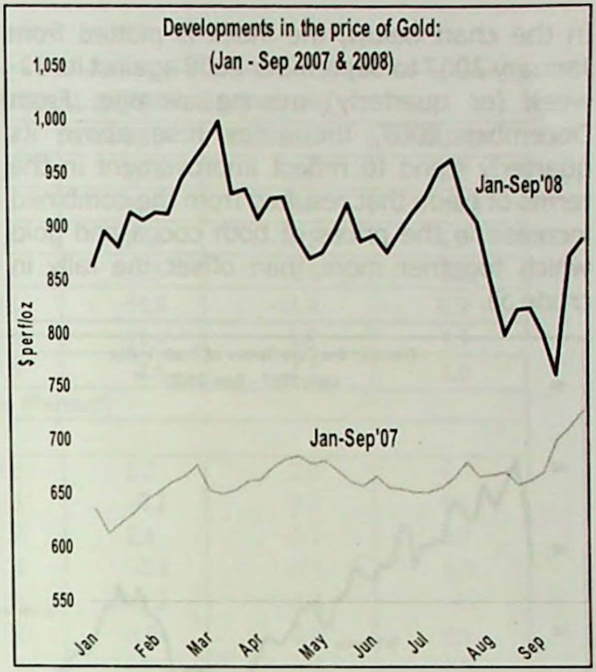
The end-September price represented a firming of 43.8 percent from the end-2007 price and 52.5 percent in year-on-year terms.

4.3.3 Gold

Flows into exchange trade funds (ETFs) were dramatically high in September. The SPDR ETF jumped by 23.0 percent to a record high of 755 tonnes late in the month. Commodity Futures Trading Commission

(CFTC) data also shows a jump in net long positions by non-commercial players by 34.0 percent in the week ending 23 September to 121,000 contracts, indicating that funds were returning to the market.

Gold prices underwent some volatility in September as investors panicked about the rapid deterioration in the European and US banking financial sectors and tightening credit conditions. Average weekly spot prices declined from $824.58/oz early in the month to a low of $762.59 in the middle of the month and then rose to a high of $889.49/oz in late September. Moreover, Central Bank sales have been low through this year, helping to support prices. Latest estimates indicate sales of around 357 tonnes in the Central Bank Gold Agreement (CBGA) year which ended on 26 September, relative to a potential maximum of 500 tonnes.



Outlook:

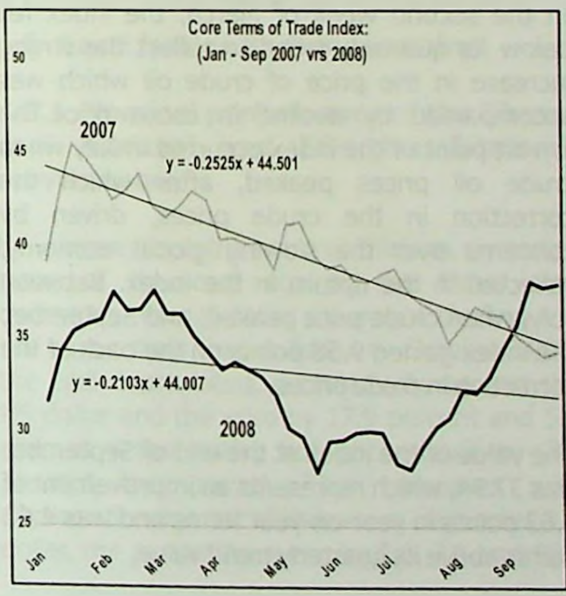
Near term, gold is likely to remain well supported by safe-haven flows and falling interest rates. Once financial conditions stabilise, some of these safe-haven flows will disappear, which together with USD strength will likely bring prices lower.

Y-t-d (end-September), gold has rallied 2.2 percent to $889.49 per ounce, which represents a y-o-y increase of 16.5 percent.

4.3.4 Core terms of trade (ToT) index

A core weekly terms of trade index (2002: wk1=100) is constructed for Ghana based on the developments in the prices of the three core items that dominate Ghana's merchandise trade. Imports are represented by crude oil, while gold and cocoa represent exports. But gold and cocoa are weighted to reflect the proportions of foreign exchange inflows attributable to the two commodities.

The chart (right) tracks and compares the developments in the index for the first three quarters of 2007 and 2008. The fitted trend lines show that on the average the terms of trade deteriorated slightly more in trend in 2007:Q1-Q3 than over the same period in 2008. In terms of volatility, comparison of the standard deviations (2.08 and 2.15 for January September 2007 and 2008 respectively) indicates that the index shows greater volatility in the first three quarters of 2008 than in the corresponding period in 2007.



In the chart below, the index is plotted from January 2007 to September 2008 against its 12-week (or quarterly) moving average. From December 2007, the index rose above its quarterly trend to reflect improvement in the terms of trade that resulted from the combined increase in the prices of both cocoa and gold which together more than offset the rally in crude oil.

Over the period January-February 2008, the terms of trade improved on the average by 5.2 points on the index. It however saw deterioration in the months of March and April. In the second week of March, the index fell below its quarterly trend to reflect the strong increase in the price of crude oil which was accompanied by decline in cocoa price.The lowest point of the index occurred in July when crude oil prices peaked, after which the correction in the crude prices, driven by concerns over the slowing global economy, reflected in the upturn in the index. Between July, when crude price peaked, and September, the index gained 9.58 points on the back of the correction in crude prices.

The value of the index at the end of September was 37.94, which represents an improvement of 3.63 points in year-on-year terms and was 4.62 points above its quarterly trend value.

The realised terms of trade index, depicted in chart above, though shows a trend decline, also shows an improvement in Ghana's terms of trade since the correction in commodity prices, particularly crude oil, from July.

4.4 Currency markets

Global currency markets have become increasingly volatile. In the developed markets, the US dollar and the Japanese yen are emerging as winning currencies in the global financial crisis. Both are considered safe havens because their banks have lent less than banks in other countries to emerging markets.

Investors had been using dollar-denominated loans to invest elsewhere, but as the crisis has worsened cash-strapped banks and lenders have been calling in these loans, which have resulted in a scramble for dollars to pay them off.

The yen has gained from the ending of the "carry trade", where currency investors sought to take advantage of the difference in interest rates between Japan - where rates have been traditionally low - and other countries where rates were higher.

In contrast, the main currency losers have been the euro, the British pound and commodity currencies. The pound has come in for a hammering given the British economy's vulnerability to the financial crisis and expectations of further UK interest rate cuts.

As commodity prices soared, so too did the so-called commodity currencies such as the Australian and Canadian dollars and the South African rand. But this process has now begun to reverse, with those currencies now down against the US dollar so far in 2008. This pressure on the commodity currencies is likely to continue in the near-term as global money supply has been decelerating at the same time as the global economy has weakened.

MOVEMENTS IN SELECTED INTERNATIONAL CURRENCIES (Percent)						
	EUR/USD	GBP/USD	YEN/USD	ZAR/USD	CLP/USD	GHS/USD
2001	0.9	1.5	13.2	51.6	15.5	3.7
2002	-15.8	-9.4	-4.0	-22.9	5.7	14.5
2003	-15.4	-9.6	-12.1	-27.1	-15.3	4.8
2004	-8.3	-9.3	-3.4	-11.8	-4.0	2.2
2005	12.3	10.1	13.4	10.6	-11.0	0.9
2006	-10.6	-11.4	-0.9	11.4	2.8	1.1
2007	-9.6	-2.6	-3.9	-2.5	-5.5	5.0
Monthly Changes (Percent)						
2007						
Jan	1.7	0.2	2.8	2.2	2.6	0.1
Feb	-0.7	0.0	0.0	-0.2	0.2	0.1
Mar	-1.2	0.6	-2.7	2.4	-0.7	0.2
Apr	-2.0	-2.1	1.4	-3.4	-1.3	0.0
May	0.0	0.2	1.6	-1.2	-1.8	-0.0
Jun	0.7	-0.1	1.6	1.9	0.9	0.1
Jul	-2.2	-2.4	-1.0	-2.5	-1.4	0.2
Aug	0.8	1.3	-3.9	3.6	0.7	0.3
Sep	-2.2	-0.4	-1.4	-1.7	-1.4	1.0
Cum. Chg (%)	-5.2	-2.7	-1.7	1.1	-2.3	2.1
2008						
Jan	-1.0	2.5	-4.1	2.5	-4.1	0.5
Feb	-0.3	0.3	-0.6	9.3	-2.5	0.3
Mar	-5.0	-1.9	-5.9	4.3	-5.3	0.0
Apr	-1.5	1.1	1.9	-2.8	1.2	1.0
May	1.2	0.8	1.6	-1.8	5.2	1.8
Jun	0.0	0.0	2.5	4.2	5.4	2.8

Heightened risk aversion has prompted a massive withdrawal of foreign funds from a wide range of emerging market economies. Apart from risk aversion, political uncertainty, softer non-resident activity in bonds and equities, inflation and the current account deficit are all major negative pull factors for developing economies.

Cumulatively, in the first three quarters of the year, the **cedi** depreciated by 15.8 percent against the dollar. This compares with depreciations of 20.4 percent for the Korean won, 17.6 percent depreciation for the South African rand, and 14.9 percent for the Indian rupee.

4.5 Local foreign exchange market

4.5.1 Nominal performance of the Ghana cedi Bilateral and Effective Bilateral movements

Developments in the nominal bilateral exchange rates of the cedi against the three core currencies the US dollar, the pound sterling and the euro show that in January October 2008, the cedi depreciated, cumulatively, against the US dollar and the euro by 17.9 percent and 5.9 percent respectively; but appreciated by 3.0 percent the pound. This compares with depreciation against all three core currencies US dollar, the pound the euro by 2.6, 7.9 and 13.7

Bilateral movements of the Ghana cedi against core currencies									
Month	EXCHANGE RATE			MONTHLY CHANGE (%)			CUMULATIVE (%)		
	USD	GBP	EUR	USD	GBP	EUR	USD	GBP	EUR
2007									
Dec-06	0.9233	1.8069	1.2132						
Jan-07	0.9244	1.8127	1.2029	0.1	0.3	-0.8			
Feb-07	0.9256	1.8151	1.2202	0.1	0.1	1.4			
Mar-07	0.9277	1.8176	1.2357	0.2	0.1	1.3	0.5	0.6	1.9
Apr-07	0.9281	1.8747	1.2626	0.0	3.1	2.2			
May-07	0.9280	1.8335	1.2481	-0.0	-2.2	-1.1			
Jun-07	0.9291	1.8547	1.2473	0.1	1.2	-0.1	0.6	2.7	2.8
Jul-07	0.9311	1.8886	1.2763	0.2	1.8	2.3			
Aug-07	0.9337	1.8901	1.2841	0.3	0.1	0.6			
Sep-07	0.9433	1.9162	1.3407	1.0	1.4	4.4	2.1	6.0	10.2
Oct-07	0.9479	1.9524	1.3882	0.5	1.9	3.5	2.6	7.9	13.7
2008									
Dec-07	0.9707	1.9310	1.4405						
Jan-08	0.9760	1.9432	1.4537	0.5	0.6	0.9			
Feb-08	0.9785	1.9480	1.4932	0.3	0.2	2.7			
Mar-08	0.9786	1.9526	1.5486	0.0	0.2	3.7	0.8	1.1	7.3
Apr-08	0.9879	1.9364	1.5612	1.0	-0.8	0.8			
May-08	1.0058	1.9780	1.5993	1.8	2.1	2.4			
Jun-08	1.0341	2.0429	1.6289	2.8	3.3	1.9	6.4	5.7	12.4
Jul-08	1.0698	2.1317	1.6941	3.5	4.3	4.0			
Aug-08	1.1155	2.0403	1.6466	4.3	-4.3	-2.8			
Sep-08	1.1341	2.0487	1.6522	1.7	0.4	0.3	15.8	6.2	14.0
Oct-08	1.1584	1.8600	1.5188	2.1	-9.2	-8.1	17.9	-3.0	5.9

percent respectively over the same period in 2007.

Nominal Effective Exchange Rate (NEER)

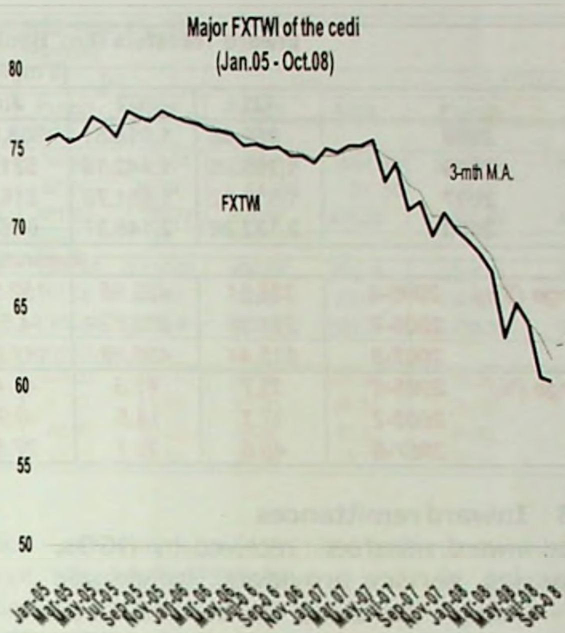
Trade Weighted Index (TWI)

The major (or core) Trade Weighted Index (TWI) is an index measure of the value (January 2002= 100), in nominal terms, of the cedi relative to the currencies of Ghana's top three trading currencies the euro, the pound and the dollar. It is thus a nominal effective index.

For the first ten months of 2008, the cedi depreciated by 4.1 percentage points in trade-weighted terms. This compares with a depreciation of 5.2 percentage points over the same period in 2007. The October 2008 value of the index was 47.03 and was 1.52 percentage points above its quarterly trend represented by the 3-month moving average.

Foreign Exchange Transactions Weighted Index (FXTWI)

Like the TWI, the FXTWI is nominal and effective, the difference being that while the TWI uses total merchandise trade (i.e. imports plus



	Nominal TWI and FXTWI (Jan-Oct, 2007 and 2008)					
	2007			2008		
	Dec-06	Oct-07	Change (%)	Dec-07	Oct-08	Change (%)
TWI	58.18	52.97	-5.2	51.10	47.03	-4.1
FXTWI	74.60	80.09	5.5	71.03	60.82	-10.2

exports) as weights, the FXTWI uses the value of total foreign exchange transactions (i.e. purchases and sales) in the three core currencies as weights.

The FXTWI also shows that over January October 2008, the cedi depreciated in FX transactions-weighted terms by 10.2 percentage points as compared with an appreciation of 5.5 percentage points over the same period in 2007. The October 2008 value of the index of 60.82 was 0.23 of a percentage point above the quarterly trend value.

4.5.2 Real exchange rate developments

The Real Trade Weighted Index (RTWI), which is a total trade (i.e. import plus export) weighted, and the Real Foreign Exchange Transactions Weighted Index (FXTWI), which is a total foreign exchange transactions (i.e. purchases plus sales) weighted, are both real effective exchange rate indices, (January 2002= 100) and monitor the real exchange rate developments of the Ghana cedi. They track the (geometric) average of the exchange rate changes (in real terms) of the Ghana cedi against the three major trading currencies: the USD, GBP and EUR.

Over the January October 2008 period, the cedi's real exchange rate showed a cumulative depreciation of 11.8 percent against the US dollar, but an appreciation of 1.9 percent against the euro and 11.0 percent against the pound respectively.

Comparatively, for the corresponding period in 2007, the cedi's real exchange rate appreciated by 0.3 percent against the euro and by 7.9 percent against the dollar, but depreciated by 0.7 percent against the pound.

Inward Transfers thro' Banks: Jan-Sep, 2005 - 2008 ($'million)								
		Q1	Q2	Jul	Aug	Sep	Q3	TOTAL
2005		969.05	1,018.51	368.51	401.96	422.39	1,192.85	3,180.41
2006		1,295.66	1,442.16	521.03	502.69	451.02	1,474.75	4,212.56
2007		1,516.82	1,651.78	516.54	592.20	499.46	1,608.21	4,776.81
2008		2,132.26	2,148.37	658.38	690.89	849.07	2,198.34	6,478.97
Memorandum								
Change ($'m)	*2005-6*	*326.61*	*423.65*	*152.53*	*100.73*	*28.64*	*281.89*	*1032.15*
	2006-7	*221.16*	*209.62*	*-4.50*	*89.52*	*48.44*	*133.46*	*564.24*
	2007-8	*615.44*	*496.59*	*141.84*	*98.69*	*349.60*	*590.13*	*1,702.16*
Change (%)	*2005-6*	*33.7*	*41.6*	*41.4*	*25.1*	*6.8*	*23.6*	*32.5*
	2006-7	*17.1*	*14.5*	*-0.9*	*17.8*	*10.7*	*9.0*	*13.4*
	2007-8	*40.6*	*30.1*	*27.5*	*16.7*	*70.0*	*36.7*	*35.6*

4.5.3 Inward remittances

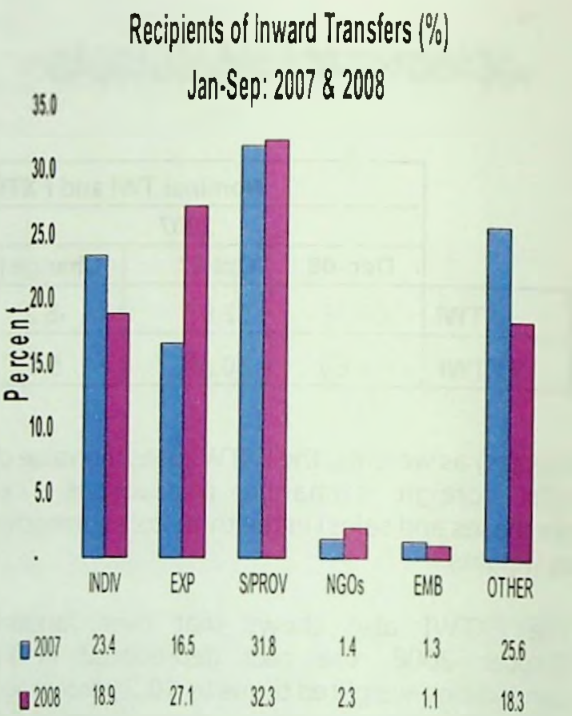
Private inward transfers received by **NGOs, embassies, service providers, individuals etc.** - through the banks for the first three quarters of 2008 amounted to $6.48 billion, which represents 35.6 percent increase over those for the corresponding period in 2007, which were in turn 13.4 percent increase over the transfers through banks in January-September 2006.

Of the total transfers in January September 2008, $1.22 billion (or 18.9 percent) accrued to individuals, compared with 25.0 percent a in January-September 2007.

Of the transfers through banks in January September 2008, the share of service providers was highest at 31.7 percent. Over the same period in 2007, the share of service providers was highest at 31.8 percent.

The top five recipient banks accounted for 63.3 percent of total transfers through banks in January-September 2008, compared with 63.1 percent over the corresponding period in 2007.

The shares of the top five for the corresponding period from 2002 to 2008 show a decline in trend.



4.5.4 Foreign exchange purchases and sales

Foreign exchange transactions (i.e. purchases plus sales) by banks and forex bureaux in the first ten months of 2008 amounted to $9.8 billion, which was 26.4 percent increase over purchases and sales over the same period in 2007.

Over the review period, fx purchases amounted to $3.8 billion while sales came to $6.1 billion. In year-on-year terms, total purchases grew by 24.5 percent while total sales registered an increase of 27.7 percent.

FX PURCHASES AND SALES ($'million)										
	Q1		Q2		Q3		Oct		TOTAL	
	Purch	Sales	Purch	Sales	Purch	Sales	Purch	Sales	Purch	Sales
2007										
DMBs	711.48	1,382.80	1,002.10	1,526.69	784.54	1,134.06	252.18	404.98	2,498.12	4,043.55
F/Bureaux	79.95	78.12	91.51	83.84	97.01	95.64	31.66	31.35	268.47	257.60
Total	791.43	1,460.92	1,093.61	1,610.53	881.55	1,229.70	283.84	436.33	3,050.43	4,737.48
2008										
DMBs	818.42	1,493.99	1,033.72	1,468.25	1,242.30	2,138.56	404.95	653.44	3,094.44	5,100.80
F/Bureaux*	89.19	89.34	87.44	86.87	91.64	91.85	28.65	28.87	268.27	268.06
Total	907.61	1,583.33	1,121.16	1,555.12	1,333.94	2,230.41	433.60	682.31	3,796.31	6,051.17
Memorandum										
Change in Total ($'m)	116.18	122.41	27.55	-55.41	452.39	1,000.71	149.76	245.98	745.88	1,313.69
Change in Total (%)	14.68	8.38	2.52	-3.44	51.32	81.38	52.76	56.37	24.45	27.73
Banks' share (%) - 2007	89.90	94.65	91.63	94.79	89.00	92.22	88.85	92.82	81.89	85.35
Banks' share (%) - 2008	90.17	94.36	92.20	94.41	93.13	95.88	93.39	95.77	81.51	84.29

*F/Bureaux numbers for 2008:Oct are provisional

Using the share of forex bureaux and banks' transactions to represent their relative shares of the foreign exchange market, the forex bureaux' market share declined from 6.7 percent in January-October 2007 to 5.4 percent over the corresponding period in 2008.

4.6 Balance of payments

The overall balance recorded a deficit of US$716.8 million for the period January to September 2008, compared with a deficit of US$566.9 million for the same period in 2007, and was financed mainly by drawdown of reserves including the balances of sovereign bond proceeds of US$750 million that accrued in the last quarter of 2007. For the year as whole given the trends in current account and capital inflows essentially seasonal credits associated with cocoa exports, the overall balance of payments deficit is projected to narrow to US$490 million compared to a surplus of US$413.1 million in 2007.

The merchandise trade deficit for the period January to September 2008 is provisionally estimated at US$3,496.5 million, compared with US$2,695.0 million for 2007. The current account is provisionally estimated to have recorded a deficit of US$2,500.9 million, compared with a deficit of US$1,544.9 million for the same period in 2007. Net capital inflows are estimated to be US$2,203.5 billion, (US$901.3 million for 2007) of which some US$1864 million in private capital including FDI flows.

Total merchandise imports for the period amounted to US$7,514.1 million, an annual growth of 31.3 percent.Non-oil imports grew by 38.3 percent on year on year basis and amounted to US$5,807.2 million and accounted for 77.3 percent of total imports, compared with 73.4 percent (US$4,198.8 million) for the same period in 2007. Capital and intermediate goods account for close to 70 percent of total non-oil import bill for the period compared with 68 percent for 2007.

Oil import bill for the period January to September 2008 was US$1,706.8 million, compared with US$1,523.9 million for the same period in 2007.

Exports of cocoa beans and products amounted to US$1,160.9 million, compared with US$910.8 million for the same period in 2007 (an annual growth of 27.5 percent). Cumulative cocoa purchases for the 2007/2008 season through the end of September 2008 amounted to 758,908 tonnes, against a forecast of 650,000 tonnes for the entire crop season.

Gold exports for the first nine months amounted to US$1,751.0 million compared with US$1,247.4 million for the same period in 2007.

GHANA: BALANCE OF PAYMENTS

(In $'million, unless otherwise stated)

	2007	2008:Q2	2008:Q3	2008:Q1-Q3	2008:Q4 Proj	2008 Proj.
Merchandise Exports (f.o.b.)	4,172.14	1,512.24	1,217.48	4,017.54	1,376.36	5,393.89
Cocoa	975.67	452.87	162.49	985.94	315.00	1,300.94
Gold	1,733.78	590.23	551.86	1,751.01	561.00	2,312.01
Others	1,462.69	469.15	503.13	1,280.59	500.36	1,780.94
Merchandise Imports (f.o.b.)	-8,066.11	-2,396.62	-2,710.06	-7,514.06	-2,885.00	-10,399.07
Non-Oil	-5,971.11	-1,856.63	-2,125.20	-5,807.24	-2,322.90	-8,130.13
Oil	-2,095.00	-539.99	-584.86	-1,706.82	-562.11	-2,268.93
Trade Balance	**-3,893.98**	**-884.38**	-1,492.58	**-3,496.53**	**-1,508.65**	**-5,005.17**
Current Account (incl. official transfers)	**-2,151.47**	**-582.89**	-1,220.28	**-2,500.98**	**-1,033.57**	**-3,536.74**
Capital and Financial Account	**2,591.42**	**52.83**	**1,227.41**	**1,845.05**	**1,259.76**	**3,104.81**
Capital Account	188.14	88.19	37.46	244.45	115.03	359.48
Financial Account	2,403.28	-35.36	1,189.95	1,600.60	1,144.73	2,745.33
Private Capital	1,061.48	278.72	1,320.22	1,864.01	415.65	2,281.84
FDI	855.38	205.00	461.22	797.01	471.22	1,270.41
Divestiture	115.00	0.00	900.00	900.00	0.00	900.00
Others	91.10	73.72	-41.00	167.00	-55.57	111.43
Short-Term Capital*	-94.15	-428.75	-41.40	-366.22	800.80	434.58
Official Capital	1,168.64	157.37	61.13	339.49	98.28	437.77
OVERALL BALANCE	**413.11**	**-520.77**	**65.85**	**-716.82**	**226.19**	**-490.63**
Growth Rates (year-on-year, %)						
Merchandise Exports (f.o.b.)	11.95	37.31	30.77	32.69	25.32	29.28
Merchandise Imports (f.o.b.)	19.43	32.10	20.49	31.30	23.11	28.92
Non-Oil	16.91	41.33	35.20	38.31	31.07	36.16
Oil	27.27	7.87	-13.64	12.00	-1.58	8.30
Underlying commodity prices (Period average)						
***Cocoa** ($ per metric tonne)*	*1,787.20*	*2,198.61*	*2,091.41*	*2,140.77*	*2,100.00*	*2,130.75*
***Gold** ($ per ounce)*	*686.45*	*892.86*	*858.37*	*889.62*	*850.00*	*879.67*
***Oil** ($ per barrel)*	*75.81*	*119.45*	*116.58*	*110.67*	*100.50*	*108.26*
Memorandum						
Trade Deficit / GDP (%)	*-26.5*	*-21.2*	*-40.2*	*-65.2*	*-40.7*	*-31.9*
Current Account Def / GDP(%)						
(Excl. Off. transfers)	*-16.1*	*-16.0*	*-33.0*	*-50.8*	*-31.2*	*-24.8*
(Incl. Off. transfers)	*-14.7*	*-14.0*	*-32.9*	*-46.6*	*-27.9*	*-22.5*
Overall Balance / GDP (%)	*2. 8*	*-12.5*	*1.8*	*-13.4*	*6.1*	*-3.1*
Exports / GDP (%)	*28.4*	*36.3*	*32.8*	*74.9*	*37. 2*	*34.4*
Imports / GDP (%)	*59. 2*	*61.8*	*78.6*	*150.5*	*83.9*	*71.5*
Non-Oil	*44.3*	*48.5*	*62.4*	*118.0*	*68.4*	*56.4*
Oil	*14.6*	*13.3*	*16.1*	*32.*	*15.5*	*14.8*
Capital and Financial Account /GDP (%)	*17.7*	*1.3*	*33.1*	*15.7*	*34.0*	*19.8*
Private Capital	*5.8*	*4.9*	*12.4*	*6.8*	*12.7*	*8.1*
FDI	*5. 8*	*4.9*	*12.4*	*6. 8*	*12.7*	*8.1*
Divestiture	*0.8*	*0.0*	*24.2*	*7.6*	*0.0*	*5.7*
Others	*0.6*	*1. 8*	*-1.1*	*1.4*	*-1.5*	*0.7*
*Short-Term Capital **	*-0.6*	*-10.3*	*-1.1*	*-3.1*	*21.6*	*2.8*
Official Capital	*8.0*	*3. 8*	*1.6*	*2.9*	*2.7*	*2.8*

*Mainly for cocoa trade finance

Non-traditional exports for the period January to September 2008 amounted to US$716.9 million, compared with US$586.7 million for the same period in 2007.

4.7 Gross International Reserves (GIR)

The GIR position of the Bank which followed a pattern of some seasonality in trade and payments declined steadily throughout 2007:Q1, but corrected and increased steadily throughout Q2. It declined again steadily throughout the third quarter, but got corrected in the fourth quarter resulting in an increase of 56.5 percent in 2007:Q4 alone. The end-2007 level was $2.84 billion and represented a 25.0 percent increase over the December 2006 level, partly due to the outflow of the proceeds from the sovereign bond specific projects.

The GIR showed some sharp movements in 2008:Q2 and Q3, recording an increase of 4.4 percent in Q2 and a decline of 11.4 percent in Q3 to a September level of $2.29 billion. In October, there was a decline of 9.6 percent to $2.05 billion. This amount represented 27.6 percent decline from the December 2007 level and a decline of 15.9 percent over the October 2007 level.

Developments in the Net International Reserves (NIR) followed a similar pattern. Like the GIR, it reached an all-time high of $1.83 billion in December 2007. In 2008:Q1, it declined by 23.6 percent and further by 14.8 percent in Q2, but gained 5.7 percent in Q3. The October 2008 level of the NIR was $1,247.3 million.

The October 2008 GIR position of $2.05 billion translates, on the average, into goods and services import cover of 2.3 months.

Gross & Net International Reserves
(Jan. 2004 - Oct. 2008)