SECTION

1

FORMS OF BUSINESS ENTITIES

BUSINESS MANAGEMENT

The Nature of Business and Managing Businesses

INTRODUCTION

In this first section of Business Studies, you will start by learning about businesses. Businesses are organisations formed to engage in business activities by making goods and services available to customers for reward in the form of profits. Without the existence or availability of business organisations, essential goods and services would not be accessible to meet the demands of the consuming public. Goods are physical or tangible items, while services are the intangible needs and wants produced by business entities for consumers to utilise. These businesses create jobs, enabling workers to earn an income to meet their needs. They also contribute to raising government revenue through the payment of taxes to local and central authorities, which is used to develop infrastructure such as schools, hospitals, and roads. Furthermore, the impressive buildings and equipment of these businesses enhance the beauty of our cities and towns, promoting tourism.

Examples of some business entities are sole proprietorships, partnerships, companies, and state-owned enterprises. Knowing these forms of businesses with regard to their features, benefits, and challenges helps one as an entrepreneur to choose the best form of business to operate based on the nature of business activity one is involved in.

At the end of the section, you will be able to:

- Explain the concept of business and its role in society.
- Outline the features of sole proprietorship and identify its benefits and challenges.
- Examine the features of a partnership and identify its benefits and challenges
- Elaborate on the features of a company and identify its types, benefits and challenges.
- Describe the features of State-Owned Enterprises (SOEs) and examine their benefits and challenges.

Key Ideas

- Business entities are set up to provide goods or services to members of the public through transactions to make a profit. Business entities may take different forms, and this section will cover:
  - Sole proprietors who own and control all aspects of the business entity
  - Partnerships where two (2) and not more than twenty (20) people pool their resources together to operate a business to make a profit.

- Companies are legal entities or organisations formed by individuals, known as shareholders or members, to conduct business activities.
- State-owned enterprises (SOE) are businesses where the government or state has a significant ownership stake or control.

THE CONCEPT OF BUSINESS

A business entity is a legally recognised organisation or structure that is formed to engage in commercial activities and conduct business operations. Business entities are established to conduct business transactions, generate profits and provide goods or services to customers. Common types of business entities are sole proprietorships, partnerships, companies and state-owned enterprises.

Definitions of goods and services

Goods are tangible items that can be used or stored, such as food, clothing, or computers. Businesses sell these goods to customers, who then own the items.

Services, on the other hand, are intangible and cannot be stored. Businesses provide services to customers, who access them for a specified period. Examples of services include hairdressing, cleaning, and security.

IMPORTANCE OF BUSINESS ENTITIES IN SOCIETY

Business entities play a crucial role in society, providing numerous benefits and contributing to the overall well-being and development of people. Here are some key reasons why business entities are important to society:

Economic Growth and Job Creation: Businesses are major drivers of economic growth, creating employment opportunities and stimulating economic activity. They contribute to gross domestic product (GDP) and generate income for individuals and households.

Innovation and Technological Advancement: Businesses are at the forefront of innovation, driving technological advancements and introducing new products, services, and processes. They invest in research and development, which leads to improvements in various sectors and enhances overall productivity.

Wealth Creation and Income Distribution: Successful businesses generate profits and create wealth. This contributes to income distribution as profits are reinvested, shared with shareholders and distributed to employees as wages or salaries.

The wealth created by businesses also generates tax revenue for governments, which can be used for public services, infrastructure development and social welfare programmes.

Consumer Satisfaction and Choice: Businesses provide a wide range of products and services to meet the diverse needs and preferences of consumers. They aim to improve customer satisfaction by offering quality products, competitive pricing and excellent customer service. Businesses compete with each other, leading to a greater variety of options, giving consumers the freedom to choose based on their preferences.

Social Responsibility and Sustainability: Many businesses recognise the importance of social responsibility and adopt sustainable practices. They consider the environmental and social impacts of their operations, implement sustainable initiatives, and engage in corporate social responsibility activities. By promoting sustainable practices and contributing to social causes, businesses help improve and create a more sustainable society.

Infrastructure Development and Investment: Businesses contribute to the development of infrastructure by investing in facilities, transportation networks and technology. This supports economic development and improves connectivity within and between communities.

Activity 1.1

1. Make a list of at least five (5) common local food items, such as porridge or "koose," that you often buy. Include the places or vendors where you usually purchase these items. Use the table below to perform this task.

	Items	Place of Purchase
a.		
b.		
c.		
d.		
e.		

2. Partner with a classmate or a friend who has also created a list. Ask them to explain whether they would have been able to get the items on their list if no one was selling them. Discuss how important local vendors are to your daily needs.

Activity 1.2

1. Prepare for a discussion with a partner by carefully examining the images in **Fig. 1.1** below. Answer the questions that follow, using the images as a guide.

Image 1

Image 2

Fig. 1.1

2. Copy and complete the table below to support your response.

Identify some of the items found in the shop in Image 1.		
What is the man in Image 2 doing?		
Identify the picture where goods are being offered for sale and the picture where a service is being rendered for a charge.		
	Service	Goods
Image 1		
Image 2		

What term could be used to describe either of these business people in their enterprise of providing goods and services?

What reward or benefit do you think they will get by providing goods and services to customers?

3. In pairs, share your responses and review each other's interpretations. Use the space provided to jot down any notes or feedback from your review session. Make sure to offer helpful suggestions and insights to improve each other's understanding.

Notes from peer review

Activity 1.3

1. In pairs, explore and discuss the concept of business and its impact on society. Also, consider how businesses contribute to the community and economy.
2. Summarise your discussion points and create an attractive poster to present your findings to your classmates. Ensure your poster is visually appealing and communicates the key roles of business in society.

SOLE PROPRIETORSHIP

A sole proprietorship is a type of business entity that is owned, managed, and controlled by a single owner. The word “sole” means “only,” and “proprietor” refers to “owner.” It is the simplest and most common form of business ownership in Ghana, particularly for small-scale enterprises. In a sole proprietorship, the owner has full control and responsibility for the business’s decisions and operations. A sole proprietorship business must be registered under the business name Act 992 of 2019.

Examples of businesses that are usually operated by sole proprietors include metal fabrication centres, mechanic shops, shoe repair shops, tailoring/dress making shops, grocery shops, mobile money vendors, and food vendors.

Fig. 1.2 Dress Maker

Fig. 1.3 Food seller

Key Features of Sole proprietorship

A sole proprietorship is a business structure with distinct characteristics that set it apart from other forms of business ownership. Key features of this model often include complete control by a single owner (single ownership), simplicity in management and decision-making, and direct responsibility for profits and liabilities. In terms of profit, the sole proprietor enjoys all profits from the business after paying all necessary taxes. Note that the business itself is not different from the owner, hence, liability is unlimited. In most cases, employees of sole proprietorship, are family members and friends. The death of the sole owner could lead to the cessation (end) of the business. Understanding the features of sole proprietorship, helps in appreciating the advantages and challenges associated with running a business under this structure.

Below are the expanded forms of the key features:

- **Single Ownership:** In a sole proprietorship, there is a single owner who holds complete ownership of the business. The proprietor has the authority to make all business-related decisions and exercises full control over the operations.
- **Personal Liability:** One significant characteristic of sole proprietorship is that the owner has unlimited personal liability for the business's debts and obligations. This means that the proprietor's personal assets are at risk if the business incurs any financial liabilities or legal obligations. There is no legal separation between the owner and the business entity in terms of liability.
- **Simple Legal Structure:** Sole proprietorships are relatively straightforward to establish and operate. Unlike other business structures, such as corporations or partnerships, there are usually fewer legal requirements and formalities involved. However, the sole proprietor is still responsible for complying with applicable laws, regulations, and licensing requirements.
- **Tax Considerations:** In terms of taxes, the income and losses of the sole proprietorship are reported on the owner's personal tax return. The business itself does not file separate tax returns. The owner is responsible for paying taxes on the business's profits as part of their personal tax obligations.
- **Financial Aspects:** Sole proprietors typically provide the initial capital to start the business. They may also be personally liable for any business-related debts or obligations. As the sole owner, the proprietor is entitled to all profits generated by the business and assumes full responsibility for any losses incurred.
- **Cessation of Operations:** In the event of the death or, in some cases, permanently indisposed, the sole proprietorship business may cease to operate.

Benefits of Sole Proprietorship

1. **Easy to set up:** A sole proprietorship is easy to establish since the procedure for its formation is simple. Another reason is that it is inexpensive to establish compared to other business structures.
2. **Flexibility & Quick Decision-Making:** The sole proprietor has full control over the business as its owner and can make quick decisions to adapt to changing market conditions.

3. **Full Control:** Also, the sole proprietor can make decisions independently and implement their vision without the need for consensus or approval from partners or shareholders. This is because he has full control over all aspects of his business.
4. **Accessible:** The capital required to start the business does not have to meet a minimum threshold but rather be enough to support the business's initial activities.
5. **Direct Profits:** All profits and other benefits are solely enjoyed by the owner. There is no need to share profits with partners or shareholders.
6. **Tax Benefits:** Sole proprietorships often enjoy certain tax advantages. Business income and expenses are reported on the proprietor's personal tax return, simplifying the tax filing process. Additionally, sole proprietors can take advantage of certain tax deductions and credits available to small businesses.

Challenges of Sole Proprietorship

1. **Unlimited Personal Liability:** In a sole proprietorship, the business is not treated as a separate legal entity from its owner, meaning the owner is personally liable for all the business's debts and losses. This results in unlimited liability for the proprietor.
2. **Limited Funding:** Sole proprietorships often encounter challenges in securing funding, as lenders may view them as high-risk compared to other business structures. This can make it difficult to raise capital for business expansion or operations.
3. **Lack of Continuity:** The business may face significant risks if the sole proprietor passes away or is unable to continue operations. Additionally, poor management or misuse of resources can lead to the collapse of the business.
4. **Limited Skill Set:** The owner of a sole proprietorship is required to handle multiple roles within the business, but they may possess only a limited range of skills. This can impact the overall performance and efficiency of the business.
5. **Time Commitment:** Managing a sole proprietorship involves overseeing all aspects of the business, including operations, marketing, finance, and administration. This extensive responsibility can result in a heavy workload and demands a substantial time investment from the owner.
6. **Limited Growth Potential:** Sole proprietorships may experience constraints in their growth potential due to the limitations imposed by the owner's time, resources, and expertise. Expanding the business or undertaking larger projects may be difficult without additional support or resources.

Activity 1.4

Perform the following tasks to complete this activity.

1. Use a notepad to jot down examples of businesses you observe in your local community. These could include shops, street vendors, or small service providers.
2. Review your list and identify which businesses might be sole proprietorships. Write a brief explanation for each, detailing why you believe it operates as a sole proprietorship.
3. Reflect on the benefits and challenges of running a sole proprietorship. Make notes on how these factors impact the business owner and their operations.
4. Prepare a presentation summarising your findings. This could be in the form of a slide show (PowerPoint), or a written report.
5. Share your presentation with your classmates, highlighting the types of sole proprietorships you found, the reasons for your identification, and the key benefits and challenges you noted.

Activity 1.5

Perform the following tasks to complete this activity.

1. Look for local sole proprietorships run by people who break traditional business stereotypes. This could be women running businesses in male-dominated fields, men in female-dominated areas, or individuals with additional needs.
2. Write down your findings about three (3) of such businesses. Include who owns them, what they do, and how their success challenges common beliefs about who can run a business.
3. Prepare a simple report.
4. Share your findings with your classmates or friends. Explain how these businesses are different from the norm and what we can learn from them.

PARTNERSHIP BUSINESS

A partnership is a type of business where a minimum of two and a maximum of twenty individuals agree to share ownership, responsibilities, and the profits or losses of a business. The term “partner” refers to an individual who shares ownership, accountability, and decision-making authority within a partnership. Partners can be individuals, such as entrepreneurs, professionals, or investors, or they can be other businesses, corporations, or entities. They come together with a shared intention to collaborate, contribute resources, and work collectively to achieve business goals.

Fig. 1.4 Partnership model

Partnership Agreement

A partnership agreement is a legally binding contract or document that outlines the terms and conditions governing the establishment, operation, and dissolution of a partnership. Dissolution is the term used to describe the ending of a partnership.

A partnership agreement establishes the rights, obligations, and responsibilities of the partners involved in a partnership.

A partnership agreement typically covers the following areas:

Contributions and Ownership: This specifies the capital contributions (how much money), assets, or resources that each partner brings to the partnership and outlines how ownership interests will be distributed among the partners.

Profit or Loss Sharing: The agreement outlines how profits and losses will be allocated among the partners, which may be based on ownership percentages or other agreed-upon terms.

Decision-Making and Management: The partnership agreement document will detail the decision-making process, including the authority, roles and responsibilities of each partner. This section covers topics such as voting rights, managerial responsibilities, and procedures for making major decisions.

Partner Withdrawal or Termination: The agreement includes provisions for the withdrawal of partners, their retirement, or the inclusion of additional partners. It also outlines the procedure for terminating or dissolving the partnership, including the distribution of assets and liabilities.

Dispute Resolution: The agreement may establish mechanisms for resolving disputes or conflicts that may arise between partners, such as mediation or arbitration procedures.

Confidentiality and Non-Compete: The agreement may include provisions to protect the confidentiality of partnership information and establish restrictions on partners' ability to engage in competing activities.

Duration and Amendments: The document specifies the duration of the partnership and outlines procedures for making amendments or modifications to the agreement.

Features of Partnership

The following are features of partnership:

1. **Partnership Agreement:** There is always an agreement between two or more people who intend to run a partnership business. This agreement, which is the partnership deed, outlines the terms that will guide the conduct of members and the operation of the business.
2. **Formation and Membership:** The partnership business is formed by a minimum of two (2) people and a maximum of twenty (20) people.
3. **Ownership and Management:** In a partnership, ownership and management are typically shared among the partners. Each partner contributes capital, labour, or both to the business and shares the profits and losses according to the partnership agreement.
4. **Shared of Profits and Losses:** Members in a partnership business share profits as well as losses incurred in the business. In some instances, profits and losses may be shared according to the contributions or status of each member.
5. **Unlimited Liability:** In a general partnership, partners have unlimited personal liability for the debt and obligations of the business. This means that partners' personal assets can be used to settle business debts and legal obligations.

Benefits of Partnership

1. **Ease of Formation:** Partnerships are easy to form, with fewer formalities and paperwork compared to other business structures like corporations. This simplicity helps to speed up the start-up process.
2. **Shared Decision Making:** Decision-making is a collaborative process in partnership. This shared responsibility ensures that major business decisions consider the inputs and perspectives of all partners.
3. **Access to Complementary Skills and Knowledge:** Partnerships allow you to tap into diverse expertise. Each partner brings unique skills, experience, and perspectives. For example, one partner may excel in sales, while another is a certified accountant or marketing expert.
4. **Less Financial Burden:** Sharing start-up costs and expenses with partners eases the financial strain. Additionally, having multiple partners enhances borrowing capacity, as risk is distributed among them. Banks are more inclined to extend credit to partnerships than sole proprietorships.

5. **Increased Business Opportunities:** Financially strong partners can provide additional funding, opening doors to explore new opportunities. Experienced partners often have valuable industry contacts that benefit the business.
6. **Better Work-Life Balance:** Partners can share the workload and responsibilities, improving work-life balance. Studies show that a balanced work-life leads to increased productivity.

Challenges of Partnership

1. **Unlimited Liability:** Partners in a general partnership have unlimited personal liability for business debts, risking personal assets.
2. **Conflict of Interest:** Differences in opinions and values among partners can lead to conflicts that may affect the working relationship.
3. **Dependency on Partners:** Partnerships rely heavily on each member, and the departure of a partner can disrupt business operations.
4. **Decision-Making Issues:** Achieving consensus on decisions may be challenging, hindering business agility.
5. **Limited Capital and Resources:** Access to external funding may be difficult, limiting the business's growth potential.
6. **Succession Planning Issues:** Withdrawal, retirement, or death of a partner can disrupt the business without proper succession planning.

Activity 1.6

1. Perform the following tasks in pairs.
   a. You and a friend are starting a small business together. Think about what kind of business you want to run, such as a bakery, a clothing store, etc.
   b. Decide who will handle different parts of the business. For example, one person might manage sales and customer service, while the other takes care of supplies and finances. Write down these roles in your notebook.
   c. Think about how you and your partner will make decisions together. Write down your plan for making decisions and solving disagreements.
   d. Draw a simple diagram on an A4 or A3 sheet to show your partnership. Use circles or boxes to represent you and your partner. Connect these with lines to show the roles and responsibilities each person has. You can also add notes about how you'll handle decisions.
   e. Write four benefits and four challenges of working together under your diagram
   f. Write a short report on the benefits and challenges of working with a partner. Use your partnership and findings from your partnership to help explain these points.

Activity 1.7

In pairs, read the scenario below and answer the questions that follow.

Creative Artistry

Atia Tongo and Ama Serwaa are childhood friends who share a passion for art and design. After completing their education in Fine Arts and Business, they decided to combine their talents and start a creative agency called "Creative Artistry." They prepared a partnership deed to register their business. The agency specialises in graphic design, branding, and marketing services for small businesses and startups.

Ama Patapaa excels in graphic design and has a keen eye for aesthetics, while Atia Tongo is skilled in business development and client management. Their firm Creative Artistry, quickly gained a reputation for its innovative approach and high-quality work. As the business grew, they hired additional designers and expanded their client base.

Questions

1. Identify which form of business entity Atia Tongo and Ama Patapaa are operating.
2. What are the key features of this business structure compared to operating as a sole proprietorship?
3. Discuss the importance of a Partnership Agreement or a Deed for the business. What key provisions should be included in the agreement to protect their interests and outline the terms of their partnership?
4. Reflecting on the success of Creative Artistry, what lessons can aspiring entrepreneurs learn about the benefits and challenges of forming a partnership in the context of a creative business venture? Discuss this and write your points in your notebooks.

COMPANIES

A company refers to a legal entity or organisation formed by individuals, known as shareholders or members, to conduct business activities. Incorporation of companies in Ghana is regulated by the Companies Act, 2019 (Act 992), which allows one or more persons to incorporate a company. According to Section 7 of the Companies Act 2019, there are four main categories under which companies may be incorporated. These are:

- a company limited by shares,
- a company limited by guarantee
- an unlimited company
- an external company.

Each of these types of companies can be registered as either a private company or a public company.

Examples of companies in Ghana include GCB Bank Plc, Nestle Ghana Limited, AngloGold Ashanti Iduapriem Mine, Access Bank (Bank) Plc, Delta Paper Mill Company Limited, DHL Ghana Limited, Enterprise Life Assurance Ltd, GOIL Plc, and Fan Milk Plc.

Fig. 1.5: GCB Bank Plc – branch in Nalerigu

Features of Companies

A company typically has the following characteristics:

1. **Legal Entity: A** company is considered a separate legal entity from its owners. It (the company) can own assets, enter into contracts, sue or be sued, and be held liable for its actions or debts.
2. **Limited Liability:** In certain types of companies, such as corporations or limited liability companies (LLCs), the liability of the shareholders or members is limited to their investment in the company. Their personal assets are generally protected in case the company faces financial difficulties or legal issues.
3. **Shareholders or Members:** A company is owned by its shareholders or members, who contribute capital or other resources to the company in exchange for ownership interests or shares. The shareholders or members typically have the right to participate in decision-making processes and share in the profits and losses of the company.
4. **Management Structure:** Companies have a management structure that oversees the day-to-day operations and strategic direction of the business. This may include directors, officers, or managers who are responsible for making decisions and managing the company's affairs.
5. **Perpetual Existence:** Unlike partnerships or sole proprietorships, companies have perpetual existence. This means that the company can continue to exist and operate even if there are changes in ownership or there is a departure of shareholders or members.

Types of Companies

There are four main types of companies. They include:

1. **Companies Limited by Shares:** A company limited by shares is a company whose members' liability is limited to the amount unpaid on the shares held by each member, if any. When a person is allotted shares in a company, they would be required to provide consideration in the form of cash or some goods or services in exchange for the shares. The consideration provided by shareholders serves as equity capital, which is used for the operation of the business and to settle the liabilities of the company as and when they fall due. In the case where a member has fully paid for allotted shares, they will not be required to make any further payments with regard to the liabilities of the company, However, in instances where a member has not provided any consideration at all or has made part payment for allotted shares, they may be called on to pay the unpaid amount to cover the company's liabilities.

   For example, if Mr. Sittu is allotted 50 shares at GH¢500, in the event that the company cannot meet its liabilities, he will lose the GH¢500 he invested as shares. However, in the case where he has paid only GH¢300 for the 50 shares, he would be expected by law to pay the balance of GH¢200 to defray the debt of the company.

   Companies limited by shares are usually run as profit-making enterprises. Private companies limited by shares bear the phrase "limited company" or the abbreviation "Ltd" at the end of their names. On the other hand, public companies limited by shares have their names ending with "Public Limited Company" or the abbreviation "Plc."

2. **Companies limited by guarantee:** This type of company have its members pledge funds to meet any requirements from creditors in the event of winding up or in the event where there is a shortfall in meeting the creditor's obligations. These types of companies are usually operated as non-profit organisations. A company limited by guarantee has the phrase "Limited by Guarantee' or the abbreviation "LBG" at the end of its name.

3. **Unlimited Companies:** In an unlimited company, the members have unlimited personal liability similar to that of a sole proprietor. What this means is that, in the event where the company is unable to meet its liabilities, creditors can attach the personal assets of the members to satisfy whatever debts are outstanding and owed to them. Unlimited companies are usually incorporated with, and allot shares to, shareholders and are usually operated as profit-making entities. Where an unlimited company is set up as a private company, the company's name is suffixed by the abbreviation "PRUC." If it is set up as a public company, then it has the suffix "PUC."

4. **External Companies:** An external or foreign company, refers to a business entity that is registered and operates in a jurisdiction (country) different from where its primary operations or headquarters are situated. These companies, also known as "external corporations," often establish a presence in other countries to expand their market size, access resources, or take advantage of

favourable business conditions. External companies typically need to comply with regulations and legal requirements specific to the countries in which they operate, which may include registering with local authorities, paying taxes, and adhering to local labour laws. Additionally, they may need to appoint local agents or representatives to facilitate their operations and ensure compliance with local regulations.

Benefits of a Company

In the event that the company ceases operations, the idea of limited liability shields shareholders from losing personal belongings. Their personal assets are generally shielded from the company's debts and legal obligations, reducing personal financial risk. This is one of the key benefits of a company, particularly a corporation or limited liability company (LLC).

A company is a separate legal entity, distinct from its owners. This means that the company can own property, enter into contracts, sue or be sued, and carry out business activities in its name. Therefore, shareholders are not held directly accountable for the actions of the company.

A company is not negatively impacted by a member's death or withdrawal. In other words, in the event of a member's death, the business would continue to exist and operate even if there were changes in ownership, or there was the departure of shareholders or members. Consequently, unlike sole proprietorships or partnerships, companies have perpetual existence.

Companies have the advantage of raising capital by issuing shares or attracting investments from shareholders or investors. This allows for greater potential to raise funds for expansion, research and development, and other business initiatives on a larger scale.

The ownership interests in a company can be transferred or sold without much difficulty. This makes it possible for potential investors (i.e., shareholders) to easily join or withdraw from the company. This provides flexibility and liquidity to the shareholder if the organisation.

Challenges of a Company

1. **Complex Legal and Regulatory Compliance: C**ompanies are subject to various legal and regulatory requirements, which can be complex and time-consuming. Compliance with tax laws, reporting obligations, corporate governance standards, and other regulations can pose challenges, especially for smaller businesses.
2. **Higher Administrative and Operational Costs:** Companies often have higher administrative and operational costs compared to sole proprietorships or partnerships. They may require professional assistance, such as legal and accounting services to comply with legal obligations and manage corporate affairs effectively.

3. **Double Taxation (for Certain Companies):** Corporations, in particular, may face the challenge of double taxation. Corporate profits are subject to corporate income tax, and when dividends are distributed to shareholders, they may be subject to personal income tax as well. This can result in a higher overall tax burden.
4. **Increased Complexity in Decision-Making:** As companies grow, decision-making processes can become more complex. Multiple shareholders or members may have differing interests, and reaching a consensus on key decisions can be challenging. This can slow down decision-making and hinder agility.
5. **Potential Loss of Control:** Companies with multiple shareholders or members may face the challenge of diluted control. As ownership interests are distributed among various individuals or entities, decision-making authority may be shared, and individual owners may have less control over the company's direction and operations.

Activity 1.8

In groups of three, complete this activity by answering the case study questions and completing the tasks.

Kente Creations Ltd.

Kente Creations Ltd. is a private company founded by three entrepreneurs: Kwame, Efua, and Kojo. All three partners come from diverse backgrounds, each bringing unique skills to the company. Kwame is a talented designer with expertise in creating traditional Kente patterns with a modern twist. Efua specialises in marketing and branding, while Kojo manages the financial operations and business strategy.

The company started small, producing custom-made Kente designs for weddings and special events. Due to the high demand for their unique designs, the business grew rapidly. After two years, Kente Creations Ltd. decided to expand and began exporting its products to international markets. The success of the company led them to hire more employees and invest in advanced weaving equipment to keep up with the growing demand.

However, as the company grew, so did the challenges. Kwame, Efua, and Kojo faced difficulties in managing the increasing workload and meeting the expectations of their customers. They realised they needed to streamline their operations and improve their teamwork. Additionally, they had to navigate legal requirements and financial obligations as a private company.

Despite the challenges, Kente Creations Ltd. became a well-known brand in the fashion industry, recognised for its innovative designs and quality products. The founders had to carefully balance the benefits of owning a private company with the challenges of growth and financial management.

Questions for Group Discussion:

1. What are the key features of Kente Creations Ltd. as a private company?
2. What benefits did Kwame, Efua, and Kojo experience by running their business as a company rather than a partnership?
3. Identify the challenges faced by Kente Creations Ltd. as they expanded.
4. Discuss how the founders could address the challenges they are facing.
5. What do you think are the long-term benefits and risks of running a private company like Kente Creations Ltd.?

Tasks

Prepare a presentation of your responses to the questions above and present it to the class and teacher for review.

Activity 1.9

1. In pairs, research the types of companies permitted to operate in Ghana under the Companies Act 2019 (Act 992).
   - For each type, identify its features, benefits, and challenges.
2. Compare your findings with those of another pair.

Types of company recognised under the Companies Act 2019 (Act 992)
•
•
•
•

Type of company	Features	Benefits	Challenges

Activity 1.10

Complete the following tasks:

1. Find a company in your community that operates under the Companies Act 2019 (Act 992).
2. Research this company to understand its benefits and challenges.
3. Prepare a brief report on your findings and be ready to share what you have discovered with your classmates.

STATE-OWNED ENTERPRISES

A state-owned enterprise (SOE), also known as a government-owned corporation or a public sector enterprise, refers to a business entity in which the government or state has a significant ownership stake or control. In a SOE, the government typically owns a majority or 100% of the company's shares and has the authority to appoint key management positions. SOEs can be found in various sectors, including energy, telecommunications, transportation, banking, and natural resources. Examples of SOEs in Ghana are Ghana Broadcasting Corporation, Ghana Water Company, Electricity Company of Ghana (ECG), Ghana Post, and so on.

Fig. 1.4: General Post Office, Central Accra, Ghana

Types of State-Owned Enterprise

State-owned enterprises (SOEs) can take various forms based on the sectors in which they operate and the specific objectives of the government. Here are some common types of state-owned enterprises:

1. **Natural resource companies**: These SOEs are involved in the exploration, extraction, and management of natural resources such as oil, gas, minerals, or forestry. They play a crucial role in countries with significant resource endowments and ensure the responsible and sustainable utilisation of these resources.
2. **Energy companies:** State-owned energy companies operate in the energy sector and are responsible for the generation, transmission, and distribution of electricity. They may also be involved in the exploration, production, and distribution of oil, gas, and other energy sources.
3. **Transportation companies:** State-owned enterprises responsible for the operation and management of transportation infrastructure and services, such as national railways, airlines and seaports. They ensure the provision of efficient transportation systems and contribute to national connectivity and economic development.
4. **Financial Institutions:** These SOEs include state-owned banks, development banks, or financial institutions that provide banking services, loans, or financial support for developmental projects. They play a role in promoting economic stability, supporting small businesses, and driving investment.

5. **Telecommunications Companies**: State-owned telecommunications enterprises provide communication and information services, including fixed-line telephony, mobile services, internet connectivity, and data transmission. They contribute to the development of communication infrastructure and promote digital inclusion.
6. **Nationalised Industries:** In certain cases, the government may nationalise industries, taking ownership and control of private companies in sectors deemed critical to national interests, such as defence, aerospace, or strategic manufacturing. These nationalised industries serve strategic and security objectives.
7. **Public Service Providers**: SOEs can be responsible for providing essential public services such as water supply, healthcare, education, housing, or social welfare. They ensure the availability and accessibility of these services to the general public.
8. **Infrastructure Companies:** State-owned infrastructure enterprises are involved in the development, construction, and operation of critical infrastructure projects, such as highways, bridges, airports, dams, or power plants. They contribute to national development and promote infrastructure growth.

Key Features of a State-Owned Enterprise

The key features of SOEs highlight their unique position in the market, reflecting how they balance public objectives with operational efficiency. The features include:

1. **Government Ownership**: The government or state, either at the national or regional level, holds a substantial ownership stake in the company. This ownership can be exerted through a ministry, a holding company, or a sovereign wealth fund.
2. **Government Control:** The government possesses the authority to exert control over the operations and administration of state-owned enterprises (SOEs). This influence can be exercised by appointing key executives, and board members, or by regulatory oversight.
3. **Strategic Significance**: State-owned enterprises (SOEs) are frequently created in sectors that are deemed crucial to national interests, security, or progress. These firms have a crucial function in guaranteeing the accessibility of necessary goods and services or upholding significant infrastructure.
4. **Public Service Provision:** Certain state-owned enterprises (SOEs) are established with the purpose of delivering crucial public services that are necessary for the welfare of the population. These services include utilities such as water, electricity, healthcare, education, public transit, and postal services.
5. **Government policy implementation: SOEs** can be utilised to implement specific policies or achieve economic development goals. They have the potential to play a crucial role in stimulating industrial expansion, facilitating the exchange of technology, bolstering domestic sectors, and fostering innovation.

6. **Financial support and oversight:** SOEs may get financial assistance, subsidies, or guarantees from the government to fulfil their objectives. In addition, governments oversee and regulate state-owned enterprises (SOEs) to ensure accountability, transparency, and compliance with laws and regulations.

The level and scope of government intervention in state-owned enterprises (SOEs) can vary across countries and legal systems. Some state-owned enterprises (SOEs) operate with more autonomy and follow commercial principles, but others may experience more significant government influence and intervention in their decision-making procedures.

Benefits of State-Owned Enterprises (SOEs)

Strategic Control: State-Owned Enterprises (SOEs) enable the government to exert direct control and influence over key sectors that are critical to national interests, security, or development. This enables the government to shape policies, ensure long-term planning, and align the operations of these enterprises with broader national goals.

Economic Development: SOEs can play a significant role in driving economic development through their investments in infrastructure, support for domestic industry, promotion of innovation, and job creation. They can contribute towards industrial growth, technological advancement, and regional development.

Public Service Provision: State-owned enterprises (SOEs) operating in essential sectors like healthcare, education, utilities, or transportation can ensure the provision of reliable, affordable, and accessible services to the public. They prioritise public welfare over profit maximisation and ensure universal access to vital services.

Revenue Generation: Successful state-owned enterprises have the ability to generate significant revenue for the government through dividends, taxes, or royalties. These financial contributions can help fund public programs, social welfare initiatives, infrastructure development, and other governmental priorities.

Stability and Security: In sectors such as energy or natural resources, SOEs can contribute to stability and security by ensuring a secure supply of essential resources, managing strategic assets, and mitigating risks associated with external market fluctuations or geopolitical factors.

Challenges faced by State-Owned Enterprises

Lack of Efficiency and Innovation: State-owned enterprises (SOEs) are sometimes criticised for being less efficient or innovative compared with private enterprises. Bureaucratic processes, political intervention, and a lack of competition can hamper efficiency, flexibility, and the ability to respond to changing market conditions.

Governance and Accountability: SOEs may have difficulties in terms of governance and accountability. Political influence, favouritism based on family connections, or a lack of openness can affect decision-making processes, resulting in less-than-ideal outcomes. Ensuring effective corporate governance and accountability processes is essential to addressing these challenges.

Financial Burden and Subsidisation: In some cases, SOEs may require significant financial support from the government, leading to fiscal burdens. Subsidies, bailouts, or non-commercial operations can strain public finances, particularly when state-owned enterprises (SOEs) are not financially viable or poorly managed.

Inadequate Resource Allocation: When the state intervenes in specific industries, it can result in inefficient allocation of resources. This occurs when economic decisions are influenced by political factors rather than market forces. This can lead to the improper distribution of resources, inefficiencies, and potential distortions in the economy.

Lack of Competition: State monopolies or the dominant positions held by state-owned enterprises (SOEs) can restrict competition and impede the functioning of the market. These factors can restrict the development of new ideas, reduce options for consumers, and hinder the growth of private sector participation in the economy.

The Politicisation of Decision-making: State-owned enterprises (SOEs) are vulnerable to political interference and manipulation in the decision-making process. This can result in decisions influenced by political concerns rather than economic or commercial factors. Ensuring the autonomy and independence of SOEs from political influence is vital for their effective operation.

SOURCES OF FUNDS AVAILABLE FOR BUSINESSES

Different types of business entities have different sources of funding available to them. The type of business entity and nature of business will determine where and how individuals can source funds for their activities.

<table>
<tr><th colspan="4">Sources of funds available to business entities</th></tr>
<tr><th>SOLE PROPRIETOR</th><th>PARTNERSHIP</th><th>COMPANIES</th><th>SOEs</th></tr>
<tr><td colspan="3">Loans</td><td></td></tr>
<tr><td colspan="3">Overdraft</td><td></td></tr>
<tr><td colspan="2">Trade credit</td><td></td><td></td></tr>
<tr><td colspan="2">Lease</td><td></td><td></td></tr>
<tr><td colspan="2">Government grants and programmes, etc.</td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Hire purchase</td><td></td></tr>
</table>

Sources of funds available to business entities			
SOLE PROPRIETOR	**PARTNERSHIP**	**COMPANIES**	**SOEs**
		Retained earnings	
		Sale of assets	
Personal savings	Partner contributions	Shares	Government subsidies
Personal assets	Business income	Sale and leasebacks	Public-Private Partnerships (PPPs)
Financial support from friends and family	Interest from investment	Bonds/Debentures	Bonds
Ploughed back profits		Government grants, etc.	Grants and donor funding, etc.

Activity 1.11

Imagine you are an explorer in the world of business. Your mission is to find three (3) examples of SOEs in Ghana. Use the internet or ask your teacher for hints. Write down the names of these SOEs and a brief description of what they do.

Hint: You can start by researching companies like STC, Ghana Water Company Ltd., and VRA.

Activity 1.12

1a. In a group of three, read the case study below, and answer the questions that follow.

Kwame, an aspiring organic farmer in Ghana, dreams of starting "Kwame's Organic Farm" to provide fresh, locally-grown produce to his community. To fund his new venture, Kwame explores three main sources of capital:

- Kwame approaches a local bank and secures a loan to cover initial expenses, understanding that this money must be repaid with interest.
- He applies for a grant aimed at sustainable farming, which provides non-repayable funds to support the setup of his farm, such as purchasing seeds and equipment.
- Kwame pitches his business to potential investors, who agree to provide capital in exchange for a share of the business's profits.

By combining these funding sources, Kwame successfully launches and expands his farm, each source bringing unique benefits and challenges. Loans require repayment, grants offer funds without repayment but may have conditions, and investor funding provides capital but involves sharing ownership.

Note: Conduct further research to assist you in answering the questions.

Questions

i. Which source of funding do you think would be the most beneficial for Kwame's business in the long run, and why? What are the potential risks associated with each source?

ii. Investors are offering Kwame funding in exchange for a share of his business. How might this impact his control over the farm's decisions and future direction? Should he prioritize ownership over expansion?

iii. If Kwame is unable to repay his loan on time, what alternatives could he explore to maintain his business's financial stability?

iv. Kwame received a grant for sustainable farming. How can he ensure he meets the grant's requirements to avoid any legal or financial issues in the future? How might grant conditions influence his business operations?

Presentation

1b. Compile your responses into a report or PowerPoint presentation and present them to the class for review and further discussion.

GLOSSARY OF KEY TERMS

Company	A legal entity or organisation formed by individuals, known as shareholders or members, to conduct business activities.
Consideration	The price given in return for goods or services. For example, the investments given as money or promises of other resources in exchange for shares in a company.
Dissolution	The term used to describe the ending of a partnership.
Entrepreneur	An individual who sets up a business.
Goods	Tangible items that can be used or stored, such as food, clothing, or computers. Businesses sell these goods to customers, who then own the items. E.g., coffee, furniture, etc.
Incorporation	The term used to describe the formal registration of a company.
Partnership	A type of business where a minimum of two and a maximum of twenty individuals agree to share ownership, responsibilities, and the profits or losses of a business.
Partnership agreement	A legally binding contract or document that outlines the terms and conditions governing the establishment, operation, and dissolution of a partnership.
Services	Intangible and cannot be stored. Businesses provide services to customers who then access them for a period of time, e.g., hairdressing, security.
Sole proprietor	A type of business entity that is owned, managed, and controlled by a single owner.
State-owned enterprise	A business entity in which the government or state has a significant ownership stake or control.

Extended Reading

- Read on types of partners in a partnership firm from any approved Business Management Book by NaCCA
- Read the documents required for the formation of companies from the Companies Act 2019, (Act 992) here: https://www.gipc.gov.gh/wp-content/uploads/2023/04/COMPANIES-ACT-2019-ACT-992.pdf

Review Questions for Section 1

1. What is the meaning of business?
2. Explain the meaning of sole proprietorship and mention at least three (3) factors that show that a business is a sole proprietorship.
3. In your opinion, what are the issues that a sole proprietorship might face in operating this form of business?
4. Analyse the impact of a partnership business on society.
5. Identify a particular product that you would like to sell in Ghana and the form of business that you will like to use to sell that product. Discuss why you chose that product and the form of business.

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