

MINISTRY OF EDUCATION



# Business Management for Senior High Schools

Year 2



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Ghana Education  
Service (GES)







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SECTION

# 1

## DECISION MAKING, DELEGATION AND BUSINESS COMMUNICATION



# MANAGING BUSINESS AND THE LEGAL FRAMEWORK OF BUSINESSES

## Functional Areas of Management

### INTRODUCTION

---

In this part of our business management study, we will look at decision-making, delegation and communication, which are three key areas in managing any business. You will learn how to make good decisions, understand the different levels of decision-making and use effective methods for making decisions. We will also cover the basics of delegation, explore common challenges of delegation, and learn how to delegate tasks effectively. You will also learn how to develop clear and effective communication skills for smooth interactions within an organisation. The knowledge you gain in this section will help you understand management responsibilities and how to create a positive work environment. By the end of this section, you will see how topics like organisational behaviour, leadership and human resource management connect. This will give you a complete understanding of how these essential management functions work together to help an organisation to succeed.

#### Key Ideas

- **Communication:** The exchange of information between a sender and a receiver with understanding.
- **Decision:** The conclusion reached from several alternatives, or choosing or selecting one option from a lot of alternatives
- **Delegation:** The process of assigning a task, responsibility or authority for the performance of a task to an individual.
- **Skill:** An ability that is developed to enable an individual to perform specific tasks efficiently
- **Tools for decision making:** Methods that can be used to approach or solve problems.

# DECISION MAKING AND ITS IMPORTANCE

## The Meaning of Decision Making

1. Decision making is a structured process that involves making choices to best meet a desired outcome.
2. It involves the selection of possible alternatives by identifying the need for a decision to be taken, collecting information, assessing alternatives and choosing available options in order to solve a given problem.
3. It should be noted that information is needed to define and structure the problem to explore and choose between the alternative solutions.

## The Importance of Decision Making

Decision-making is a critical aspect of personal and professional life and influences the outcomes and overall success of organisations. Table 1.1 summarises the key reasons why decision making is important to organisations.

**Table 1.1:** Reasons why decision making is important to organisations

<b>Achievement of Goals</b>	<p>Good decision-making is an important part of setting the achievement of goals within an organisation.</p> <p>It is concerned with making choices out of a number of available alternatives to accomplish organisational goals.</p>
<b>Problem Solving</b>	<p>Decisions are normally made by managers to solve problems.</p> <p>Business managers are expected to develop good decision-making skills to enable them to address challenges efficiently and find workable solutions to problems.</p>
<b>Efficient Resource Management</b>	<p>Resources such as raw materials, money, etc., are very important to businesses. Good decision-making involves the allocation and management of these resources to reduce waste and maximise productivity.</p>
<b>Risk Management</b>	<p>Decisions taken involve some level of risk. Effective decision making includes assessing potential risks and making choices that minimise negative impacts while maximising benefits in organisations.</p>
<b>Effective Leadership and Management</b>	<p>A good leader is expected to make good decisions to guide their team and organisation. Leadership plays a crucial role in making strategic decisions to drive growth, innovation and competitive advantage for an organisation.</p>

<b>Promoting Personal Growth and Development</b>	Business managers make decisions to foster personal growth by encouraging critical thinking, responsibility and learning from outcomes. It helps employees to be confident and self-reliant in working towards achieving organisational goals.
<b>Building Relationships</b>	Effective decision-making involves considering the needs and perspectives of other people. Good decisions can strengthen relationships and build trust within teams, families and communities.
<b>Good Time Management</b>	Time can be judiciously managed by avoiding delays. Effective decision-making ensures that prompt actions are taken at the appropriate time, leading to better time management and increased organisational efficiency.

## Tools for Decision Making

Decision-making tools are essential for managers and business leaders to analyse options, forecast outcomes, and make informed choices. They provide a framework, methodology or technique that can be used to inform choices, solve problems, and ultimately, make effective decisions.

Some of the tools commonly used for decision making in businesses are listed below.

You should note that in your lessons, teachers may not be able to cover each of these tools in depth. Your teacher will select some examples to work through in class but may assign you particular tools to learn about as homework. You can refer back to this section at any time to learn more about any tools not covered in lessons.

### 1. Pareto Analysis

Pareto Analysis (80/20 Rule analysis) is a decision-making tool used to consider various factors, weigh their importance and then select the best alternative or option. This analysis is based on the principle that 80% of problems come from 20% of causes. To use Pareto Analysis, you first list and categorise all the problems. Then, you quantify and rank them by their impact, such as cost, frequency, or importance. By focusing on the top 20% of causes that contribute to 80% of the problems, you can address the most significant issues more effectively and improve overall efficiency and effectiveness in decision-making. In this case, very important factors in a situation can be identified for targeted problem-solving in an organisation.

### 2. PEST Analysis

PEST analysis is a tool used to analyse external macro-environmental factors that could impact an organisation, namely:

<b>Political</b>  Political factors which could impact the organisation.  Examples include political stability, tariffs, trade restrictions, regulations, etc.	<b>Economic</b>  Economic factors that could affect the success of an organisation.  Examples include economic growth, inflation or interest rates, material and labour costs, etc.
<b>Social</b>  Social factors (attitudes, behaviours and trends) that impact an organisation and their target market.  Examples include demographics, cultural factors, lifestyle, health, etc.	<b>Technological</b>  Technological factors which affect how an organisation produces or distributes its goods or services.  Examples include emerging technologies or access to technology, automation, regulation, etc.

PEST analysis is useful for strategic planning and market analysis.

### 3. SWOT Analysis

This is a tool that can be used for assessing the internal and external factors that can affect the success of an organisation. SWOT analysis involves analysing Strengths, Weaknesses, Opportunities and Threats.

<b>Strengths</b>  These are internal factors that give you a competitive advantage, such as your skillset, brand and reputation, product, technology, location, etc.	<b>Weaknesses</b>  These are internal factors that reduce your competitiveness, such as a lack of funding or expertise, outdated technology, etc.
<b>Opportunities</b>  These are external factors that could enable a business to grow, such as new markets opening up, emerging technology, changes in national policy, etc.	<b>Threats</b>  These are external factors that might curtail growth or reduce competitiveness, such as economic changes, new competitors, regulatory changes, etc.

This analysis is very useful for strategic planning as it identifies areas for business improvement or growth.

### 4. Decision Matrix (or Weighted Scoring Model)

This decision-making tool makes it possible for business managers and individuals to evaluate and prioritise a list of alternatives based on multiple criteria.

Each criterion is assigned a weight according to its importance, and each alternative is scored against these criteria.

The weighted scores are then calculated by multiplying the scores by the weights, and the total weighted score for each option is determined by summing these products.

The option with the highest total weighted score is typically considered the best choice, providing a systematic and quantitative approach to decision-making.

You can download free templates of decision matrices online to see fully worked examples.

#### 5. **Cost-Benefit Analysis (CBA)**

Cost-benefit analysis is a decision-making tool that evaluates the advantages and the disadvantages (costs) of a project. It compares the total expected costs of an option or project against its total expected benefits.

By quantifying these factors in monetary terms, CBA helps determine whether the benefits outweigh the costs, providing a clear basis for making informed decisions. It is particularly useful for assessing the financial viability and returns on an investment, thereby ensuring that resources are allocated efficiently for higher returns.

#### 6. **Root Cause Analysis (RCA)**

This tool of analysis is a methodical approach used to identify the underlying cause of problem(s) or to detect an issue causing challenges. It systematically investigates and analyses contributing factors to address the root causes rather than just the symptoms, ensuring more effective and lasting solutions.

Techniques like the *5 Whys* and *Fishbone Diagram* are commonly used in RCA to prevent the re-occurrence of a problem.

#### 7. **The Delphi Method**

The decision-making tool is a structured communication method developed to gather insights from a panel of experts through multiple rounds of anonymous surveys.

Each round refines the responses, aiming to achieve a consensus on complex issues.

The Delphi method helps in controlling feedback and reducing bias, leading to improvement in the accuracy of predictions and the ability to make well-informed decisions.

### Activity 1.1

#### **Decision Making and Its Importance**

In groups of four, complete this activity by reviewing the scenario presented in the case study, answering the related questions and completing the task.

#### **Case Study**

*The academic committee of your school has posted the end of year examination timetable. As Head of a student club at school, you have been invited to their annual event together with your best friend, who is the Secretary of the club. However, the event falls on the eve of one of your examinations. Your parents expect you to settle*



*down and prepare for the examination, but you have promised to join your best friend for this special celebration.*

### Questions

1. Which of these activities or events will you attend, and what decision-making tool would you use to arrive at your decision?
2. Explain your choice of activity or event and the decision-making tool you used to make this decision.

### Task

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

## Activity 1.2

### Decision Making and Its Importance

Complete the activity below:

1. Write down various issues you intend to make decisions on. These might include what to do after Senior High School, or whether to buy a particular product or service you have been thinking about.
2. Reflect on each of the issues you have listed and make notes on how important it is to decide on those issues and how decision-making tools could help you.
3. Share your notes or presentation with your colleagues, highlighting the meaning of decision making and the role and importance of decision making tools.

## Activity 1.3

### Decision Making and Its Importance

You intend to start an entrepreneurship business and are considering the types of business you could start.

1. Copy the table below in your exercise book and list in the spaces three types of potential small business opportunities.

#### Hints or things to be considered:

- a. Consider customer needs.
- b. Evaluate financial implications.
- c. Think creatively.

No.	Business option
1.	
2.	
3.	

2. Choose one decision making tool and use this to analyse your options.
3. Summarise the reasons for your decision and share your work with your teacher.

### Activity 1.4

#### Self-Assessment

Answer one of the following questions to review your learning in this session;

1. Explain the meaning of decision making
2. Describe the importance of decision making
3. Describe three tools to support decision making

## TYPES OF DECISIONS

One of the key responsibilities of business managers is making well-considered and justifiable decisions.

Within an organisation, decisions are taken at different levels by different individuals based on their level of responsibility and the situation they are faced with.



**Table 1.2:** Organisational decisions

Type of decision	Explanation	Example
<b>Strategic Decisions</b>	<p>A company's strategic decisions are very important decisions to be made by middle and top managers pertaining to the company's policies.</p> <p>In this light, strategic decisions should be properly considered and analysed to ensure that it impacts the routine decisions made on a daily basis</p>	Whether or not to enter a new market
<b>Routine Decisions</b>	Decisions made by management during the organisation's daily activities are known as routine decisions. Typically, it is not necessary to evaluate, analyse, or thoroughly research these choices.	Routine schedules or work
<b>Programmed Decisions</b>	<p>Programmed decisions are routine, repetitive and well-structured decisions are taken where established procedures are used.</p> <p>Lower managers are those who are usually take programmed decisions as they go about performing their work..</p>	<p>Processing of employees' payroll</p> <p>Preparation of customer bills</p>
<b>Non-Programmed Decisions</b>	<p>Non-programmed decisions are complex and require creative problem-solving skills.</p> <p>In most cases, such problems are ill-defined and there is no specific (programmed) method of dealing with them.</p> <p>These decisions often have a significant impact on the company and has to be carefully taken as it requires critical thinking.</p> <p>Managers at the top level are those responsible for making these decisions.</p>	Whether or not to develop a new product
<b>Policy Decisions</b>	<p>Policy decisions are high level decisions related to the firm's planning and policy, typically made by the company's higher or top management to define an organisations overall direction.</p> <p>They require extensive investigation and have a long-term impact on the business.</p>	Developing the mission and vision statement of an organisation.
<b>Operating Decisions</b>	Operational decisions are tactical and short-term in focus and are needed to implement policy decisions. These choices help put the goals and policies established by upper-level management into action and are often made by lower and intermediate management.	Calculating a bonus payment

Type of decision	Explanation	Example
<b>Organisational Decisions and Personal Decisions</b>	<p>An organisational decision is a choice made by managers in an organisation to be able to achieve an objective.</p> <p>Employees may be delegated the authority to make these decisions. However, a decision is considered personal if it is made by the executive in their personal capacity and such decisions have no impact on the business. These personal decisions are clearly not transferable.</p>	An individual decides to pursue a higher education degree, choosing a specific university and program that aligns with their career goals and personal interests.
<b>Individual Decisions</b>	<p>Individual decisions are autonomously made by one person where he or she uses his or her experience and information.</p> <p>Individual decisions are crucial in smaller organisations with an authoritarian management style.</p>	Selecting the right product for a customer
<b>Group Decisions</b>	Group decisions, on the other hand, are made collectively by the executives and staff of the business set-up. For instance, the board of directors can make decisions as a group and will have an impact on the business organisation.	Setting performance targets

### Activity 1.5

#### Types of Decision Making

Your teacher will provide you with a set of flashcards. Some cards will have the name of a type of decision making on them, whereas others will include the definition.

Working in small groups, match the type of decision making with its definition. Share your solutions with another group to compare and share your ideas.

### Activity 1.6

#### Types of Decision Making

1. Identify and write down the types of decisions in your exercise books.
2. For each type of decision, prepare a note explaining its use and provide real-life examples if possible.

3. Make a presentation of your notes on a flip chart to share with your colleagues.

### Activity 1.7

#### Types of Decision Making

1. Your teacher may show you a video or present you with images or charts showing activities that require decisions to be made. Write down your observations on the scenarios in these videos or images and identify the type of decision that is being made in each example.  
Alternatively, study the decision-making scenarios below and write down the type of decision that was taken in each example.
  - a. An employee deciding on what to eat for breakfast each morning. This is a repetitive daily choice that does not require much thought or analysis.
  - b. A manager approving routine office supply orders every month. This is a recurring decision with a set protocol or criteria in place.
  - c. A school administrator deciding on a new policy for the students' dress code. This sets a standard that others will follow in the future.
  - d. A family deciding to move to a new city for better job opportunities or quality of life. This involves long-term planning and affects the family's future.
  - e. Deciding on how to handle an unexpected expense, like a car repair after an accident. This situation is irregular and requires careful evaluation.
  - f. A family deciding together on where to go for a vacation. Each member has input, and the final choice reflects the group's consensus.
  - g. The human resource team of a company deciding on the criteria for hiring new employees. This affects the organisation's culture and talent pool.
  - h. A project manager allocates tasks to team members for a specific project. This helps keep daily activities organised and efficient.
  - i. A person deciding to exercise every morning. This is a choice that benefits personal health and well-being.
  - j. Choosing to spend the evening reading a book instead of watching TV. This is a personal preference and does not directly impact others.
2. Share and discuss your responses with a colleague.  
You can use a table such as the one below to support your response

Decision Making Scenario		Type Of Decision Making
	<i>A couple decide to save and invest a portion of their income each month to afford a down payment on a home within the next five years</i>	<i>Strategic Decision</i>
a		
b		
c		
d		
e		
f		
g		
h		
i		
j		

### Activity 1.8

#### Types of Decision Making

In pairs, read the scenario below and perform the tasks that follow.

As a second-year business student, you have been invited by the Entrepreneurship Students Association to deliver a speech on

1. Programmed and non-programmed decisions
2. Organisational and personal decisions
3. Individual and group decisions.

#### Task

1. Discuss the meaning and cite practical daily examples of the type of decisions you have been asked to discuss.
  2. Make an MS PowerPoint or manila card presentation of your response.
- The table below can be used to support the design of your presentation.

1.	<b>Programmed decision</b>	<b>1. Non-programmed decision</b>
2.	<b>Organisational decision</b>	<b>2. Personal decision</b>
3.	<b>Individual decision</b>	<b>3. Group decision</b>

### Activity 1.9

#### Types of Decision Making

1. In groups, study the scenario below.

You are the marketing manager for AII MUST RISE. Your general manager is seeking your feedback on the following strategic options for business growth:

- a. Launch a new product to boost sales, recognising the potential for success but also the risk of financial losses.
- b. Continue with current social media partnerships, which have shown moderate success but are limited in reaching a broader target audience.
- c. Invest in enhancing the company's image with the understanding that this may redirect resources from direct marketing efforts.

2. Prepare a report for the general manager that shows the following:

- a. A recommendation of the course of action that will best support the business's growth and profitability, with an explanation of your rationale.
- b. A description of the tools or methods you would use to make this decision.
- c. An analysis of the types of decisions involved in selecting your course of action.

Share your report with your teacher for feedback.

**Activity 1.10****Self-Assessment**

Answer the following questions to support the review of your learning in this session:

1. Identify four types of decisions.
2. Explain three types of decisions

## MANAGEMENT LEVELS AND THE DECISIONS THEY TAKE

There are managers in business organisations operating at different management levels, each with distinct responsibilities and decision-making roles.

Below is an overview of the main management levels (Top, Middle and Lower-Level Management) and the types of decisions they commonly make to help the organisation accomplish its set targets:

**Table 1.3:** Management levels

Level of management	Examples of roles	Examples of decisions
<b>Top-Level (Strategic) Management</b>	Executives, senior managers, directors and the board of directors	<p>These managers set organisational goals and strategic direction.</p> <p>They formulate long-term plans and policies.</p> <p>They decide on mergers, acquisitions and major investments for the organisation.</p> <p>Top level managers allocate resources across the organisation.</p> <p>They are responsible for establishing corporate culture and values of the business firm.</p>

Level of management	Examples of roles	Examples of decisions
<b>Middle-Level (Tactical) Management</b>	Department heads, branch managers and division managers	<p>Middle level managers develop and implement departmental plans and policies.</p> <p>They are to ensure that strategic goals of the organisation are translated into tactical plans.</p> <p>They co-ordinate and supervise lower-level managers and staff.</p> <p>Allocating resources to various departments.</p> <p>Tactical executives of the organisation manage budgets and schedules for projects.</p>
<b>Lower-Level (Operational) Management</b>	Supervisors, team leaders and first-line managers.	<p>Overseeing day-to-day operations and staff activities.</p> <p>Implementing procedures and work schedules.</p> <p>Handling employee performance and discipline.</p> <p>Making routine decisions related to production, customer service and logistics.</p> <p>Ensuring compliance with organisational policies and procedures.</p>

These management levels are crucial, and their decisions impact the overall performance and direction of the organisation.

The diagram below shows how the management hierarchy in a business set-up aligns with levels of decision making:



1. **Strategic Decisions:** These are decisions made by top-level management, focusing on long-term goals and broad organisational policies.
2. **Tactical Decisions:** They are decisions made by middle-level management, translating strategic goals into actionable plans and coordinating resources.
3. **Operational Decisions:** These are made by lower-level management, dealing with daily operations and specific tasks to be able to achieve tactical goals.

### Activity 1.11:

#### Type of decisions

1. In groups, discuss the type of decisions made in a familiar context, for example, within your families or school.
2. For each decision, identify who the decision maker is (for example, you or your parents). How do these levels of decisions compare with the levels of decisions within a business?
3. Draw the pyramid representing the hierarchy of decision making, either in your workbooks or on a flip chart, and write the examples of decisions discussed in your groups at the relevant level of the pyramid.

### Activity 1.12

#### Management levels and the decisions they take

1. In groups, discuss the three main management levels by highlighting the type and importance of the decisions that are taken at each level.



2. Prepare a chart showing the link between the level of management and the type of decisions that are usually taken at the various levels of management.
3. Make a presentation to the class using the chart you have prepared to explain the management levels and the decisions taken at each level based on the discussions you had.

### Activity 1.13

#### Self-Assessment

Answer the following question to support the review of your learning in this session: Explain the three management levels and the decisions taken at each level.

## Step in Decision-making Process

Decision-making is a step-by-step process that business managers go through in order to choose between the options presented to them. These steps are as follows;



**Figure 1.2:** Steps in the decision-making process

### Activity 1.14

#### Decision-making Process

In mixed ability and gender groups, perform the following tasks.

1. Prepare cards by writing on each card the steps in the decision-making process.

2. Pin the cards on a flipchart according to the sequence or order of steps in the decision-making process.
3. Open to the next page of the flipchart and prepare a summarised analysis of each step of the decision-making process.
4. Make a presentation of your work to the class for discussion and feedback.  
You can use the table below to support how you present the summarised analysis of the decision-making processes.

Step in the decision-making process	Analysis
1.	
2.	
3.	
4.	
5.	
6.	
7.	

### Activity 1.15

#### Management Levels and Decision-Making Process

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

##### Scenario

Kofi and Ama Co. Ltd is considering expanding its operations to a new market. The head of the marketing team has been asked to recommend a course of action for the company to be able to expand its business and meet the tastes of its customers.

- a. What type of decision is the Head of Marketing about to make?

- b. Which level of management is responsible for the type of decision they are about to make?
  - c. Describe the processes that they will follow to make the decision.
2. Compare your responses with another pair for feedback.

## MEANING OF DELEGATION AND ITS PRINCIPLES

### Meaning of Delegation

Delegation is the process that permits a manager or leader to assign responsibility and authority for specific tasks or decisions to an employee or team member while retaining overall accountability for the outcome. Delegation involves entrusting another person with the power to act on behalf of the manager, to make decisions and carry out duties that contribute to achieving organisational objectives.

### Principles of Delegation

Delegation is a skill which, when done well, can improve efficiency and motivate those around you. Successful delegation follows several steps, or principles, as outlined below:

1. **Clear definition of task:** This principle says that the task and responsibility to be delegated must be clearly defined. This is to ensure that the delegatee will properly understand the expected result.
2. **Use the principle of effective communication:** This principle involves the delegator maintaining open lines of communication with the delegate throughout delegation in order to guide as necessary.
3. **The principle of parity of authority and responsibility:** The principle of parity of authority and responsibility states that when responsibility is delegated, there must be an equal amount of authority, including resources given, so that the delegate can perform the task and complete it successfully.
4. **The principle of unity of command:** This principle indicates that each employee should receive instructions and be accountable to only one supervisor. The main aim of this principle is to create a clear line of authority and responsibility within an organisation to avoid disagreement.
5. **The principle of absoluteness of responsibility:** Delegation's principle of absoluteness of responsibility states that a manager or leader retains ultimate responsibility for the tasks and activities of their employees, even when those tasks are delegated to other officers to perform.
6. **The scalar principle:** This principle involves assigning tasks and responsibilities based on an organisation's hierarchical structure. In this light, duties and

responsibilities ought to be assigned in a clear and unbroken chain of command, starting at higher levels to the lower levels.

7. **The principle of trust and confidence:** This principle states that the delegator should demonstrate trust in the delegatee's abilities and show confidence in their capacity to complete the work.
8. **The principle of matching tasks to skills:** This is a principle which requires that the delegated task should be within the capabilities of the delegate so that they have the ability to be able to successfully perform the task to the satisfaction of the senior manager.
9. **The principle of accountability and feedback:** This principle states that the delegator (usually a manager or leader) should establish a system for accountability and provide constructive feedback on performance. Set up regular review meetings to discuss progress, provide feedback and make any necessary adjustments any the need be.

### Activity 1.16

#### Meaning of Delegation and its Principles

1. In pairs, read the scenario below and perform the tasks that follow.

Miss Timmy Gbewala was employed as marketing manager of C2 Ventures to coordinate marketing activities for the organisation. She suggested to the management of the firm to employ a deputy marketing manager to assist her in her duties. Miss Wunnam was subsequently employed.

On one occasion, Miss Gbewala was asked by the Chief Executive Officer (CEO) to attend a meeting on his behalf. She then asked her deputy, Miss Wunam, to attend and act on her behalf, without disclosing any sensitive information from the CEO.

- a. Identify and explain the management practice that allowed Miss Gbewala to transfer part of her responsibilities to Miss Wunam.
- b. Discuss the principles that Miss Gbewala must adhere to in order to effectively use the management practice you have identified.
- c. Role-play the interactions between the CEO and the Marketing Manager, and the Marketing Manager and their deputy, outlined in this scenario.
- d. Share your response with another pair for feedback.

### Activity 1.17

#### Principles of Delegation

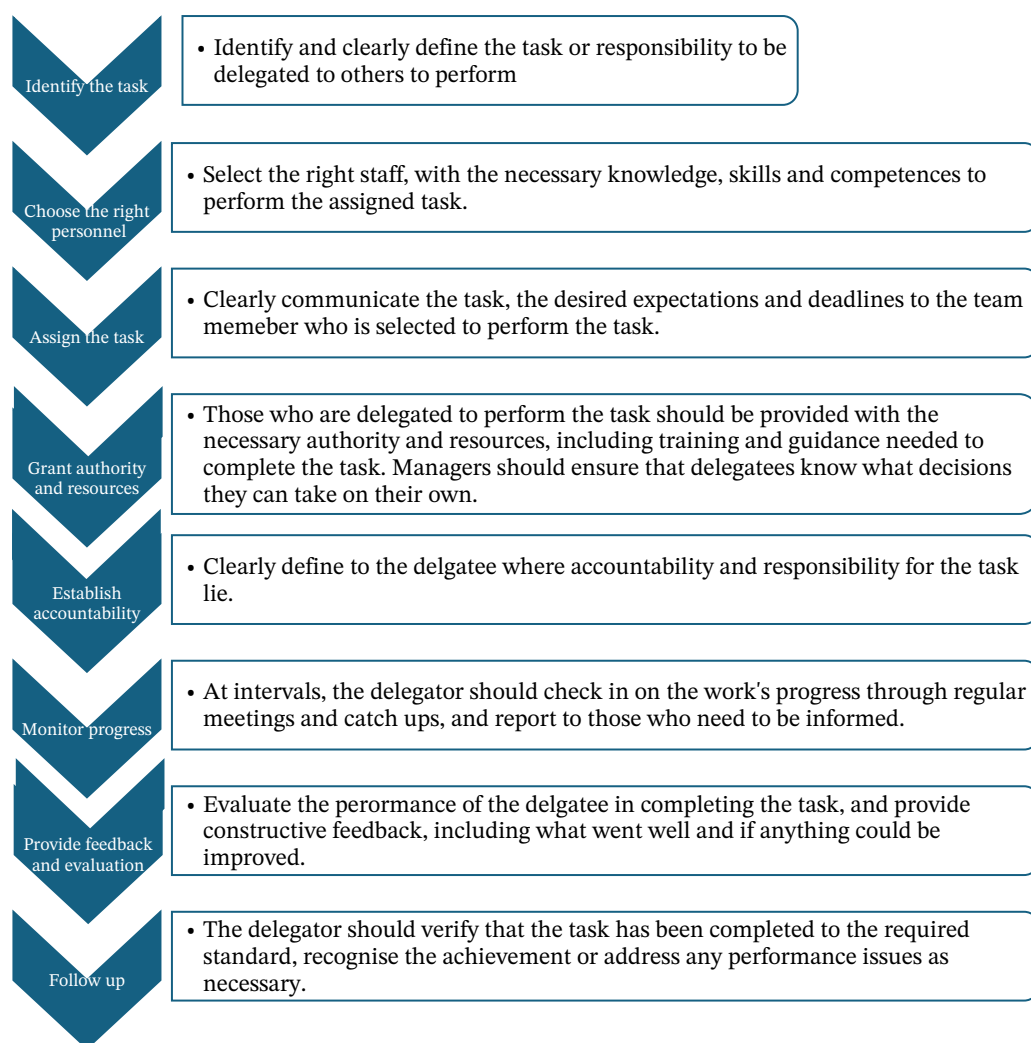
Work in pairs to discuss the principles of delegation; what are they, and why are they important?

Make notes on your discussion and share your thoughts as part of a wider class discussion.

## THE PROCESS OF DELEGATION

### The Steps Involved in the Delegation Process

Effective delegation should follow a clear process, the steps of which are outlined below:



**Figure 1.3:** Steps involved in the Delegation Process

### Activity 1.18

#### The Process of Delegation

In groups, perform the following tasks.

1. Imagine you are operational managers in a busy manufacturing organisation. Discuss the tasks or responsibilities you might delegate to a member of your team and note these down on sticky notes or in your exercise book.
2. Describe the steps you would take to delegate those tasks.
3. Summarise the steps or process on a flipchart using a flow chart and make a presentation to your classmates for feedback.

## BENEFITS OF DELEGATION

Delegation is a powerful tool that can lead to a more dynamic, efficient and motivated organisation, fostering a positive work environment and promoting growth in an organisation. Some of the benefits of delegation include:

1. **It promotes skill development:** As managers delegate tasks to others to carry out, they give employees opportunities to learn new skills and to perform leadership roles. This brings about employees' professional development and prepares employees to handle higher-level tasks in future.
2. **Increased efficiency:** Delegating tasks to other staff means that tasks are distributed among employees based on their skills and expertise. This ensures that work can be completed more quickly and efficiently than if one person were doing all the work.
3. **Increased productivity:** Business executives or managers can focus on higher-level strategic planning and decision-making when tasks are delegated to other officers appropriately. This helps an organisation to maximise productivity.
4. **Better time management:** Time is better managed when work is delegated to the appropriate individuals to perform. This implies managers can use their time judiciously for planning critical organisational activities.
5. **Improved morale and motivation:** Workers of an organisation feel trusted and valued when they are given important tasks. Delegation of tasks boosts the morale and motivation of employees, leading to higher job satisfaction and better performance.
6. **Effective decision making:** Delegation makes it possible for decision-making authority to be spread out among personnel in a business firm. This can lead to faster and more effective decisions as employees closer to the action can make informed choices or decisions.

7. **Enhances team performance:** Delegation of tasks within an organisation fosters collaboration, innovation and collective achievement of the business's aims and objectives.

### Activity 1.19

#### Benefits of Delegation

1. Your teacher will organise you into groups. In these groups, discuss and write down the benefits of delegation.
2. Exchange your work or notes with other groups for them to critique and provide constructive feedback.
3. Make a presentation of your work to the whole class using PowerPoint or a flip chart.

### Activity 1.20

#### Self-Assessment

Answer one of the following questions to review your learning in this section:

1. List three benefits of effective delegation.
2. Analyse how delegation can be beneficial to a business organisation.

## LIMITATIONS OF DELEGATION AND HOW TO ENSURE EFFECTIVE DELEGATION

### Limitations of Delegation

Despite the benefits of delegation to organisations, there are also disadvantages, limitations or challenges associated with its practice. These include:

1. **Fear of loss of control**  
To some people, when managers delegate work, it may mean relinquishing some control over the outcome. Managers might feel a loss of control over the work process and outcomes when they delegate tasks, as they rely on others to complete the work.
2. **It is time-consuming.**  
Delegation of work requires time to assign, monitor and follow up on tasks for feedback.



**3. Risk of mistakes**

Delegated works may not be completed correctly or to standards that are required.

**4. Dependence on others**

Delegation relies on members of the group's skills, knowledge and work ethic to carry out the work. This can create bottlenecks and vulnerabilities, especially if those individuals are absent or resign from the business firm.

**5. Managers' resistance to delegate**

There are managers who sometimes resist delegating tasks or work to junior staff due to a belief that they can work better themselves. Another reason for resisting delegation may be due to a lack of trust in their group members' abilities.

**6. Employee resistance to accept delegated task**

Some workers of the organisation may resist taking on additional responsibilities due to fear of failure, lack of confidence, or perceived unfairness in task distribution or resource allocation.

**7. Inadequate resources**

Managers or the organisation may not be able to provide the required resources such as allowances, etc to the delegate (the person accepting to perform the work).

**8. Lack of accountability**

As managers are ready to delegate, they should be willing to supervise the delegate as he or she is performing the task. Without proper follow-up and monitoring, delegation can lead to a lack of accountability, where employees might not take full responsibility for their tasks.

**9. Difficulty in delegating high priority tasks**

Managers of business organisations may find it hard to delegate critical or high-priority work.

## How to make delegation effective

Effective delegation is essential for organisational efficiency and employee development. Here are some of the key ways a manager or leader can delegate effectively:

- 1. Understand What to Delegate:** Identify tasks that can be delegated, considering their complexity, importance and the potential for employee development. Routine, time-consuming work is often good for delegation.
- 2. Develop a Delegation Plan:** As a manager, create a structured plan for delegation to outline which tasks will be delegated, to whom and the timelines for completion. Regularly review and update this plan for the objective of the organisation to be accomplished.
- 3. Choose the Right Person:** Match work with employees' skills, experience and interests. Ensure the person you choose has the capacity and capability to handle the work.

4. **Communicate Clear Instructions and set expectations:** Explain clearly the nature of the task, its objectives, deadlines and any specific requirements to the staff who is to perform it for desired outcomes.
5. **Offer Authority, Support and Resources:** Employees should be empowered with the authority and ensure access to necessary tools, training and support for them to perform the task delegated.
6. **Avoid Micromanaging:** Trust your employees to do the job. Resist the urge to control every detail. Allow the team to work independently and use their judgment.
7. **Encourage Feedback:** Foster an environment where employees feel comfortable to providing feedback. Listen to employees' suggestions, concerns and make adjustments when the need arises.
8. **Acknowledge Efforts and Successes:** You have to recognise and appreciate the hard work and achievements of your employees. Positive reinforcement boosts morale and encourages a team to work harder.
9. **Follow Up:** After the employees have performed the task, review the results together. Discuss what went well and what could be improved. Use this feedback to refine your delegation process.

### Activity 1.21

#### Analysing and Mitigating Delegation Challenges

##### **TIPAYA COMPANY LIMITED**

*Tipaya Company Ltd., a multinational company based in Tamale, produces various products and employs over 300 people across the nation. Known for its modern and innovative products, Tipaya Ltd. has been successful for many years. However, recently, the company has struggled to meet customer demands due to increased competition and market changes, leading to a drop in productivity and competitive edge nationwide. In response, the company's management has been working extra hours, causing burnout and decreased efficiency.*

*To address this, Tipaya Ltd.'s leadership decided to delegate some responsibilities, such as production scheduling, quality control and customer service, to reduce stress and improve efficiency. Senior managers selected capable employees to handle these tasks, providing training and support as needed. Despite these efforts, the delegation process has not met expectations, with workers struggling to manage workloads and making costly mistakes that delay production. Additionally, a lack of communication and coordination between departments has complicated operations further.*

#### **Task**

Working in groups, consider the following questions:

1. What are the potential consequences of delegating tasks to employees who have previously been micromanaged or insufficiently trained?
2. What are the limitations of delegation at Tipaya Ltd.? List your points on a flip chart.
3. Discuss the potential causes of these delegation challenges at Tipaya Ltd.
4. How can Tipaya Ltd. address the limitations of delegation and improve its delegation processes?
5. How can the company foster a culture of trust and confidence among employees to ensure effective and successful delegation?

Prepare a presentation with your answers and present it to your class and teacher for review.

### Activity 1.22

#### Limitations of Delegation

Working in groups, discuss the limitations of delegation.

Make a list of the limitations you have identified, and for each one, suggest how it could be overcome and make delegation effective.

You could record your work in a table such as the one below.

Limitations of delegation	How to overcome this and make delegation effective

Share your work with the class for feedback and discussion.

### Activity 1.23

#### Self-Assessment

Answer one of the following questions to review your learning in this section:

1. Discuss the limitations of delegation.
2. Explain how to make delegation effective

# MEANING AND IMPORTANCE OF BUSINESS COMMUNICATION

## Meaning of Business Communication

Business communication is the exchange of information within the units or departments of an organisation, between different organisations, customers or stakeholders that is geared towards achieving business objectives. Communication can take different forms such as verbal, non-verbal, written and visual.

## Importance of Business Communication

Business communication is the exchange of understandable information. Below are some key reasons why communication is important in business organisations.

1. **It Provides Clarity and Direction:** Good and clear communication provides employees with an understanding of their roles, responsibilities and the tasks they need to complete. This clarity helps in avoiding confusion and ensures that everyone knows what is expected of them.
2. **Increases Productivity:** Clear communication helps in giving clear instructions and feedback, which helps employees to understand tasks and goals, reducing errors while increasing efficiency, leading to productivity.
3. **Promotes Coordination and Collaboration:** Effective communication fosters collaboration among different departments and teams. It ensures that everyone is on the same page, facilitating coordinated efforts towards common objectives.
4. **Ensures Alignment with Organisational Goals:** Effective communication ensures that all employees understand the company's vision, mission and strategic goals to align everyone to work towards the same objectives.
5. **Enhances Customer Satisfaction:** Effective communication with customers helps in understanding their needs and expectations. This leads to better customer service, higher satisfaction and loyalty, which are crucial for achieving business objectives.
6. **Facilitates Informed Decision Making:** Access to accurate and timely information through effective communication enables better decision-making at all levels of an organisation. This leads to more strategic and effective actions to ensure that the aims and objectives of the business organisation are accomplished.
7. **Building a Positive Organisational Culture:** Good communication helps in building and maintaining a positive organisational culture. A culture of openness, trust and mutual respect enhances the morale and productivity of an employee.

8. **Facilitates Problem Solving and Conflict Resolution:** Open lines of communication allow for the early identification and resolution of problems affecting productivity. This proactive approach prevents small issues from escalating and affecting the achievement of a common goal by the business organisation.
9. **Promotes Employee Engagement and Motivation:** Regular and transparent communication keeps employees informed and engaged. When employees understand how their work contributes to an organisation's success, they are more motivated and committed to their tasks.

### Activity 1.24

#### Importance of Business Communication

In pairs, perform the following tasks.

1. Search the internet for videos or infographics on business communication.
2. Based on what you observed from the videos or infographics, come out with the meaning and importance of communication in business.
3. Share your ideas with another pair or the whole class for feedback and wider discussion.
4. Create a mind map to summarise what you have learnt through this research and group discussion. A template has been provided below:

### Activity 1.25

#### Effective communication

1. Your teacher will arrange you in groups and assign you a business scenario that requires you to communicate effectively. This might be handling a complaint, delivering an update to team members, carrying out an interview or chairing a meeting.
2. In your groups, discuss what effective communication looks like in your assigned scenario. Agree on roles within the group and role-play your given scenario.
3. Perform your role play for another group, or for the class, for feedback and discussion.
4. Take time after the lesson to reflect on your own group's scenario and the role plays you observed in class and make notes on why these examples of communication are important to organisations.

**Activity 1.26****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this section.

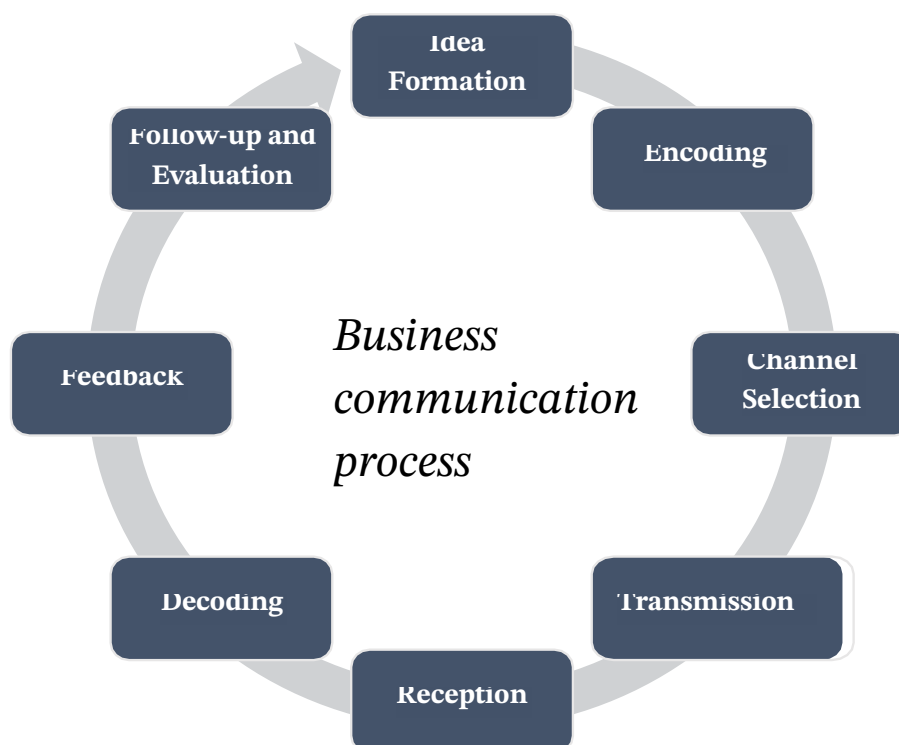
1. Explain business communication.
2. State the importance of business communication.
3. Explain five reasons why business communication is important.

## THE PROCESSES OF BUSINESS COMMUNICATION

### Business Communication Process

There are several steps or processes that business communication goes through to ensure that information is effectively shared for better understanding.

Business communication processes can be simplified into the following key steps or stages:



**Figure 1.4:** Business communication process

**Table 1.4:** Business Communication Process

Stage of the process	What happens at this stage?
<b>Idea formation by the sender</b>	The sender identifies the message or information to be communicated.
<b>Encoding</b>	The sender translates their message or idea into a clear, understandable format, such as words, images or gestures.
<b>Channel selection</b>	The sender chooses an appropriate medium such as email, phone call, report or meeting to convey the message to the recipients.
<b>Transmission</b>	The sender transfers the message through the selected channel of communication.
<b>Reception or reviewer</b>	The receiver gets the message through the chosen channel of communication
<b>Decoding</b>	The receiver interprets the message in order to understand it.
<b>Feedback</b>	The receiver provides a response to the sender, confirming receipt and understanding of the message or asking for clarification.
<b>Follow up and evaluation</b>	<p>The sender ensures that the recipient has understood the message correctly and takes any necessary action based on feedback.</p> <p>They evaluate the communication process and make improvements for future discussions.</p>

**Activity 1.27****Business Communication Process**

Tombaya Company Ltd. is a business organisation producing beverages nationwide. They have had great success promoting their products and are now a household name. The company's profits increased last year to the extent that its management decided to introduce and take new insurance policies for the employees to motivate them to work harder. The manager used a memorandum as a means of communication to convey the message to the employees.

1. Working in pairs, review this scenario and discuss how the manager would apply the steps of the business communication process to convey the decision of the management of Tombaya Co. Ltd. to its employees.
2. You may find it useful to record this as a flow chart outlining each step and the sender or receiver of information at each stage (where relevant).

3. Summarise your responses and make a poster presentation to the whole class for constructive feedback.

### Activity 1.28

#### Self-Assessment

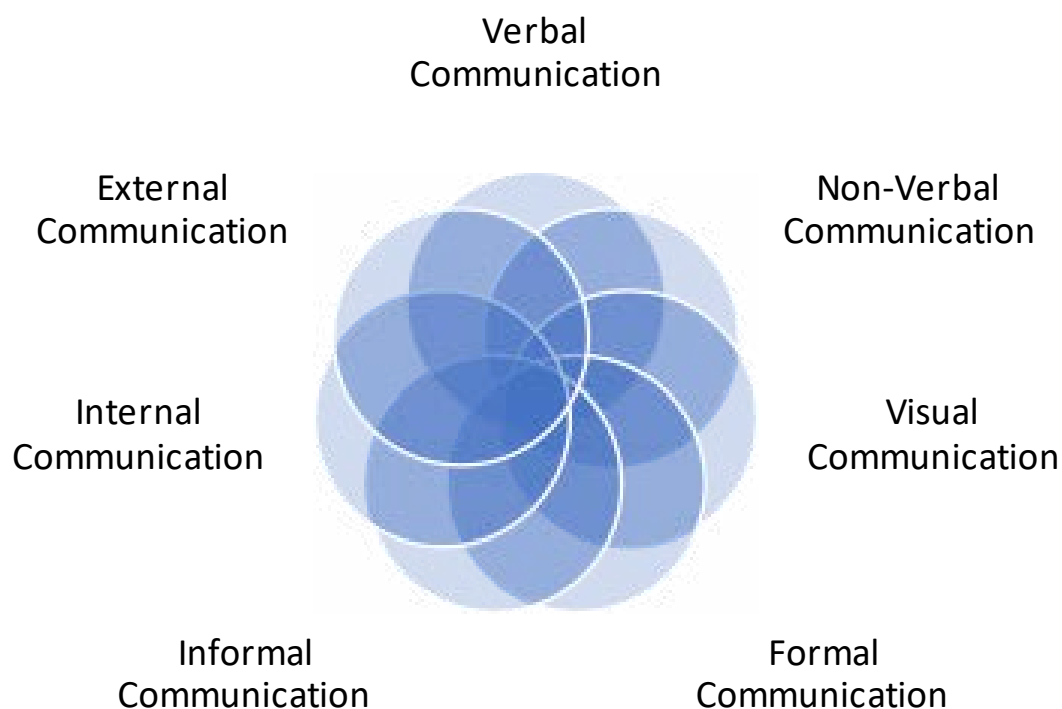
Answer at least one of the following questions to review your learning in this section.

1. Outline the steps in the process of business communication.
2. Analyse the process of business communication, identifying potential areas where the process might go wrong and how these risks could be mitigated.

## FORMS/TYPES OF BUSINESS COMMUNICATION

The terms types and forms of business communication are used to mean different ways and methods through which information is exchanged within an organisation, or with external parties.

Some of the types, or forms, of communication used in business are captured in the diagram below.



**Figure 1.5:** Types of business communication



**Table 1.5:** Types of communication

Type of communication	What does this look like?	Example
<b>Formal communication</b>	<p>In this form of communication, structured and official communication are exchanged within formal settings and through established channels.</p> <p>This could be Vertical Communication (upward or downwards within a hierarchy), Horizontal (across the same level of authority within a hierarchy) or Diagonal Communication (across different levels and different departments or functions).</p>	<p>Official meetings</p> <p>Reports</p> <p>Memos</p> <p>Policies</p> <p>Contracts</p> <p>Presentations</p>
<b>Informal communication</b>	<p>This type of communication permits the speakers to exchange casual and unofficial communication spontaneously without strict rules or protocols.</p>	<p>Casual conversations</p> <p>Social gatherings</p> <p>Informal meetings</p> <p>Interactions in informal settings like break rooms</p>
<b>Verbal communication</b>	<p>The use of words, spoken or written is referred to as verbal communication. It could be oral communication or written communication.</p>	<p>Face-to-face conversations</p> <p>Phone calls</p> <p>Speeches</p> <p>Presentations</p> <p>Letters</p> <p>E-mails</p>
<b>Non-verbal communication</b>	<p>This communication happens without the use of words and is conveyed through gestures, body language, facial expressions and vocal tones.</p>	<p>Eye contact</p> <p>Posture</p> <p>Tone of voice</p> <p>Facial expressions</p> <p>Hand movements.</p>

Type of communication	What does this look like?	Example
<b>Visual communication</b>	It is a form of communication which gives the speaker the opportunity to use visual elements like images, graphs, charts, diagrams, symbols and videos.	Infographics Presentations Charts Graphs Icons Symbols Videos
<b>Internal communication</b>	Conversation (oral, written etc.) within an organisation among its employees, departments, or teams is known as internal communication.	Emails between colleagues Team meetings Messages on intranet platforms Memos circulated within departments of an organisation
<b>External communication</b>	Communication between an organisation and external parties, such as clients, customers, suppliers, stakeholders and the public.	Customer service calls Marketing emails to clients Press releases to media Social media posts for public engagement.

### Activity 1.29

#### Types of Communication

Your teacher will arrange you in groups and assign you one of the following communication types:

1. Formal
2. Informal
3. Verbal
4. Non-verbal
5. Internal
6. External

In your groups, think of a situation where this type of communication would be used and perform a short role play.

Perform your role play for another group and see if they can guess which type of communication you were demonstrating.

### Activity 1.30

#### Types/Forms of Communication in Business

Complete the following tasks below:

1. Research the types or forms of communication used in a business set-up.
2. Prepare a brief report on your findings and be ready to discuss what you have discovered with your colleague students.

You can use the table below to support the preparation of your report.

1.	Types of communication a. b. c. d. e. f.
2.	Research findings
3	Summary of research findings

## CHANNELS OF BUSINESS COMMUNICATION

Channels of business communication are the various methods or pathways through which information is exchanged within an organisation and with external parties such as customers, clients, government, etc. Displayed below are some of the common channels:

**Table 1.6:** Channels of communication

Type of Communication	Channels of Communication
<b>Verbal Communication</b>	<p>Oral Communication: Includes face-to-face conversations, phone calls, video conferences, meetings and presentations.</p> <p>Written Communication: Involves emails, letters, reports, memos and text messages.</p>
<b>Non-Verbal Communication:</b>	<p>Body Language: Gestures, posture, facial expressions and eye contact.</p> <p>Paralanguage: Tone of voice, pitch, volume and speaking speed.</p> <p>Space and Distance: Proxemics, or the use of personal space.</p> <p>Touch: Haptics, or the use of touch in communication.</p>
<b>Visual Communication:</b>	<p>Graphs and Charts: Used to represent data and statistics visually.</p> <p>Images and Videos: Used for illustrations, demonstrations and storytelling.</p> <p>Infographics: Combines text, images and data to convey information succinctly.</p> <p>Signage and Symbols: Used for wayfinding and conveying specific messages quickly.</p>
<b>Formal Communication:</b>	<p>Downward Communication: Information flows from higher levels of the organisational hierarchy to lower levels (e.g., directives, instructions, policies, etc.).</p> <p>Upward Communication: Information flows from lower levels to higher levels (e.g., reports, feedback, suggestions).</p> <p>Horizontal Communication: Information flows between peers or colleagues at the same organisational level (e.g., coordination, collaboration).</p>
<b>Informal Communication:</b>	<p>Grapevine Communication: Informal, unofficial communication channels within an organisation (e.g., water cooler conversations, rumour mills).</p>
<b>Internal Communication:</b>	<p>Employee Communications: Internal newsletters, bulletins, intranet posts and internal social media.</p> <p>Team Communications: Updates, meetings and collaboration tools used within teams.</p>

Type of Communication	Channels of Communication
<b>External Communication:</b>	<p>Customer Communication: Emails, customer service interactions, social media posts and advertising.</p> <p>Public Relations: Press releases, media interviews and public statements.</p> <p>Supplier meetings and Partner Communication: Emails, and contracts.</p>

### Activity 1.31

#### Channels of Business Communication

Complete the task below:

1. In pairs, identify and list the types of communication.
2. For each type identified, discuss the channel of communication that is usually employed under each type in a business organisation.
3. Compare your responses with another pair for feedback.

### Activity 1.32

#### Channels of Communication

1. Your teacher will put you in groups and assign a channel of communication.
2. In your groups, think about how this channel of communication could be used and research examples of how it can be used effectively.
3. Create a short presentation on your assigned communication channel to your peers for discussion and feedback. This may be in the form of a poster, video or PowerPoint presentation.

### Activity 1.33

#### Using the Different Channels of Communication

Your teacher will set up different activity stations around your classroom. These may include;

1. A computer and a brief to write a short email to convey a particular message.
2. A brief to write a post for social media.
3. A telephone station to hold a customer service call.

Move around the classroom completing the different activities.

Take part in a discussion with your peers on what you learned through using the different channels of communication, and how effectively you were able to convey your message in each scenario.

### Activity 1.34

#### Channels of Business Communication

In groups, study the case below and perform the task that follows.

Mr. Nawunzoya Chalpan was appointed as the manager of Abongo company limited. He decided to organise a meeting where he could get the opportunity to familiarise himself with the staff of the company. Mr. Chalpan used different channels of communication as he introduced himself and catalogued what he expected from the members of staff. He then encouraged each of the staff members present at the meeting to share his view on how they can contribute to the success of their departments and organisation as a whole.

#### Task

1. Discuss the different communication channel which might have been used at the meeting.
2. Summarise your discussions by writing down the key points on a flipchart.
3. Make a presentation of the results of your discussion to the whole class.

### Activity 1.35

#### Channels of Business Communication

Read the following case study and perform the tasks that follow.

#### Multimedia Presentations in Communication

*Today, the world is regarded as a global village, visually driven and fast-paced where the use of multimedia presentations is an important tool for ensuring effective communication. Multimedia presentations such as PowerPoint, posters and other visual aids can help convey complex information in a clear and engaging manner. These multimedia presentations can be used in a business meeting, academic conference or public speaking event to transfer information to the audience for better understanding.*

*However, for multimedia presentations to be effective, it depends on several factors, including the design, content and delivery. Improperly designed and poorly executed presentations can lead to confusion, disengagement and a failure to communicate the intended message to members of the public.*

*To address this challenge, it is important to keep the message simple by focusing on the main points as well as use visuals to support and enhance the message to be delivered. Audiences should be engaged by encouraging them to participate and interact through the incorporation of elements such as polls, quizzes or interactive simulations. This keeps the interest of the listeners and promotes a deeper understanding. Furthermore, the use of high-quality visuals including images, charts and graphs, which are relevant to the topic helps to create a professional and polished presentation. It should also be noted that practice and rehearsal of the presentation is needed to ensure smooth, confident and effective delivery. This helps the presenter to feel prepared and adapt to any unexpected questions. It is important to clearly communicate the next steps or any desired actions you want the audience to take to ensure that the presentation achieves its intended purpose.*

### Task

1. In pairs, discuss the benefits and challenges of using multimedia tools in communication.
2. Identify and explain the best practices to consider if you want to be successful in using multimedia tools for business communication.
3. Use any of the multimedia tools stated in the case study to present your responses to the class.

## BARRIERS TO BUSINESS COMMUNICATION

Barriers to business communication are obstacles or challenges that hinder the effective exchange of information within an organisation or between parties. Below is outline of common barriers to effective communication in business.

1. **Language Barriers:** Unclear language or jargon can lead to misunderstandings and misinterpretations.
2. **Cultural Barriers:** Diverse cultural backgrounds may lead to varying communication styles, norms and values, impacting clarity and effectiveness.
3. **Physical Barriers:** The distance between the sender and receiver of a message, noisy environments and poor technology infrastructure can impede or bring about ineffective communication.
4. **Technological Barriers:** Issues such as bad communication tools, software or connectivity can delay effective delivery of messages from the sender to the receiver.
5. **Perceptual Barriers:** The differences in perception, biases or pre-conceived notions can affect how messages are received and understood.
6. **Emotional Barriers:** Emotional states of the sender or recipient of the message such as stress, anxiety, or lack of trust can block effective communication.

7. **Organisational Barriers:** Poor hierarchy structures, bureaucratic processes and poor communication policies can limit the flow of information from the sender and the receiver.
8. **Personal Barriers:** A receiver of a message with poor personal traits like bad listening skills, ego, or reluctance to communicate can hinder effective exchange of ideas.

### Activity 1.36

#### Barriers to Business Communication

1. Visit your school library or use the internet to conduct research on barriers to effective business communication.
2. Write down notes from your research and be prepared to share your findings as part of a class discussion.
3. As part of whole class discussion, share the findings of your research on barriers to communication.
4. Add to your list of barriers as the discussion continues and consider how each one affects communication.

You could use a mind map such as the one below to record your ideas.

### Activity 1.37

#### Barriers to Business Communication

1. Copy and complete the table below by writing the type of communication barrier that best fits the description in each scenario.



	Scenario	Type Of Communication Barrier
a	During a virtual meeting, the team leader tries to share a presentation, but the platform's screen-sharing feature is not working. This issue disrupts the meeting, causing frustration and delays.	
b	During a business lunch, a person from a western country talks openly about their achievements, but their colleague from a different part of the world feels uncomfortable as humility is highly valued in their culture. This difference creates discomfort and hinders open communication.	
c	An employee feels stressed and anxious about a personal issue. When their manager tries to discuss their performance, the employee becomes defensive, which blocks open and constructive communication.	
d	A shy student in a group discussion hesitates to share their ideas, fearing they might be judged. This limits their engagement and prevents effective communication within the group.	
e	Two neighbours, one of whom speaks only English and the other only Spanish, are trying to communicate about a neighbourhood issue.	
f	In a large company, an employee has a suggestion for improvement but finds it hard to communicate it due to the company's strict hierarchy and complex communication channels.	
g	A manager in an office building tries to communicate with a colleague working remotely, but their voice breaks up due to poor audio quality.	
h	A student approaches a teacher for help but senses the teacher is too busy or disinterested. This discourages the student from asking questions openly, limiting effective communication.	

2. Share your response with a colleague for feedback.

### Activity 1.38

#### Barriers to communication

1. Your teacher will play you a recording, or a short video showing an example of where communication has been impaired for different reasons.
2. Listen to the recording or watch the video and make notes on the barriers to communication that you have seen or heard.
3. Share your thoughts with the class as part of a wider discussion. Can you justify your answer?

### Activity 1.39

#### Self-Assessment

Answer the following question to review your learning in this section:

1. Explain the barriers to effective business communication.

## WAYS TO MITIGATE BARRIERS AND MAKE BUSINESS COMMUNICATION EFFECTIVE

In the previous lesson we looked at the barriers to effective communication. We will now look at the techniques that are used in business to mitigate the risk of communication being unclear, and which can be employed to enhance to effectiveness of communication across an organisation.

1. **Active Listening:** People who are listening or observing an event should practice active listening to ensure understanding and retention of information or events. Active listening involves the receiver summarising the information back to the sender or asking questions to confirm understanding. This helps to avoid miscommunication.
2. **Improving Technology:** Organisations should invest in reliable and user-friendly communication tools and infrastructure to support the effective transfer of information to the appropriate people.
3. **Clarity and Conciseness:** The use of friendly, clear and concise language to avoid misunderstandings promotes effective communication for organisational success.
4. **Cultural Sensitivity Training:** In an increasingly global workplace, organisations should provide training to their employees to increase awareness and understanding of cultural differences to avoid conflict or misunderstanding.
5. **Use of Appropriate Channels:** Result oriented managers or communicators always consider the intended audience and the type of information being transmitted in order to choose the most effective communication channel.

6. **Open Communication Culture:** Leaders in business organisations should foster a culture that values openness, transparency and the free flow of information for better understanding of organisational policy, and communication across and within teams.
7. **Reduce Information Overload:** A good communicator always focuses on the most important points to avoid overwhelming their audience with too much information to understand and reduce the risk of the key points getting lost in the “noise”.
8. **Continuous Improvement on communication skills:** For an individual to communicate well, participate in training and development sessions to enhance skills and competencies in communication.
9. **Manage Conflicts Effectively: Disagreement** affects smooth communication in business and therefore conflicts should be managed effectively to avoid misunderstanding.
10. **Feedback Mechanisms:** The speaker or manager must implement regular feedback mechanisms to confirm understanding and address issues promptly.

### Activity 1.40

#### Barriers to Communication

Form a pair with a colleague sitting next to you in class and list the barriers to communication and a way in which each one could be overcome.

Join with another pair and compare your work, adding to your list with more examples.

Find another group of four and work with them to compare your answers and see if there are further examples of barriers and mitigations you have missed.

Come together as a class and share your thoughts so that you can capture as many ideas as possible. Record these in your exercise book. A template has been provided below as an example.

Barrier	Mitigation

### Activity 1.41

#### Ways to Achieve Effective Business Communication

Imagine you are a researcher in business communication. Your mission is to explore the world of business communication and how it can be made more effective for managers and businesses to succeed. From your research findings;

1. Write an article that explains seven ways to achieve effective business communication. Your article should be suitable for publication in your school magazine.
2. Share the results of your work with your colleagues for feedback.

### Activity 1.42

#### Barriers to Communication

In pairs, study the scenario below and perform the tasks that follows.

##### Scenario

Kasongo and her friends were attending a funeral when she began discussing certain business opportunities with them. Her friends quickly pointed out that talking about business at a funeral is considered a taboo, making it an inappropriate time for such a conversation. Realising this, Kasongo stopped the discussion and did not share the business information as she had intended.

##### Tasks:

1. Identify and explain the communication barrier present in the scenario.
2. Discuss at least five strategies or methods that could improve communication in situations like this one.
3. Summarise your discussion and create a poster or PowerPoint presentation to share with the class for review.

### Activity 1.43

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this section:

1. State five barriers to communication and techniques that could be used to mitigate each one.
2. Explain how business communication can be made more effective.

## EXTENDED READING

1. **“Business Management for Senior High Schools”** by B. Atieku, E. M. Yiadom, T. Darkey and K. Takyi
  - a. *Decision Making*: Pages 60-65
  - b. *Communication*: Pages 100-106
  - c. *Delegation*: Pages 60-95
2. **“Management in Ghana: Challenges and Opportunities”** by Kwame A. Nkrumah
  - a. *Decision Making*: Pages 45-60
  - b. *Communication*: Pages 61-75
  - c. *Delegation*: Pages 76-90
3. **“Business Administration in Ghanaian Context”** by Joseph K. Adjei
  - a. *Decision Making*: Pages 20-35
  - b. *Communication*: Pages 36-50
  - c. *Delegation*: Pages 51-65

# Review Questions

1. What is decision making?
2. List four benefits a business can gain from the effective practice of delegation.
3. Identify at least four channels of communication that can be used in each of the following:
  - a. Verbal and non-verbal communication
  - b. Formal and informal communication
  - c. Internal and external communication
4. Describe how the delegation process would be applied by any Head Prefect of a Senior High School to delegate responsibilities to their deputies.
5. Describe the three main management levels. Identify the types of decisions taken at each level and why they take those decisions in an organisation.
6. How relevant is decision making to the survival and growth of business organisations?
7. Analyse four reasons why it is important for management, and employees of organisations, to adopt effective business communication in their organisation.
8. In what ways can business organisations mitigate barriers and enhance effective communication within and outside the organisation?
9. **Case Study:**

*Adoganga Company Ltd, a leading player in the automobile industry in Ghana, has experienced significant growth in the domestic market. The company's innovative designs and commitment to quality have earned it a strong reputation and a loyal customer base. Now, the CEO is considering an opportunity to expand the business internationally. A market analysis has identified Southeast Asia as a promising region due to its rapidly growing economy and increasing demand for automobiles. However, entering a new international market comes with challenges such as understanding local regulations, cultural differences, competition and logistics.*

- a. What are the reasons why Adoganga Company Ltd. is looking to expand?
- b. Apply the steps in the decision-making process to analyse the situation and justify your recommendation to the CEO on whether or not the company should expand.

SECTION

# 2

## LAW OF CONTRACT



# MANAGING BUSINESS AND THE LEGAL FRAMEWORK OF BUSINESSES

## Legal Environment of Business and Risk Management

### INTRODUCTION

We will begin to explore the legal framework that underpins business. This section aims to equip you with a comprehensive understanding of contract law, which is a fundamental aspect of business operations. You will study the meaning and elements of contract such as offer, acceptance, consideration, capacity and so on. Again, types of contracts, including vitiation of contracts and how to discharge a contract will be learnt. This will help you to analyse contractual issues and develop your understanding of how you might enter into contract with other parties in real-world business environments.

#### Key Ideas

- **Contract:** Is an agreement between parties which can be enforced by law.
- **Elements of contract:** These are the essentials that constitute a valid contract e.g. offer and acceptance.
- **Promise:** A declaration by one party to another that something will be done to create a binding obligation.
- **Valid contract:** Legally binding agreement that meets the essential elements of a contract.
- **Reformation:** It is where the court modifies a contract to reflect the original intention of the parties.
- **Discharge of contract:** An action taken by parties to terminate a contract.

### MEANING AND ELEMENTS OF A CONTRACT

To begin, we will look at what the term “contract” means from a legal point of view as it applies to business. We will then break this down to look at the different elements that make up a contract agreement.



## Meaning of Contract

Human beings by nature need to interact to co-exist. In the course of these engagements or interactions, we may trade-off wants and needs and make promises where one person provides or makes promises to do (or not) a particular thing in exchange for another. In effect, there is an agreement based on the promises made by both parties which may or may not be fulfilled. These engagements or promises brought about the Law of Contract to govern the efforts to achieve and perform voluntary agreements.

A contract is a legally binding agreement between two or more parties that is enforceable by law. It is where two or more parties make mutual exchange of promises to perform an act. That is, each party agrees to do, or not to do, something in exchange for a benefit. For example, a contract can be a sale agreement where one party promises to make available goods or services, and the other party promises to pay for them.

The term **contract** was defined by Sir Frederick Pollock (1876) as “an agreement, consisting of the exchange of promises which is recognised by law as giving rise to enforcement rights and obligations.”

## Differences Between a Contract and a Promise

It is important to state that a contract is different from a promise. A contract is a legally binding agreement between two or more parties that creates mutual obligations enforceable by law. A promise can be defined as a voluntary declaration or assurance made by one party to another, committing to perform a specific action, fulfil an obligation, or refrain from doing something. It is often based on trust, moral obligation, or personal integrity.

Contracts are enforceable by law. If one party fails to fulfil their obligations, the other party can seek legal remedies such as damages or specific performance (where a court decides that the party in breach of the agreement must fulfil its duties). Promises, in general, are not enforceable by law unless they meet the criteria of a contract (i.e. has an offer, acceptance, consideration and mutual intent to be bound etc).

Shown below is a table summarising the differences between a contract and promise.

**Table 2.1:** Differences between a contract and promise

No.	Contract	Promise
1.	A contract can be enforced by in the law court.	A promise may be a simple statement which cannot be enforced by the law.
2.	It includes consideration which should be something of value e.g. money.	It mostly lacks consideration; in most cases, no monetary value is attached to it.
3.	It has specific terms, conditions and obligations to be performed.	Promises made, in most instances, have no terms and conditions.

No.	Contract	Promise
4.	A good contract must be written and signed by the parties involved.	It can be a verbal or written; it may not be signed.
5.	It should be a legally binding agreement.	It is not necessarily legally binding

## Elements of a Contract

In order for a contract to be legally binding it must include the following as a minimum; offer, acceptance, consideration, capacity and legality. Each element will be looked at in detail over the next two lessons.

### 1. Offer and Acceptance:

Agreement is reached when two or minds meet on a common purpose. It is made up of offer and acceptance. When an offer made by one party is accepted by another party there is an agreement also as 'consensus ad idem'.

An **offer** made by one party may be the beginning of contract if the offer is accepted by another person.

An offer is a clear and definite proposal made by one party (the offeror) to another (the offeree) indicating a willingness, or readiness, to enter into a contract on certain terms.

On the other hand, **acceptance** is an unqualified agreement to the terms of the offer.

The offeree must communicate their acceptance to the offeror and must mirror the terms of the offer made.

An offer can be oral, written or implied by conduct; it must be clear, definite and unequivocal; it may be specific or general, just in the case of (Carlill vs. Carbolic Smoke Ball Co.), and it must be communicated to the offeree before it can be accepted.

Every contract starts with an offer; if a party makes no offer, there is no contract.

**Table 2.2:** Sample cases and judgements

Case details	Judgement
Example: <b>Tailor vs Laird 1856</b>	

Case details	Judgement
<i>A seaman named Tailor (the plaintiff) navigated a ship that was deserted in the middle of the sea, home to the owner (Laird – the defendant), without his prior notice and insisted on a fee. The owner of the ship (Laird – the defendant) refused to pay, and the seaman sued.</i>	<p><i>The court ruled that Taylor (plaintiff or seaman) could not claim a fee since the owner (Laird/owner or defendant) was not informed of the services and therefore could not accept or reject to pay the fee.</i></p> <p><i>The court relied on the fact that Tailor did not make any offer to Laird for his acceptance before navigating the ship back home, and therefore, the contract was void.</i></p>
<b>Example: Hyde vs Wrench (1840)</b>	
<i>Wrench offered to sell his farm to Hyde for GH¢ 1,000.00. Hyde agreed and responded, saying, “I accept your offer, but I want you to reduce the price by GH¢ 50.00. Wrench refused to sell the farm at the reduced price, and Hyde decided to sue Wrench for specific performance.</i>	<i>As the response Mr. Hyde gave was a counteroffer (new price), he was not accepting the offer. Wrench’s original offer was terminated, and there was no contract.</i>

### **The consensus or mutual assent:**

The consensus is otherwise known as a “meeting of the minds.” It is when both parties to the contract have a common understanding and agreement on the essential terms of the contract. This ensures that both parties understand each other regarding the contractual expectations and obligations.

For example, Kareweh agrees to construct living room furniture for Gyamfi for GH¢6,000. They discuss and agree on the actual type of furniture to be constructed, the timeline and the payment schedule. In this example, both Kareweh and Gyamfi have a mutual understanding and agreement on the furniture’s specifics, indicating mutual assent.

**Table 2.3:** Sample cases and judgements

<b>Example: Raffles vs. Wichelhaus (1864)</b>	
Case details	Judgement

**Example: Raffles vs. Wichelhaus (1864)**

*Raffles and Wichelhaus/ entered into a contract for the sale of cotton to be shipped from Bombay to Liverpool. The agreement specified that the cotton would arrive on a ship called “Peerless.” However, there were two ships named “Peerless,” each departing at different times. Raffles intended the cotton to be shipped on the earlier “Peerless,” while Wichelhaus expected it to arrive on the later “Peerless.” When the cotton arrived on the earlier ship, Wichelhaus refused to accept and pay for it.*

*The court held that there was no consensus (meeting of two minds) or mutual assent because both parties had a different understanding of a key term of the contract — the ship “Peerless.” Without a mutual understanding or “meeting of the minds” regarding this essential term, the contract was deemed void and unenforceable.*

**Court Judgment:**

The case of **Raffles v. Wichelhaus** illustrates the importance of mutual assent in contract formation. A contract is valid only when both parties share a common understanding of the essential terms. If there is a significant misunderstanding, as in the case of the two ships named “Peerless,” mutual assent is not achieved, and the contract cannot be enforced.

## 2. Intention to Create Legal Relations:

The parties to a contract must explicitly or implicitly make their intention known to each other for the contract to be enforceable or legally binding. By declaring their intentions, each party allows the court to enforce the contract and uphold their obligations in case of a breach.

In business transactions, the intention to create legal relations is generally presumed, whereas in social or domestic arrangements, it is usually not. For example, promises made between family members, such as a husband promising his wife a birthday gift, typically do not result in legally binding contracts.

In summary, the agreement between the parties must be subject to legal action if any issues arise.

**Table 2.4:** Sample cases and judgements

Example: Balfour vs. Balfour (1919)	
Case details	Judgement

**Example: Balfour vs. Balfour (1919)**

*Mr. Balfour was a civil engineer working for the government in Ceylon (now Sri Lanka). During his leave in 1915, he and Mrs. Balfour returned to England. Mrs. Balfour had developed rheumatic arthritis and was advised to stay in England for her health. As Mr. Balfour was about to sail back, he promised to send Mrs. Balfour £30 a month until she could return to Ceylon. They later drifted apart, and Mr. Balfour wrote to Mrs. Balfour suggesting they remain apart. Mrs. Balfour sued him for the monthly payments. She initially received a decree nisi and alimony from a lower court judgment.*

*Mr. Balfour appealed the case in 1919. The appeal court held that there is a rebuttable presumption against an intention to create a legally enforceable agreement when the agreement is domestic. The court ruled that there was no intention to create a legal relationship in this case. Therefore, the agreement was not legally enforceable. The court noted that since the promise was a social agreement, it did not constitute a valid offer.*

### 3. Certainty of Terms:

Certainty of terms refers to the clarity of a contract's terms and conditions. The terms of the contract must be clear, certain and unambiguous. All essential elements such as price, quantity, quality and timing must be specified. This supports mutual assent or consensus in the contract agreement.

Certainty of terms ensures that there is no confusion about the obligations and rights of each party. For instance, Efua contracts with a builder to construct a two-bedroom house for GH¢180,000. Detailed information about the construction materials, design specifications, completion date and payment milestones were all properly understood and agreed by both parties. The clarity and specificity of the terms ensure that both Efua and the builder understand their obligations, reducing the potential for disputes.

**Table 2.5:** Sample cases and judgements

Example: <b>Scammell vs Ouston (1941)</b>	
Case details	Judgement
<i>Ouston agreed to buy a van from Scammell and, in exchange, to trade in an old van and pay the balance on "hire-purchase terms." The contract did not specify the details of the hire-purchase terms, such as the duration of payments, interest rates, or the total amount payable. Scammell and Ouston later disagreed on these terms, leading to a dispute.</i>	<i>The court held that the contract was void due to uncertainty. The lack of specific and clear terms regarding the hire-purchase arrangement meant there was no consensus on the essential elements of the contract. Without clear and unambiguous terms, the contract could not be enforced.</i>

Scammell vs. Ouston case is an example that highlights the necessity for certainty in the terms of a contract. A contract is only enforceable when all essential elements are clearly defined and agreed upon by both parties. Ambiguities or omissions in critical terms like price, quantity, quality and timing can render a contract void due

to uncertainty. This ensures that both parties fully understand their obligations and rights, preventing confusion and disputes.

### Activity 2.1

#### Meaning and Elements of a Contract

Organise yourselves into groups of not more than five. In your groups, read the following scenario and answer the questions that follow.

*Your school decided to display a notice for students on the board that there will be a send-off party for students moving up to Year 3. It was stated on the notice that the senior house master has been duly informed, and students should pay their send-off party registration fee of GH¢40.00 to Master Paha. Yinemi, a Year 3 student, quickly organised the said amount and paid it to the master responsible. However, on the party day, the hall was filled to capacity and Yinemi was turned away from the party as the hall was overcrowded and additional people would jeopardise health and safety.*

1. Discuss whether Yinemi and the school had a contract and what elements are present in the contract, if any. (Your discussion should highlight the difference between a contract and a promise)
2. Deliberate on whether Yinemi is entitled to a refund and compensation for not being allowed to participate in the send-off party.
3. Make a Flipchart or PowerPoint presentation of your responses and share this with your colleagues in class for discussion and feedback.

### Activity 2.2

#### Meaning and Elements of a Contract

Organise yourselves into groups of not more than five. In your groups, read the scenario below and answer the question that follows.

Two friends, Babra and Baba, decided to embark on a holiday trip to Paga to visit the crocodile pond in the Upper East region for two days. They agreed to share the cost of the holiday trip, which was estimated to be GH¢3,000.00. Later, Babra decided not to go on the trip due to some personal engagements.

#### Question for group discussion

Is there a legally binding contract between Babra and Baba? Justify your answer with reference to the intention to create legal relations.

**Activity 2.3****The Meaning and Elements of a Contract**

Carry out further research on the meaning and elements of contracts covered in this lesson.

You could complete this online or by discussing the issue with a subject expert. If possible, you could arrange a discussion with a professional or teacher specialising in this area to support this task. Consider the following questions:

- 1.** Discuss the meaning of Contract.
- 2.** Differentiate between a contract and a promise.
- 3.** Discuss the following elements of a contract.
  - a.** Offer and Acceptance.
  - b.** Mutual Assent.
  - c.** Intention to Create Legal Relations
  - d.** Certainty of Terms.

Write down the key points from your research, or on the outcomes of your discussion if you were able to arrange this.

**1. Prepare a report and present it to your teacher for review**

You can use the table below to help you prepare the report

a.	<b>Meaning of contract</b>	
b.	<b>The differences between:</b>	
	Contract	Promise
	* * * * * *	* * * * * *
c.	<b>The elements of contract:</b>	
	i. Offer and acceptance	
	ii. Mutual assent	
	iii. Intention to Create Legal Relations.	
	iv. Certainty of Terms.	
	Comments (if any)	



## Activity 2.4

### Extension activity

Read the case study and answer the questions that follow. This activity has been designed for you to complete in your own time.

#### Case Study: The Digital Marketplace Contract Dispute

*Kwame and Ama are entrepreneurs in Ghana. Kwame runs a business selling handmade furniture online, while Ama manages an interior design company. They met at a local business conference and discussed a potential partnership where Kwame would supply custom-made furniture for Ama's clients. They exchanged emails discussing the terms of the agreement.*

*In an email from Ama to Kwame, Ama expresses interest in purchasing a variety of custom-made furniture items over the next year. She mentions an initial order of 20 dining tables at GHS 1,000 per table, with delivery in three months. Ama states that if the initial order is satisfactory, she will place further orders for chairs and other items.*

*In response to Ama's email, Kwame confirms the price and delivery timeline for the dining tables. He also mentions that he will provide a 10% discount on future orders if Ama is happy with the initial batch. Kwame states that a formal contract will be sent for Ama's signature.*

*In a follow-up email from Ama to Kwame, Ama agrees to the terms and asks for confirmation of the exact specifications and materials for the dining tables. She also requests a sample table to be delivered within a month for approval before the bulk order is completed.*

*A month later, Ama receives the sample table and is dissatisfied with the quality of the materials used. She emails Kwame, expressing her concerns and requesting changes. Kwame responds, saying that the materials used were agreed upon and that any changes would incur additional costs and delay delivery.*

*Ama argues that the exact specifications were not clearly defined in their email exchange and insists that the contract terms need to be renegotiated. Kwame believes that they have a binding contract based on their email agreement and that Ama is obliged to proceed with the order under the original terms.*

#### Questions:

1. Critically evaluate the role of "offer and acceptance" in the formation of the contract between Kwame and Ama. Was there a clear offer and acceptance? Provide reasons for your conclusion.
2. Analyse the concept of "mutual assent" in this case. Do you think both parties had a clear mutual understanding of the contract terms? Justify your response with examples from the email exchange.
3. Examine the importance of "intention to create legal relations" in this scenario. Did Kwame and Ama demonstrate a clear intention to be legally

bound by their agreement? Support your argument with evidence from the case study

4. Discuss the element of “certainty of terms” in the context of the dispute over the material quality. Were the terms of the contract sufficiently certain and clear? How might the lack of clarity affect the enforceability of the contract?
5. Reflect on how digital communication (e.g., emails) impacts the formation and interpretation of contracts. What challenges arise from using emails to form contracts and how can these challenges be mitigated?

Answer the questions in your exercise book or as a typed report and share with your teacher for feedback.

### Activity 2.5

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Summarise the meaning of a contract.
2. Differentiate between the terms “contract” and “promise”.
3. Explain the following elements of a contract:
  - a. Offer
  - b. Acceptance
  - c. Mutual assent
  - d. Legal relations
  - e. Certainty of terms.

## ELEMENTS OF CONTRACT (CONSIDERATION AND CAPACITY TO CONTRACT)

This lesson continues to explore the elements of a contract and focuses on consideration and capacity.

### Consideration

Consideration is something of value that can be exchanged by the parties involved in a contract. It is the price (money, goods, promises, acts, etc) paid by one party to secure the obligation of the other party in a contract. Valid and enforceable contracts must be supported by consideration. This implies that each party to the contract must provide something of value in return for the benefit received.

Consideration can be classified as executed (action performed), executory (action to be performed), or past (previously given). In law, past consideration is not enforceable in a court. Valid consideration must be legal, real and sufficient (and not past).

**Table 2.6:** Sample cases and judgements

Case details	Judgement
<b>Example: <i>Glassbrooke v. GCC (1925)</i></b>	
<i>During a coal mine strike, the police were duty-bound to protect the mine and proposed mobile units for protection. The mine owner requested stationary police on the premises and promised to pay for this extra service. The police complied, but the mine owner later refused to pay, arguing that the police were simply performing their public duty.</i>	<i>The court held that although the police were required to provide protection, they had discretion in how it was provided. Since the police went beyond their normal duties by stationing officers on the premises instead of using mobile units, the extra protection was considered good consideration. Therefore, the mine owner was obligated to pay for the additional police protection as promised.</i>
<b>Example: <i>Dunlop Vs Selfridge (1915)</i></b>	
<i>A producer of tires agrees to supply to a retailer at a discounted price, provided the retailer did not resell the tires below a certain price, the retailer agreed, and contract signed. Later, Selfridge did not act as he promised, and Dunlop sued him.</i>	<i>The court conceded that Selfridge's (retailer's) promise not to sell below a certain price is a consideration, was bargained for and cannot be past. Therefore, the court rule in favour of the manufacturer of the tires (Dunlop).</i>

## Types of Consideration in Contracts

1. **Executed Consideration:** This type of consideration is where one or both parties to the contract have already performed its part of the contract at the time the contract is made. For instance, Jemima agrees to pay GH¢40.00 to Chalpan if she delivers a book titled Business Management to him. Jemima immediately delivers the book and Chalpan is yet to pay or fulfil his part of the contract (to pay GH¢40.00). The consideration (the book delivery) is executed by Jemima.

**Table 2.7:** Sample cases and judgements

<b>Example: <i>Carlill v. Carbolic Smoke Ball Co. (1893)</i></b>	
Case details	Judgement

**Example: *Carlill v. Carbolic Smoke Ball Co. (1893)***

*The Carbolic Smoke Ball Company advertised that they would pay £100 to anyone who used their product according to the instructions and still contracted influenza. Mrs. Carlill used the smokeball as directed but contracted influenza and sued the company for the £100.*

*The court held that there was a binding contract because Mrs. Carlill had performed the required act (using the smokeball and contracted influenza), which constituted executed consideration. The company's promise to pay £100 was enforceable because it was a unilateral contract completed by Mrs. Carlill's actions.*

***Smoke Ball Co. (1893)***

*The court held that there was a binding contract because Mrs. Carlill had performed the required act (using the smokeball and contracted influenza), which constituted executed consideration. The company's promise to pay £100 was enforceable because it was a unilateral contract completed by Mrs. Carlill's actions.*

2. **Executory Consideration:** Executory consideration is consideration that is to be provided at a future date. For instance, if Aje promises to pay Ajewa GH¢50 next month if she agrees to deliver a book to him next week. Both Aje's and Ajewa's promises are executory since the actions are to be performed in the future.

**Table 2.8:** Sample cases and judgements

<b>Example: <i>R vs. Clarke (1927)</i></b>	
Case details	Judgement
<i>The government of Western Australia offered a reward for information leading to the conviction of certain criminals. Clarke provided the information but admitted he had forgotten about the reward at the time he gave the information.</i>	<i>The court held that Clarke could not claim the reward because his information was not provided in exchange for the reward offer; he had no intention to accept the offer at the time he provided the information. This case highlights that both promises (the government's offer and Clarke's information) must be executory and intended to be exchanged.</i>

3. **Past Consideration:** Past consideration is something that was provided before the agreement was made. Generally, past consideration is not valid because it was not given in exchange for the promise. For instance, Adwoa helps Yaw move his furniture and a week later, Yaw promises to give Adwoa GH¢50 for their help. Since Adwoa's help was provided before Yaw's promise, it is considered past consideration and is generally not enforceable.

**Table 2.9:** Sample cases and judgements

Case details	Judgement
<b>Example: <i>Re McArdle (1951)</i></b>	

Case details	Judgement
<i>Mrs. McArdle made improvements to a house and, after the work was done, the beneficiaries of the house signed a document promising to pay her for the improvements. The payment was never made and Mrs. McArdle sought to enforce the promise.</i>	<i>The court held that the promise to pay was not enforceable because the consideration (the home improvements) was past consideration, provided before the promise was made. Past consideration is not valid consideration in forming a contract.</i>
<b>Example: Roscorla V.s Thomas (1842)</b>	
<i>Roscorla sold a boat to Thomas for £50. After the sale, Thomas insisted and promised to pay an additional £10 if Roscorla would sail the boat to a particular port for him. Meanwhile, Roscorla had already sailed moved the boat to the said port before the promise or discussion for the additional £10. The main question here was if Thomas's promise to pay £10 enforceable at the law court?</i>	<i>The court held that Roscorla's past action of sailing the boat to the port earlier was not sufficient consideration for Thomas's promise. Therefore, the court ruled in favour of Thomas.</i>

These cases and examples illustrate the different types of consideration and the conditions under which they are enforceable in contract law.

## Capacity to Contract

Contractual capacity is the legal ability of a person, (which in contract could be either an individual or corporation), to enter into a binding contract. Generally, parties are free to enter into any contract they desire unless they lack the capacity to do so. The law prohibits certain individuals from entering into contracts, these persons include:

*Individuals under the age of 18 are referred to minors and are not capable of entering into a contract unless it is in the case of necessities. As an exception, minors are allowed to enter into contracts for necessities (such as books, clothing, food and shelter), beneficial contracts (like education and apprenticeship) and beneficial contracts of service.*

Example of a case: **Nash vs. Inman (1908)**

*Nash, a seamstress, entered into a contract with Inman, a learner and minor, to sew eight waistcoats. Inman later refused to pay, and Nash sued him.*

**Case Judgement:** *The court ruled that the waistcoats were luxuries, not necessities and therefore, the contract was void and unenforceable. If the waistcoats had been limited to one or two, the court might have enforced the contract, as it would have constituted necessities, for which Inman had the contractual capacity to enter into.*

1. Those who are intoxicated or drunk.
2. Third parties - persons who are not directly involved in the contract (privity of contract).

3. Nationals of a country at war with the contracting country.
4. In some jurisdictions, undischarged bankrupts have limited capacity to contract.
5. Individuals who are mentally incapacitated.

Example of a case: **Hart vs O'Connor (1875)**

*Daniel O'Connor, while suffering mental ill health, sold their farm to William Hart for £1,500. Hart was aware of O'Connor's mental state but went ahead with the sale contract. The family of O'Connor challenged the sale, insisting that he (O'Connor) lacked capacity to enter into a contract.*

**Court Judgement:** *The court ruled in favour of the family of O'Connor. That is, the contract was void since O'Connor did not have capacity to enter in to contract and Hart had knowledge of O'Connor's mental capacity. As such, it was judged that Hart must return the farm to O'Connor.*

## Activity 2.6

### Consideration and Capacity to Contract

Organise yourselves into groups of no more than five. Your groups, read the case study and answer the questions that follow.

#### The Comic Book Case

*John Sakyi is a 17-year-old high school student studying English literature. He recently came across a valuable collection of vintage comic books. He decides to purchase the collection from a local seller, Mr. Ananse, for GH¢500, using the savings he made from the upkeep money given to him by his parents. They draft a simple agreement where Mr. Ananse promises to sell the comic books in exchange for the payment with a one-year warranty. John is excited and decides to lend one of the comics to his friend Naa Dede, who accidentally damages it before the one-year warranty could expire. John then returns the damaged comic book back to Mr. Ananse asking for a partial refund, but Mr. Ananse refuses. John is now unsure if his contract with Mr. Ananse is legally binding and whether he has any grounds for a refund for the damaged comic book.*

#### Questions for Discussion:

1. Was there valid consideration in the agreement between John and Mr. Ananse? Justify your answer. (Your answer should include a definition of the term "consideration")
2. Would the damaged condition of the comic book affect the consideration in this contract? Explain your reasoning.
3. Given John's age, does he have the legal capacity to enter into this contract? Justify your answer. Consider the concept of "capacity to contract" and the categories of "persons" who are prohibited by law from entering into contracts in your response.



4. Based on John's age and the situation, is the contract enforceable? Provide reasons for your answer.

**Task:**

Write a summary of your responses for presentation to the class using a manila card or flip chart. Allow your classmates to feedback on your presentation.

## Activity 2.7

### Consideration and Capacity to Contract

In pairs, review the case study and its related questions then complete the task that follows.

#### Mukapee's land saga

Mukapee is a 22-year-old whose mental capacity is impaired due to a head injury. He inherited land worth GH¢300,000.00 located in a prime area in Accra, Ghana from his late father. Mukapee decided to sell this land and Mawuli, who was aware of Mukapee's limited mental capacity, proceeded and bought the land for GH¢30,000.00 and the ownership of the property was transferred to him. Later, Mukapee decided to challenge the sale of the land to Mawuli insisting that he (Mukapee) lacks capacity and the consideration offered was inadequate.

#### Questions for Discussion

1. What constitutes consideration in the case above?
2. Is the consideration executory, executed, or past? Justify your answer.
3. Do each of the parties in this example have the legal capacity to enter into the contract? How do you justify your decision?

**Task**

Prepare a presentation of your answers to the questions. This could be in the form of a slide show (PowerPoint) or a written report to the class for feedback and discussion.

## ELEMENTS OF CONTRACT

We are going to continue with the learning of the elements of contract. In the first lesson of this week, we are going to explore the remaining elements of contract. These are;

1. Legality
2. Formalities
3. Possibilities of Performance

1. **Legality:** Legality is a fundamental element of a valid contract, ensuring that the contract's subject matter and terms are lawful and do not violate public policy and law. For a contract to be enforceable, it must have a legal purpose. Legality of contract includes:
  - a. **Legal Purpose:** This is a concept that looks at whether the object or purpose of a contract is recognised by law. The contract must be formed for a lawful purpose. Contracts formed for illegal activities, such as kidnapping, fraud, and so on are void and cannot be enforced in a court of law. For example, a contract to sell illegal drugs or to rape would be considered void due to illegality (the purpose is illegal).
  - b. **Contracts Involving Regulated Activities:** Certain activities such as gambling, insurance, financial services and healthcare are heavily regulated, and contracts related to these activities must adhere to specific legal requirements. Such contracts must meet regulatory standards and often require that parties involved in those businesses or activities are licensed or granted permits to deal in those activities or businesses.
  - c. **Compliance with Laws and Regulations:** The parties intending to enter into a contract should look at the terms and performance of the contract to ensure that they comply with applicable laws and regulations. That is the subject matter of the contract should not violate the local, state and federal laws that govern it. For example, a contract involving the sale of alcohol must comply with liquor licensing laws and regulations.
  - d. **Public Policy:** The contract the parties are entering into must not be contrary to public policy. Even if a contract is not illegal, it can still be unenforceable if it goes against established societal values and norms. Contracts that restrain trade, promote unethical behaviour, or involve unfair or unconscionable terms can be deemed against public policy and thus unenforceable. An example is a non-compete agreement that is excessively restrictive in terms of duration or geographic scope, which may be invalidated by courts for being against public policy.

Example of a case: **Elliot vs Richardson (1870)**

*Elliot agreed and entered into a contract with Richardson and lent £200 to Richardson to finance a betting transaction which was not sanctioned by the law. Richardson failed to pay, and Elliot sued him.*

**Court Judgement:** The contracted was void as it promoted illegal gambling.

**Consequences of Illegality:** If a contract is found to be against public policy or illegal, it is typically void and unenforceable. Neither party can enforce the contract or seek damages for breach of contract. Courts generally refuse to assist either party in recovering any benefits conferred under an illegal contract, following the principle of “in pari delicto” (both parties equally at fault).

**Severability:** There are instances where, if a specific provision of a contract is illegal, the courts may sever the illegal part and enforce the remainder of the contract, provided that the illegal provision does not go to the essence of the



contract. This is known as the doctrine of severability, and it is applied to preserve the enforceable parts of a contract while discarding the illegal elements.

2. **Formalities:** Formalities of a contract refer to the specific requirements and procedures that must be followed for certain types of contracts to be legally valid and enforceable. While many contracts can be formed orally or through informal means, some contracts require adherence to specific formalities, which can include written documentation, signatures, witnesses and notarisation. Here are the key aspects of formalities in contract law:
  - a. **Written Contracts:** Some contracts must be in writing to be enforceable. Examples of those contracts include sale of land, credit sale, contracts that cannot be performed within one year, contracts for the sale of goods over a certain value, and so on. This requirement is often dictated by statutes, such as the Statute of Frauds.
  - b. **Signatures:** A written contract typically needs to be signed by the parties involved to indicate their agreement to the terms. Today, electronic signatures are also generally accepted as valid.
  - c. **Witnesses:** There are contracts that require the presence of witnesses to attest to the signing of the document. This is common in wills, certain real estate transactions and other important legal documents.
  - d. **Compliance with Statutory Requirements:** Certain statutes and regulations impose formal requirements for specific types of contracts. Failure to comply with these requirements can render a contract void or unenforceable. For example, consumer protection laws may require specific disclosures or written agreements for certain types of consumer transactions.
  - e. **Notarisation:** Some contracts may require notarisation and involve a public notary who verifies the identities of the witnesses to and the parties signing the contract. This provides an additional level of authentication and is often required for documents related to real estate transactions, powers of attorney and certain affidavits.

Example of a case: **Lee vs Showmen's Guild of Great Britain (1952).**

*Lee verbally went into a contract with the Guild and agreed to lease a property to them (Guild) for an amount. Later, the Guild took over the ownership of the land and refused to pay. Lee was worried and frustrated and then took court action against the Guild.*

**Court Judgement:** The agreement was unenforceable due to the lack of a written contract and signature. Contracts concerning lease should be in writing and signed.

3. **Possibilities of Performance:** Possibility of performance refers to whether a contract's obligations can be really performed. That is to say, for a contract to be valid and enforceable, it must be possible for the parties to fulfil or perform their respective obligations under the terms of the agreement. Possibility of performance includes:

- a. Physical Possibility:** The obligations or tasks required by the contract must be physically possible to perform. In this light, a contract to perform a task that is impossible due to physical laws would not be enforceable. An example would be a contract to produce cobbles from a source that only contains sand.
- b. Legal Possibility:** The performance of the contract must be legal. Contracts requiring actions that are illegal or against public policy are not enforceable. For instance, a contract to sell illegal drugs or to engage in illegal activities like smuggling goods would be void.
- c. Factual Possibility:** The circumstances surrounding the contract must allow for its performance. If an unforeseen event (natural disaster – heavy flooding) affects the subject matter, it makes performance impossible, the contract might be voided under the doctrine of impossibility or frustration. For example, if a musician is contracted to give a concert and the venue is destroyed by fire some few hours before the performing date, performance would be factually impossible.
- d. Economic Feasibility:** While economic feasibility is not strictly a legal requirement, it affects the likelihood of performance. If the costs of performance become prohibitively expensive, it may impact the contract's viability. For example, a supplier may contract to provide materials at a fixed price, but if the cost of materials skyrockets due to an unforeseen market condition, fulfilling the contract might become economically impractical.

*Example of a case: **Taylor vs Caldwell (1863)***

*Taylor and Caldwell entered into a contract where Caldwell agreed and hired his music hall to Taylor for a concert. Days before the concert was due to be staged, the hall was destroyed by fire. Taylor approached Caldwell and sued him for breach of contract.*

**Court Judgement:** Was Caldwell liable for breach of contract? No, the contract was discharged due to impossibility of performance.

All three concepts: legality, formality, possibility of performance and are critical components of contract law as they ensure that agreements are lawful, properly formed and enforceable realistically.

## Activity 2.8

### Elements of Contract

1. Organise yourself into groups of no more than five. In your groups, discuss the following elements of contract
  - a.** Legality of contract.
  - b.** Formalities of contract.
  - c.** Possibility of performance.

2. Include examples of the activities or factors and how they would affect the validity of a contract.
3. Summarise the key points of your discussion in a table format and make a presentation to your colleagues for feedback and discussion.

You can use the table below to support your work

A.	Legality of contract.
B.	Formalities of contract.
C.	Possibility of performance.

### Activity 2.9

#### Elements of Contract

Organise yourselves into groups of not more than five. In your groups, read the case study below and answer the questions that follow.

#### Ogrey Catering Services

Madam Ogrey is an entrepreneur who runs a small catering business. She recently received an offer from Mr. Bottles, the owner of a local club, to provide catering services for a private party he is hosting next month. They verbally agree on the price, menu and date. However, during their discussions, Mr. Bottles mentions that he wants some special ingredients that are difficult to source legally in their country and suggests using cheaper, imported substitutes. Madam Ogrey is hesitant but decides to proceed, hoping to fulfil the contract requirements and boost her business's reputation. However, she soon finds that her suppliers cannot deliver the required ingredients by the agreed date, making it nearly impossible to fulfil Mr. Bottle's specific requests.

#### Questions for Discussion:

1. Based on Mr. Bottle's request for specific ingredients, does this contract have any legal issues that could affect its enforceability? Consider the meaning of "legality" and its importance in your answer.

2. If Mr. Bottle's request involves sourcing ingredients that are illegal to import, what impact would that have on the contract's validity?
3. Given that Madam Ogrey and Mr. Bottle only made a verbal agreement, does this fulfil the formal requirements for a valid contract? Justify your answer considering "formalities" of contract.
4. Since the suppliers cannot deliver the specific ingredients on time, is it still possible for Madam Ogrey to perform under the agreed terms?

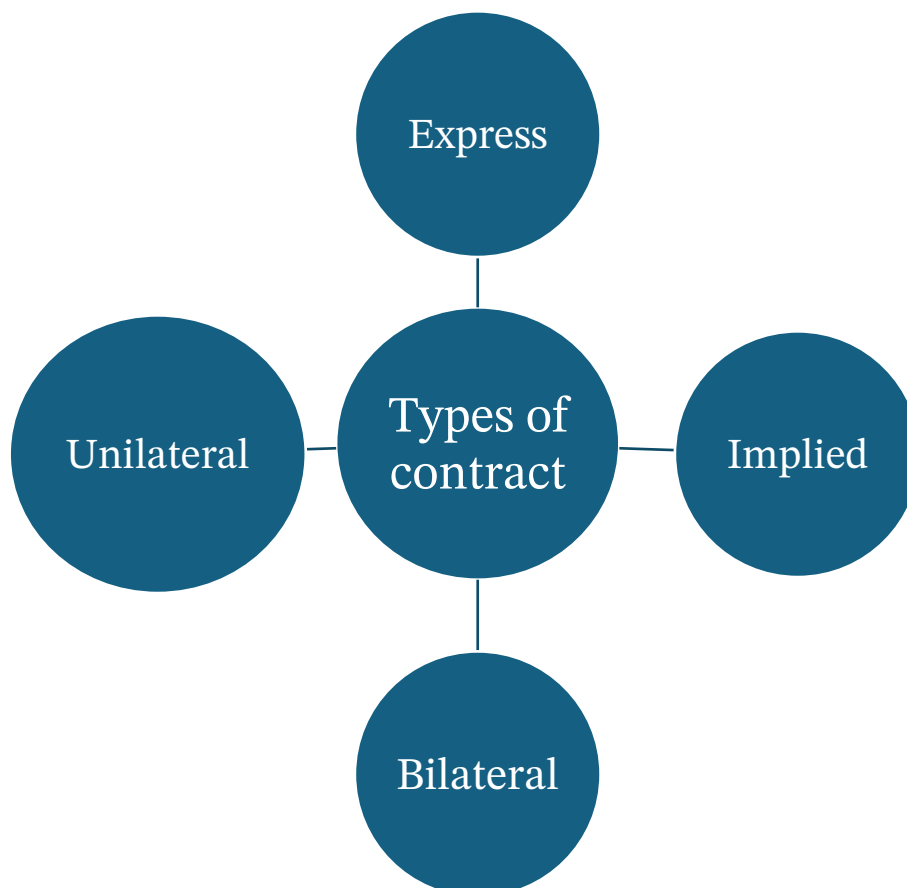
**Task:**

Type your responses as a report in MS Word format and present it to your teacher for review and feedback.

## TYPES AND CLASSIFICATIONS OF CONTRACT

### Type of Contracts

There are four main types of contracts:



**Figure 2.1:** Type of Contracts

1. **Express Contracts:** Express contracts are binding agreements where the terms are explicitly stated by the parties, either verbally or in writing. For example, a written agreement to purchase a car specifying the price, delivery date and other terms. It is characterised by clear and specific terms; mutual understanding; can be easily proved and enforced.
2. **Implied Contracts:** These are agreements that are indirectly created by the actions, conduct, or circumstances of the parties, indicating a mutual intention to contract or imposed by law to prevent unjust enrichment even if there is no intention to form a contract. For example, a patient receiving treatment from a doctor implies an agreement to pay for the services. It is characterised by not being explicit in a stated form but inferred from behaviour or situation.
3. **Unilateral Contracts:** This is a type of contract where one party makes a promise to provide consideration in exchange for the other party's performance. For example, a reward contract where one party promises to pay if the other party finds a lost item. It is characterised by only one party making a promise; the contract is formed when the other party performs the act or work expected.
4. **Bilateral Contracts:** For this contract to be valid, both parties must exchange mutual promises. The offeror makes an offer, and the offeree accepts it to begin a contract. For example, a job offers where the employer promises to pay, and the employee promises to work. It is characterised by mutual obligations; the contract is formed when promises are exchanged.

## Classifications of Contracts

Contracts can be classified based on their **performances** and **enforceability**.

1. **Contracts based on Performance:**
  - a. **Executed Contracts:** Parties to a contract are expected to perform their obligations (work) as stated in the contract. Contracts are considered executed when all parties have fulfilled their contractual obligations. For example, a completed sale of goods where payment has been made and goods have been delivered. The contract is executed when it is fully performed; nothing remains to be done by either of the parties involved in the contract.
  - b. **Executory Contracts:** An executory contract is when some or all of the contractual obligations (works) are yet to be performed. For example, a lease agreement where future rent payments are still due may be referred to executory contract. Executory contracts are characterised by ongoing performance; future obligations remain.
2. **Contracts based on Enforceability:**
  - a. **Valid Contracts:** A valid contract is one that meets all the essential contract elements such as offer, acceptance, consideration, legality, capacity, consent, etc and is enforceable by law. An example of a valid contract is a legally binding sales contract. It is characterised by being legally binding and enforceable by

law; if terminated the parties involved can seek legal remedy for breach of the contract.

- b. Void Contracts:** This is a contract that is legally invalid as it lacks one or more essential elements or it involves illegal activities, making it unenforceable from the beginning due to a fundamental flaw. For example, a contract for illegal drug sale. It is characterised by activities that are not legally binding and would be treated as if it never existed. Another example is when a minor enters into a contract, it is referred to as a void contract.
- c. Voidable Contracts:** A contract that is voidable is one that is valid and enforceable until one of the parties to the contract chooses to cancel it due to defects such as misrepresentation. A voidable contract is considered valid at face value but can be voided or terminated by one party if he or she realises that the contract contains some mistake(s). For example, a contract signed under coercion. The party that is affected has the option to enforce or void the contract.
- d. Unenforceable Contracts:** This is a contract which is valid in essence but cannot be enforced due to technical reasons, such as not being in writing when required by law. For example, an oral agreement for the sale of land, which typically must be in writing. It is characterised by situation when it cannot be enforced in court due to specific legal deficiencies.

*Example of a case: **Redmond vs Fahey (1916)***

*Ellen Redmond, a spinster, transferred her property to her nephew, Fahey. Later, Redmond alleged undue influence. She insisted, and proved, that Fahey coerced her into signing the deed (contract) and sued Fahey to recover the property.*

**Court Judgement:** *The court held that there was undue influence rendering the contract **voidable**. That Fahey's actions constituted coercion to exploit Redmond's vulnerability and Redmond's consent was not freely given; she was entitled to the property.*

### Activity 2.10

#### Types and Classifications of Contract

Working in pairs, identify and explain each of the types of contracts. Compare your responses with another pair for feedback.

### Activity 2.11

#### Types and Classifications of Contract

Working in groups, read the case study and answer the questions and task that follow.

**YINTIMA COMPANY LIMITED**

*Yintima Company Limited, a manufacturing firm, is located in Bolgatanga, in the Upper East Region of Ghana. Yintima Ltd. intends to put up additional office structures. The company hires Sharp-Sharp Contractors to build a new office building for them. The contract, which has a price of One Million Ghana Cedis is stipulated to be completed within 18 months with a payment term of 50% upfront and 50% upon completion. The contract documents have a termination clause which allows either party to terminate the contract after 30 days' notice. After 15 months, Sharp-Sharp Contractors faced financial difficulties and could not complete the contract on schedule.*

**Questions for Discussions**

1. Is the contract enforceable against Sharp-Sharp Contractors? Justify your answer.
2. Explain if Yintima Ltd can claim damages for breach of contract?
3. What are Yintima Ltd.'s options regarding contract termination?
4. How would you classify this contract if Sharp-Sharp Contractors had completed the project but with defects?

**Task:**

Summarise your responses in the form of a short report and make a poster presentation to the class for review

## VITIATION OF CONTRACTS AND ITS CONSEQUENCES

### Explanation of Vitiating of Contracts

In contract law, vitiating is the act of a contract becoming void or voidable. It refers to a situation where a contract becomes invalid or unenforceable due to factors that undermine its integrity. These defects can affect or weaken the legitimacy of the contract and make it void or voidable (unenforceable).

Vitiating factors are factors which affect the validity of a contract. The key ones have been summarised in the table below.



**Table 2.10:** Key Factors Leading to Vitiating

Vitiating factor	Description	Example
<b>Undue influence</b>	This is a vitiating factor that usually occurs when one party exerts excessive pressure or influence over the other, often exploiting a position of power or trust.	A caregiver pressures an elderly person into changing their will in the caregiver's favour.
<b>Misrepresentation</b>	This happens when one party provides false or misleading information or omits crucial facts, leading the other party to enter into the contract.  It is where the other party enters into a contract based on incorrect assumptions or reliance on the wrong information given.	A seller falsely claims that a car has never been in an accident to persuade a buyer to purchase it.
<b>Duress / coercion</b>	It is a situation where one party is forced or threatened into entering the contract against their free will.	A person is threatened with physical harm unless they sign a contract.
<b>Mistake</b>	This is where both parties share a fundamental misunderstanding about a key aspect of the contract.	Both a buyer and a seller mistakenly believe that a painting is an original when it is actually a replica.
<b>Illegality</b>	The contract involves actions that are illegal or against public policy.	A contract for the sale of prohibited drugs or the murder of a person.
<b>Lack of capacity</b>	One or more parties do not have the legal capacity to enter into a contract, such as being a minor, mentally incapacitated, or intoxicated/drunk.	A contract signed by a minor without the necessary legal exceptions.
<b>Frustration</b>	A contract may be vitiated when an unforeseen event makes it impossible to perform the contract. When a contract is frustrated, it is automatically terminated, and the parties are released from their obligations.	A person buys a piece of land after they were assured it was suitable for building a house. Later, they discover that the land is actually a protected wetland where construction is prohibited

Contract may be vitiated when an unforeseen event makes it impossible to perform the contract. When a contract is frustrated, it is automatically terminated, and the parties are released from their obligations.

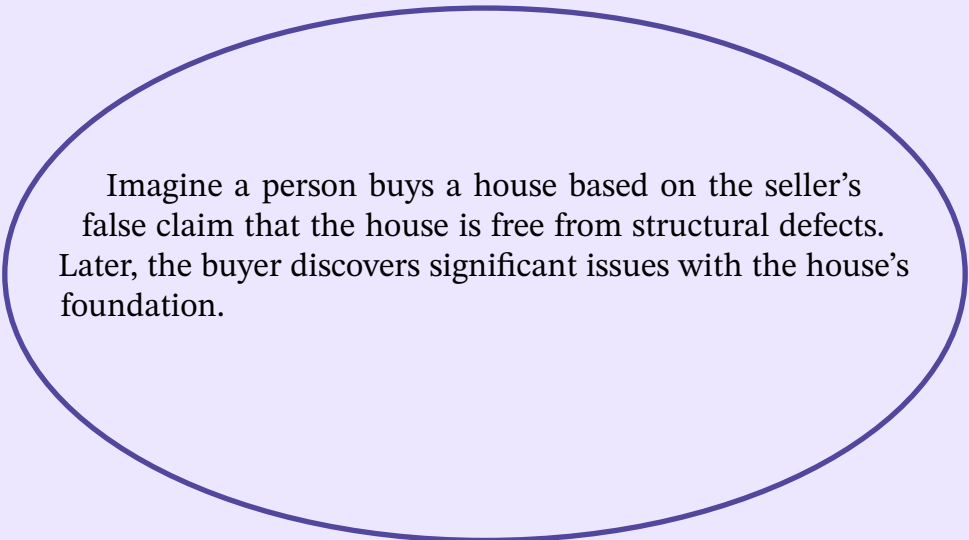


In summary, vitiation of a contract refers to the invalidation or nullification of a contract due to defects such as misrepresentation, duress, undue influence, mistake, lack of capacity, or illegality. These defects undermine the contract's integrity, making it unenforceable or voidable.

## Consequences of Vitiating Contracts

Vitiating of a contract means there are fundamental problems that render the contract unenforceable. Listed below are the most common consequences when contracts are vitiated:

1. **The contract becomes void or voidable:** Voidable or void contracts are treated as if they never existed. Neither party is bound by its terms, and they have no obligations to each other under this contract. A voidable contract is initially valid and enforceable but can be declared void by one of the parties if he or she chooses to do so. Usually, the affected party (e.g. the misled party) has the right to void the contract.
2. **Rescission:** This is the cancellation of the contract, with the aim of restoring the parties to their original positions before the contract was made. Any benefits or money exchanged under the contract are returned to the respective parties. This process aims to undo the contract as if it never happened or existed.
3. **Compensation for losses:** There are instances where the injured party suffering from the vitiating may be entitled to compensation for losses incurred. A court may award damages to the affected party to cover any financial losses resulting from entering into the invalid contract.
4. **Release from obligations:** This is a situation where both parties are released from any future obligations under the contract. They no longer have to perform any duties or tasks stipulated in the invalidated contract. Usually, both parties must agree to release one another.
5. **Legal consequences:** Depending on the nature of the defect (e.g., fraud, misrepresentation), there may be legal consequences for the party at fault. The legal consequences may be to face legal actions, penalties, or other sanctions as determined by the court.
6. **Specific performance:** The court may order specific performance, which is an order requiring the party to perform their contractual obligations in the event of a breach of contract.
7. **Reformation:** The court may reform the contract to reflect the parties' true intentions. If these were not clear at the time of contract, this, can lead to facilitation by the courts to set the terms and conditions again for the parties.

**Activity 2.12****Vitiation of Contracts and its Consequences**


Imagine a person buys a house based on the seller's false claim that the house is free from structural defects. Later, the buyer discovers significant issues with the house's foundation.

This case is subject to vitiating factors that affect the validity of the original contract.

1. What you think are the consequences of vitiation in this example?
2. Engage in a discussion with your classmates on the consequence of vitiation in this example. How do you and your colleagues justify your answers?
3. Take notes of the discussion in your workbooks.
4. Try to think of three other examples of how and why a contract could be vitiated and analyse the consequences for the parties involved.

**Activity 2.13****Vitiation of Contracts and its Consequences**

1. Research the answers to the following questions.
  - a. In what ways can a contract be vitiated?
  - b. How does misrepresentation lead to the vitiation of a contract?
  - c. Explain the difference between a void and a voidable contract.
  - d. What are the consequences for the parties involved when a contract is vitiated due to duress?
  - e. Evaluate the effectiveness of rescission as a remedy for vitiation of contract and suggest alternative remedies that can be applied and the circumstances in which each would be appropriate.

2. Prepare a report on your findings and submit it to your teacher for review and feedback. Make sure to acknowledge your sources of information where necessary

### Activity 2.14

#### Vitiating of Contracts and its Consequences

Working in small groups, analyse the following case study.

#### HECTOR DEVELOPERS LIMITED

Madam Sena, a 62-year-old retiree, signed a contract with Hector Developers to build an extension on her house. The contract price was GH¢200,000, with a completion date of 12 months. Madam Sena paid a 50% deposit upfront. The company was recommended to Madam Sena by her grand-daughter who encouraged her to sign the contract without thoroughly reading it because she knew the owners. There were unfair clauses in the agreement stating that Madam Sena would forfeit her deposit if she terminated the contract. Hector Developers started the construction without obtaining necessary building permits. Two months on, Madam Sena discovered the unfair clause in the contract and the lack of building permits.

#### Questions for discussion:

1. What is the impact of Madam Sena's grand-daughter's influence on her decision to sign the contract.
2. Can Madam Sena terminate the contract due to undue influence?
3. Is the contract vitiated by the unfair clause?
4. Can Madam Sena recover her deposit?

#### Task

Summarise your responses and make a poster or PowerPoint presentation to the class for review.

### Activity 2.15

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson.

1. Analyse the factors which lead to vitiating of contracts.

## DISCHARGE OF CONTRACTS

Discharge of contract can be simply referred to as the ending of a contract. It is the termination of a contract which means that all parties to the contract have been released or freed from their obligations and responsibility created in the contract.

There are several ways contracts may be discharged and some of them include:

### Ways to Discharge a Contract

1. **Performance:** Performance as a way of discharging a contract refers to the fulfilment of contractual obligations by one or all parties in the contract. For example, you hire the services of a bricklayer to build a house for you, and the builder was able to complete the job to your satisfaction. This means, the contract is discharged by performance.
2. **Breach:** Breach of a contract is if one party fails to fulfil their obligations and the breach is significant enough to justify termination. For instance, if a bricklayer does not complete the house as specified in the contract, the other party may consider the contract discharged due to breach.
3. **Agreement:** This is a situation where the parties agree to end the contract, either by mutual consent or by creating a new contract that replaces the old one. For example, if both parties agree to cancel a contract for a service that is no longer needed, the contract is discharged by agreement.
4. **Frustration:** Discharge of contract by frustration is when an unforeseen event makes it impossible to fulfil the contract and neither party is at fault. For example, if a musician is contracted to entertain people at a particular concert venue which on the day is flooded due to heavy rain, the contract is discharged by frustration.
5. **Operation of Law:** In some cases, legal events can automatically discharge a contract, such as bankruptcy or changes in the law that make the contract illegal. For instance, if a new law prohibits mining at a particular place or forest, the contract is discharged by operation of law.
6. **Novation:** This is where the original contract is replaced by a new contract, with the agreement of all parties involved, effectively discharging the original contract. For example, if a tenant transfers their lease to a new tenant and the landlord agrees, the original lease is discharged by novation.

**Activity 2.16****Discharge of Contracts**

Consider the following scenario:

*You have contracted a seamstress to make you two new sets of school uniform. They have completed the work; you have collected the uniform and paid her the amount agreed.*

What would happen to the contract?

Form a pair with a colleague and discuss your answer on how this contract has been discharged.

Create three alternative versions of this scenario that would lead to the contract being discharged in another way and record these in your workbooks.

Share your responses as part of a wider class discussion.

**Activity 2.15****Discharge of Contracts**

1. In groups, consider the following questions:

- a. What does the discharge of a contract mean?
- b. What can lead to the discharge of contracts?
- c. How does the discharge of a contract by performance differ from discharge by agreement?
- d. What does it mean for a contract to be discharged due to frustration? Give an example.
- e. What are the legal effects of discharging a contract due to a breach?
- f. What are the obligations of the parties to a contract when a contract is discharged?
- g. What is the impact of the discharge of a contract by novation on the original contracting parties and the new party?
- h. What are the conditions under which a contract can be discharged by operation of law? Provide examples of such conditions.

2. Assign a set of questions to each member of the group to research and answer.

3. Collate your responses in a short report and share with the group as a reference sheet to support the revision of your learning in this lesson.

### Activity 2.16

#### Discharge of Contracts

In groups, analyse the case study and answer the questions that follow.

Mr. Asigri, an event planner, entered into a contract with Mr. Frimpong, a musician, to perform at a wedding reception. They agreed on a performance date, specific songs, and payment terms. However, several issues arose as the event date approached:

1. Mr. Asigri completed all preparations for the event, but Mr. Frimpong notified him a day before the event that he was unwell and could not perform. Mr. Asigri had already paid him half of the agreed amount as a deposit.
2. Mr. Asigri managed to find a replacement musician, but he now wants to claim damages from Mr. Frimpong for breaching their contract by cancelling at the last minute.
3. Mr. Frimpong proposes to Mr. Asigri that instead of paying back the deposit, he will perform at a different event for him in the future. Mr. Asigri is considering this offer as an alternative arrangement.
4. On the day of the wedding, severe weather caused a citywide power outage, makes it impossible to hold the reception as planned. Mr. Asigri and Mr. Frimpong are now unsure if the contract is still binding or if it has been “frustrated” by this unforeseen event.
5. Mr. Frimpong recently declared bankruptcy due to financial struggles. Mr. Asigri wonders if this could affect his ability to fulfil any future agreements.
6. Mr. Frimpong suggests that his friend, another skilled musician, could take over his responsibilities and perform at Mr. Asigri’s next event, if he agrees.

#### Questions for Discussion:

- a. How does Mr. Frimpong’s inability to perform due to illness impact Mr. Asigri’s rights under the contract?
- b. What remedies might Mr. Asigri pursue due to Mr. Frimpong’s breach, and what could he claim in terms of damages?
- c. Would Mr. Asigri’s acceptance of Mr. Frimpong’s offer to perform at a future event constitute an agreement to discharge the original contract? Justify your answer.
- d. How might the principle of frustration apply to discharge the contract between Mr. Asigri and Mr. Frimpong?
- e. Given Mr. Frimpong’s bankruptcy, does Mr. Asigri have grounds to consider the contract discharged?
- f. If Mr. Asigri agrees to have Mr. Frimpong’s friend perform at their next event, would this constitute a novation? Justify your answer.

#### Task:

Make notes on the groups’ responses to each of the questions you’ve discussed.

Summarise your responses on a flip chat and present this to the class for discussion and feedback.

### Activity 2.17

#### Self-Assessment

Answer at least one of the following questions to review your learning from this lesson.

1. Explain the term “discharge of contract”.
2. Identify the ways in which a contract can be discharged.
3. Discuss how a contract can be discharged.
4. Write short notes on Sumptor vrs Hedges (1898)

## EXTENDED READING

- Business Management for SHS, GABET series (2018), by Ben Attieku, Edward Marfo Yiadom, Thomas Darkey and Kwao Tekyi (Pages 146-176)
- Business Management in Perspective: A Practical Coaching Experience (2017) by Emmanuel Ansah-Antwi. (pages 102-120)

# Review Questions

1. What type of contract is created when one party makes a promise in exchange for another's action?
  - A. Bilateral contract
  - B. Unilateral contract
  - C. Express contract
  - D. Implied contract
2. Which of the following is NOT an **essential** element of a contract?
  - A. Offer
  - B. Acceptance
  - C. Consideration
  - D. Good faith
3. Which element of a contract ensures that parties understand their obligations?
  - A. Intention to create legal relations
  - B. Capacity to contract
  - C. Certainty of terms
  - D. Free consent
4. What type of discharge occurs when parties mutually agree to terminate the contract?
  - A. Total discharge
  - B. Partial discharge
  - C. Temporary discharge
  - D. Agreement discharge
5. What is the purpose of novation in contract discharge?
  - A. To cancel the original contract completely
  - B. To modify the original contract slightly
  - C. To replace the original contract with a new one
  - D. To terminate contractual obligations
6. What is the difference between an offer and an invitation to treat?
7. In contract, what is the significance of consideration?
8. What is the impact of misrepresentation on a contract?



9. What is the effect of a breach of contract?

10. **Case Study**

**Read the case study and answer the questions that follow**

*Tiyumtaba Construction Limited was hired by Ambassador Ventures to construct a new office building at Tamale. The contract between the two parties outlined the scope of work, payment terms, and deadlines. In spite of these, during the construction process, Ambassador Ventures requested changes to the original design, which resulted in delays and additional costs. Tiyumtaba Ltd submitted invoices for the extra work, but Ambassador Ventures refused to pay, claiming that the changes were not authorised.*

**Questions:**

- a. Is Ambassador Ventures liable for the additional costs incurred by Tiyumtaba Ltd due to the requested changes?
- b. Is Tiyumtaba Ltd entitled to compensation for the delays caused by the changes requested by Ambassador Ventures?
- c. What legal remedies are available to the parties in the event of a breach of contract?

SECTION

# 3

## BUSINESS RISK AND INSURANCE



# MANAGING BUSINESS AND THE LEGAL FRAMEWORK OF BUSINESSES

## Legal Environment of Business and Risk Management

### INTRODUCTION

In today's fast changing business environment, uncertainties are inevitable. Organisations face numerous risks that can impact their operations, finances and reputations. Thus, our study of business risk and risk management is important for us as potential business leaders and decision makers. Understanding business risk, risk management and insurance is very important as it is the basis for strategic planning and operational endurance in business. This section will examine the meaning of business risk, its types, how to manage business risk, meaning of insurance and its principles as well as explain the types of insurance, insurance policies and importance of insurance.

#### Key Ideas

- **Business risk:** These are unfavourable outcomes that affect an organisation's operations, finances and reputation.
- **Insurance:** This is a financial protection plan that transfers risk from the insured to the insurer.
- **Risk management:** This is a systematic process to identify, assess and prevent, as well as monitor risk to minimise potential losses.

### BUSINESS RISK AND ITS TYPES AND HOW TO MANAGE BUSINESS RISK

Business risk is a possible threat to a business that can have a significant impact on an organisation's financial performance, growth and long-term sustainability. Effective risk management involves identifying, assessing and mitigating these risks to minimise potential losses and maximise opportunities. It is therefore important for learners to be aware of the risks associated with businesses as well as develop skills in how to manage these risks for the survival and growth of businesses.

## Meaning of Business Risk

Business risk refers to the potential for financial loss or harm to an organisation's assets, reputation, or profitability due to uncertainties and unexpected events that affect its operations. For example, a company may face reduced sales and profitability during a recession or lose assets due to a fire outbreak.

## Types of Business Risk

Types of business risk include:

1. **Market risk:** Changes in market conditions, demand, or competition can lower the profits and fortunes of a company
2. **Credit risk:** Default or non-payment by customers or debtors can affect the operations of business.
3. **Operational risk:** Disruptions to business operations, such as supply chain issues or technology failures.
4. **Financial risk:** Risks related to financial management, investments, or funding.
5. **Strategic risk:** Risks associated with poor business strategy, planning, or decision-making.
6. **Compliance risk:** Non-compliance with laws, regulations, or standards can have an adverse effect on the operations of business due to sanctions and other legal actions against the business
7. **Cybersecurity risk:** Risks related to data breaches, hacking, or other cyber threats.
8. **Environmental risk:** Risks related to environmental factors, such as natural disasters or climate change.
9. **Political risk:** Risks related to political instability, changes in laws, or government actions.
10. **Reputational Risk:** These are risks related to damage of a company's reputation, affecting customer trust and loyalty. For example, negative publicity about a company can damage its reputation.

## Meaning of Risk Management

Risk management is the process of identifying, assessing and taking steps to minimise or control potential problems that could negatively affect an organisation or project. This involves understanding what risks exist, how likely they are to happen and what impact they could have, then taking actions to prevent or reduce these risks.

## How to Manage Business Risk

These are some effective ways to manage business risk:

1. **Risk Assessment and Analysis:** Systematically scanning to identify all potential risks that could affect the business and assessing the potential impact and likelihood of the occurrence of each risk.
2. **Diversification:** Diversify the range of products or services offered to reduce dependence on any single revenue stream. Expand the business into different markets or geographical regions to spread risk.
3. **Insurance:** Transfer risk to insurance companies to mitigate potential losses by insuring the business against risks such as theft, accidents, injuries, fire and other natural disasters.
4. **Risk Avoidance:** Businesses can manage risk by totally eliminating or avoiding risky activities or investments.
5. **Risk Mitigation:** Implement controls and safeguards to reduce risk likelihood or impact. Prepare for natural disasters, cyber-attacks and other emergencies with detailed recovery procedures.
6. **Strong Internal Controls:** Develop clear policies and procedures to ensure consistent and efficient operations. Regularly conduct internal and external audits to identify and rectify weaknesses.
7. **Legal and Regulatory Compliance:** Ensure compliance with laws and regulations relevant to the business and implement programmes to ensure adherence to legal requirements and industry standards.
8. **Implement Technology and Cybersecurity:** Utilise technology to enhance efficiency and reduce operational risks as well as implement robust cybersecurity practices to protect against breaches and cyber-attacks on the business database.
9. **Financial Management:** Institute effective financial management systems and control in order to maintain adequate cash reserves to handle unexpected expenses or downturns. Also, monitor and manage debt levels to avoid over-leveraging and financial strain.

### Activity 3.1

#### Meaning of risk

Take part in a group discussion with your peers on the meaning of risk. In your groups consider:

1. Times when you have faced risk and how you managed this. What was the outcome?
2. Examples of risk in business. You may use digital tools such as tablets to research the different types of risk to support your discussion.

Brainstorm the outcomes of your discussion and share as part of a wider class discussion.

### Activity 3.2

#### Business Risk, Its Types and How to Manage It

1. Organise yourselves into groups of not more than five. In your groups, analyse the scenario below and answer the questions that follows:  
MFS JEWELLERY is a business located in Nyamebekyere and owned by Ms Akua Anuonyam. MFS is known for the quality and affordability of its jewellery. However, the owner is worried about possible risks affecting her business.  
One evening a fire breaks out in the shop due to an electrical fault. The fire damages the jewellery, equipment and disrupts operations. Meanwhile, a competitor, “BE YOU JEWELLERY” is offering discounts to the customers of MFS.  
As a business consultant:
  - a. Identify and analyse the risks faced by MFS.
  - b. Recommend strategies to manage the risks faced by MFS.
2. Record your answers on a flip chart and present your findings to the class.

### Activity 3.2

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Explain the term “business risk”.
2. Summarise the types of business risk.
3. Explain the concept of risk management.
4. Discuss ways of managing business risk.

## MEANING OF INSURANCE AND ITS PRINCIPLES

### Meaning of Insurance

Insurance is a financial protection plan between an individual or organisation (the insured) and an insurance company (the insurer) in which the insured pays regular

premiums in exchange for the insurer's promise to compensate them for specific financial losses or damages that may occur under certain conditions.

## Principles of Insurance

Insurance operates on several fundamental principles that ensure fairness, reliability and legal enforceability. Understanding these principles helps in grasping how insurance works and why it is structured in certain ways. These are summarised in Table 3.1.

**Table 3.1:** Principles of Insurance

Principle	What does this mean?	Example
<b>Utmost Good Faith (Uberrima Fides)</b>	Both the insurer and the insured must act honestly and disclose all relevant facts.	When applying for health insurance, the applicant must disclose any pre-existing medical conditions truthfully.
<b>Insurable Interest</b>	The insured must have a financial interest in the subject matter of the insurance.  This means they must suffer a financial loss if an insured event occurs.	You can insure your own house against fire, but you cannot insure your neighbour's house because you do not have an insurable interest in it.
<b>Indemnity</b>	Insurance is meant to restore the insured to their original financial position before the loss occurred, without allowing them to profit from the insurance.	If your car is damaged in an accident, the insurance will cover the repair costs, but not more than the car's value.
<b>Contribution</b>	If the insured has multiple insurance policies covering the same risk, they cannot claim the full amount from each policy.  Instead, each insurer will contribute to the loss proportionately.	If you have two health insurance policies, both insurers will share the cost of the medical expenses proportionately.
<b>Subrogation</b>	After compensating the insured for a loss, the insurer acquires the legal rights to pursue recovery from third parties responsible for the loss.	If your car is damaged due to another driver's negligence, your insurer can pay for the repairs and then seek reimbursement from the negligent driver or their insurer.

Principle	What does this mean?	Example
<b>Loss Minimisation/ Mitigation</b>	The insured must take reasonable steps to minimise the loss or damage to the insured property.	If a pipe bursts in your home, you are expected to take immediate action to stop the water flow and minimise damage, such as turning off the main water supply
<b>Causa Proxima (Proximate Cause)</b>	The cause of loss must be closely connected to the event covered by the insurance policy. The insurer is liable for losses directly resulting from the insured risk.	If an insured ship sinks due to a storm (covered peril), the insurer will compensate for the loss, but if it sinks due to improper maintenance (not covered), the insurer may deny the claim.

### Activity 3.3

#### Principles of Insurance

Take part in a class discussion on the meaning of insurance and the principles that underpin its use.

Record your own definition of key terms in your workbooks to include;

1. Insurance
2. Premium
3. Claim
4. Indemnity
5. Subrogation
6. Proximate cause

### Activity 3.4

#### Principles of Insurance

1. Organise yourselves into groups of not more than five. Your teacher will assign a scenario to you that involves insurance claim.
2. Assign roles within your group and perform your role play for the class.
3. Observe others' role plays and make notes on how they illustrate the principles of insurance.
4. Take part in a wider class discussion to feedback on each other's performances.



**Activity 3.5****Meaning of Insurance and Its Principles**

1. In pairs, read the case below

*Mr. Amoah-Frempong is married with three children and is troubled about securing the family's financial future. Mr. Amoah-Frempong's friend recently passed away due to a short illness, leaving his family with major financial burdens. This urged Mr. Amoah-Frempong to consider insurance options.*

As an insurance consultants help Mr. Amoah-Frempongs to understand the following:

- a. The concept of insurance.
  - b. The principles of insurance and how it can affect the financial insurance decision he wants to take
2. Present your answers in a book to your teacher for feedback.

**Activity 3.5****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson so far:

1. Explain the meaning of insurance.
2. State the principles of insurance.
3. Describe the principles of insurance.

## TYPES OF INSURANCE AND INSURANCE POLICIES

Insurance is a crucial aspect of financial planning and risk management. It provides protection against unforeseen events and financial losses. Understanding the various types of insurance and insurance policies is essential for both individuals and businesses. This section will explore the different types of insurance, and the policies associated with them, focusing on their importance and relevance in the Ghanaian context.

## Types of Insurance and Insurance Policies



**Figure 3.1:** Types of insurance at a glance.

1. **Life Assurance** is a type of insurance that provides a financial benefit to a designated beneficiary upon the death of the insured person. Life insurance serves as financial protection for the insured person's family or dependents in the event of their death. It helps ensure that loved ones are financially supported after the insured's passing. Key policies under life insurance are:
  - a. **Term Life Insurance:** This policy provides coverage for a specified term, such as 10, 20, or 30 years. If the policyholder dies within the term, the beneficiaries receive a death benefit. It is typically more affordable than permanent life insurance.
  - b. **Whole Life Insurance:** This policy offers lifelong coverage with a fixed premium and a cash value component that grows over time. It combines a death benefit with a savings component.
  - c. **Endowment Policies:** These policies pay out a lump sum after a specific term or upon the policyholder's death, whichever comes first. They are often used as a savings vehicle for future financial goals.
2. **Health Insurance** is a type of insurance coverage that pays for medical and surgical expenses incurred by the insured individual. Health insurance covers various medical costs, including hospitalisation, doctor visits, surgeries, prescription medications and laboratory tests. Some plans include coverage for preventive services such as vaccinations, screenings and wellness visits. Again, other health insurance plans provide coverage for mental health services and treatment for substance abuse disorders. Some policies under Health Insurance are:

- a. **Individual Health Insurance:** Covers medical expenses for illnesses and injuries for an individual or a person. It can include hospitalisation, outpatient services and prescription drugs.
  - b. **Group Health Insurance:** Typically provided by employers, this policy covers a group of people under one contract. It often offers broader coverage and lower premiums compared to individual health insurance.
  - c. **National Health Insurance Scheme (NHIS):** In Ghana, NHIS provides basic healthcare coverage to citizens, aiming to make healthcare accessible and affordable.
3. **Property Insurance** is a type of insurance that provides financial reimbursement to the owner or renter of a structure and its contents in the event of damage or theft. This insurance protects the physical structure of the property, including the home and attached structures (e.g., garage, porch). Also, it covers personal belongings inside the property, such as furniture, appliances, clothing and electronics. Some policies include:
- a. **Homeowners' Insurance:** Covers damages to a home and its contents due to risks like fire, theft and natural disasters. It also provides liability coverage for accidents that occur on the property.
  - b. **Renters' Insurance:** Protects tenants against loss or damage to personal belongings within a rented property. It may also include liability coverage.



**Figure 3.2:** Picture illustrating property insurance <https://www.shutterstock.com/image-vector/house-insurance-business-service-isometric-icons-363496262>

4. **Automobile Insurance** is a type of insurance coverage that provides financial protection against physical damage or bodily injury resulting from traffic collisions and other incidents involving vehicles. This insurance covers bodily injury and property damage that the insured driver causes to others. It includes legal defence costs if the insured is sued. Also, it pays for repairs or replacement of the insured vehicle if it's damaged in a collision with another vehicle or object. It covers damage to the insured vehicle from non-collision incidents, such as theft,

vandalism, fire, hail, or hitting an animal. In addition, it protects the insured driver if they are involved in an accident with a driver who has insufficient or no insurance coverage. Some policies under this are:

- a. **Third-Party Insurance:** Mandatory in Ghana, this policy covers damages and injuries caused to third parties in an accident. It does not cover the policyholder's vehicle.
- b. **Comprehensive Insurance:** Provides coverage for both third-party damages and the policyholder's vehicle. It includes protection against theft, fire and other risks.



**Figure 3.3:** Picture illustrating automobile insurance

<https://www.shutterstock.com/image-vector/car-insurance-business-character-icons-template-260811437>

5. **Business Insurance** encompasses various types of insurance policies designed to protect businesses from financial losses related to unexpected events or risks. Insurance Policies under business are:
  - a. **General Liability Insurance:** Covers legal expenses and damages resulting from claims of bodily injury, property damage, or personal injury caused by the business's operations, products, or services.
  - b. **Property Insurance:** Protects business property, including buildings, equipment, inventory and fixtures, against damage or loss due to fire, theft, vandalism, or other covered perils.
  - c. **Commercial Auto Insurance:** Provides coverage for vehicles used in business operations, including liability for bodily injury and property damage caused by business-owned vehicles.
  - d. **Workers' Compensation Insurance:** Covers medical expenses, lost wages and rehabilitation costs for employees injured or ill due to work-related

activities. It also provides benefits to dependents of workers who die from work-related incidents.

- e. **Business Interruption Insurance:** Compensates for lost income and helps cover operating expenses if a covered peril (such as fire or natural disaster) disrupts business operations.
- f. **Professional Liability Insurance (Errors & Omissions Insurance):** Protects professionals (e.g., doctors, lawyers, consultants) against claims of negligence, errors, or omissions in services provided to clients.
- g. **Cyber Liability Insurance:** Covers expenses related to data breaches, cyberattacks and other cyber threats that result in loss of data, business interruption, or liability to third parties.



**Figure 3.4:** Picture illustrating business insurance

<https://www.istockphoto.com/vector/central-bank-money-policy-for-inflation-or-interest-rate-balance-between-profit-and-gm1325397752-410435980?searchscope=image%2Cfilm>

6. **Travel Insurance** is insurance designed to protect travellers from financial losses and assist with medical expenses incurred during domestic or international trips. It covers trip cancellation or interruption costs due to illness, injury, or natural disasters. Travel Insurance further includes coverage for extra expenses like accommodations and meals due to travel delays caused by weather or airline issues. The policy types under travel insurance are:
  - a. **Single Trip Insurance:** Provides coverage for medical expenses, trip cancellation, lost luggage and other risks associated with a single trip.
  - b. **Multi-Trip Insurance:** Offers coverage for multiple trips within a specified period, usually a year. It is ideal for frequent travellers.



**Figure 3.5:** Picture illustrating travel insurance

<https://www.shutterstock.com/image-photo/travel-insurance-transportation-aviation-concept-top-721313806>

## Key Components of an Insurance Policy

An insurance policy is a contract between the insurer and the insured, outlining the terms and conditions of the coverage. Some key components of an insurance policy include:

1. **Policyholder Information:** Details of the person or entity purchasing the insurance, including name, address and contact information.
2. **Insurer Information:** Details of the insurance company providing the coverage.
3. **Coverage Details:** A description of the risks covered by the policy, including the scope and limits of coverage.
4. **Premium:** The amount the policyholder must pay for the insurance coverage, including payment frequency (e.g., monthly, annually).
5. **Deductible:** The amount the policyholder must pay out-of-pocket before the insurer pays for a covered claim.
6. **Policy Term:** The duration of the coverage, specifying the start and end dates.
7. **Exclusions:** A list of risks or events not covered by the policy.
8. **Claims Process:** Instructions on how to file a claim, including required documentation and timelines.
9. **Policy Renewal:** Information on how to renew the policy at the end of the term.
10. **Cancellation Terms:** Conditions under which the policy can be cancelled by either the insurer or the policyholder.

### Activity 3.6

#### Key Components of Insurance Policy

1. Copy the table below into your book.



2. Study the description of insurance terms in the table which are key components of insurance policies.
3. From the list of insurance terms provided below the table, choose the insurance term that best fits each description and write it in front of the description at the terminology column of **Table 3.2**.

**Table 3.2:** Components of an Insurance Policy

S/N	DESCRIPTION	TERMINOLOGY
	The rules and conditions under which either the policyholder or insurer may end the policy, along with any applicable fees or notice periods.	
	Step-by-step instructions on how to make a claim, including necessary forms, required information, and submission deadlines.	
	The period for which the insurance is active, specifying the exact start and end dates of the coverage.	
	The identifying information of the insurance company that is offering the protection, including its name and contact information.	
	The cost the policyholder must pay to maintain the insurance, along with the schedule of payments (e.g., monthly, quarterly, yearly).	
	Guidance on extending the coverage at the end of the policy term, explaining renewal options and any steps required.	
	A summary of what is protected under the policy, outlining the types of risks, limits, and any conditions of the coverage.	
	The personal or business details of the individual or entity buying the insurance, such as their full name, address, and contact details.	
	The portion of a claim the policyholder is responsible for paying before the insurance company begins to cover the remaining expenses.	
	Specific conditions or events that are not included in the policy, detailing what is not covered by the insurance.	

**I.** Policyholder Information

**II.** Insurer Information

- III.** Coverage Details
- IV.** Premium
- V.** Deductible
- VI.** Policy Term
- VII.** Exclusions
- VIII.** Claims Process
- IX.** Policy Renewal
- X.** Cancellation Terms

### Activity 3.7

#### Types of insurance

Organise yourselves into groups of not more than five. Your teacher will assign a type of insurance to each group from the list below:

- a.** Life insurance
- b.** Travel insurance
- c.** Property insurance
- d.** Health insurance
- e.** Business insurance
- f.** Automobile insurance

Research your assigned type of insurance, including its scope and the different kinds of policy available.

Prepare a short presentation on your type of insurance and deliver this to the class for discussion and feedback.

### Activity 3.8

#### Types of Insurance and Insurance Policies

- 1.** Mr. Thomas Musah is ready to take out insurance cover for his family and transport business. Mr Musah has a wife and two children at Senior High School and his elderly mother also lives at home with them. His transport business has a fleet of six vehicles and delivers goods across the Eastern and Central regions. As an insurance agent guide him to understand the different types of insurance available to his business and family.
- 2.** Write down your response and make a PowerPoint presentation to your colleagues in class for feedback.



**Activity 3.9****Principles of Insurance**

1. Organise yourselves into groups of not more than five. Your teacher will assign you a scenario that involves either applying for insurance and negotiating cover or making a claim.
2. Assign roles within your group and perform your role play for the class.
3. Observe others' role plays and make notes on how they illustrate the principles of insurance.
4. Take part in a wider class discussion to feedback on each other's performances.

**Activity 3.9****Principles of Insurance in Real life**

1. Your teacher may invite an industry expert to the class to talk to you about insurance and provide insight on how the principles you have learned are applied in real world.
2. Think of some questions you would like to ask them and record them in your workbook.
3. If a professional is not able to come to the school, you could speak to a career officer or guidance teacher to find out more about working in this field.

**Activity 3.10****Self - Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Discuss the types of insurance
2. Discuss insurance policies and key components of insurance policies.

# IMPORTANCE AND CHALLENGES/LIMITATIONS OF INSURANCE

## Importance of Insurance

The importance of insurance cannot be overstated. It provides essential financial protection, promotes peace of mind and plays a vital role in risk management. Listed below are some of the key reasons why insurance is important both for business and life in general.

**Table 3.2:** Importance of Insurance

Reason	Explanation
Peace of Mind	Having insurance coverage offers peace of mind, knowing that there is a safety net in place for various risks. This sense of security allows individuals to focus on their daily activities without constantly worrying about potential financial setbacks.
Risk Management	Insurance is a critical tool for managing risk. By transferring the financial burden of potential losses to an insurance company, individuals and businesses can mitigate the impact of unforeseen events. This is particularly important for businesses that face risks such as property damage, liability claims and business interruptions.
Encourages Savings	Some insurance policies, like life insurance and certain health insurance plans, have a savings component. These policies not only provide coverage but also help in building a financial corpus over time, encouraging disciplined saving habits.
Legal Requirements	In many cases, insurance is a legal requirement. For example, auto insurance is mandatory in most countries to ensure that drivers can cover the costs associated with accidents. Similarly, employers are often required to provide workers' compensation insurance to protect employees in case of work-related injuries.
Social and Economic Stability	Insurance contributes to the overall stability of society by providing a mechanism to cope with losses. It helps maintain economic stability by preventing individuals and businesses from falling into financial distress due to unexpected events. Insurance companies also play a significant role in the economy by investing premiums in various sectors, thereby fostering economic growth.
Support for Education	For educators, understanding insurance can help in teaching learners about financial literacy and risk management. By incorporating lessons on insurance into the curriculum, teachers can prepare learners to make informed decisions about their financial futures.

## Challenges/Limitations of Taking Insurance Policies

While insurance provides essential protection against various risks and uncertainties, it is important to be aware of its challenges and limitations. Some of the challenges and limitations of insurance include:

**Table 3.3:** Challenges/Limitations of Taking Insurance Policies

Challenge or limitation	Explanation
Cost of Premium	Insurance premiums can be expensive, particularly for comprehensive coverage or policies with lower deductibles. This can make it challenging for individuals and small businesses to afford adequate insurance. Insurance premiums can increase over time due to factors such as inflation, increased risk, or claims history, making it difficult to maintain consistent coverage.
Coverage Exclusions and Limitations	Insurance policies often contain exclusions that outline specific situations or events that are not covered. These exclusions can leave policyholders unprotected in certain scenarios. For example, health insurance may have limits on certain treatments or procedures and property insurance may have caps on the amount reimbursed for damages.
Complexity of Policies	Insurance policies can be complex and filled with legal jargon, making it difficult for policyholders to fully understand the terms and conditions. The process of filing a claim can be complicated and time-consuming, requiring extensive documentation and communication with the insurer.
Moral Hazard and Adverse Selection	The presence of insurance can sometimes lead to riskier behaviour by policyholders, who may feel less incentivised to avoid losses because they are covered by insurance. Insurers may face adverse selection, where individuals with higher risk are more likely to purchase insurance, leading to a pool of policyholders that is riskier than the general population.
Delayed Payouts	The time it takes for insurance companies to process claims and make payouts can be lengthy, causing financial strain for policyholders who need immediate assistance.
Lack of Flexibility	Insurance policies may lack flexibility in terms of coverage options and may not adapt well to changing circumstances or needs of the policyholder. Some policies may have stringent renewal terms and changes in the policyholder's health, lifestyle, or risk profile can affect their ability to renew coverage.

Challenge or limitation	Explanation
Fraud and Misrepresentation	Fraudulent claims and misrepresentation by policyholders and sometimes insurers can lead to increased costs for insurers, which are often passed on to consumers through higher premiums. Insurers themselves may sometimes engage in unethical practices, such as misleading marketing or denial of legitimate claims, which can erode trust in the insurance industry.

### Activity 3.11

#### Challenges/Limitation of Insurance

1. Copy the table into your book
2. Study the statements which relate to the challenges or limitations of taking out insurance policies.
3. In the column with the heading “AGREE/DISAGREE”, write “AGREE” if the statement is true about the challenges of taking insurance or “DISAGREE” if the statement is false about the challenges of taking insurance

**Table 3.4:** Challenges/Limitation of Insurance

	STATEMENT	AGREE/ DISAGREE
a	Once you sign up for a policy, you can't change or cancel it.	
b	Insurance premiums can be high, making policies unaffordable for some.	
c	Insurance only benefits the wealthy and is inaccessible to average people.	
d	Policyholders can lose coverage if they miss premium payments.	
e	Insurers may dispute claims based on minor policy technicalities.	
f	Insurance policies automatically cover any personal belongings without listing them.	
g	It takes decades for any insurance policy to pay out a claim.	
h	There can be high surrender charges if you cancel a policy early.	
i	Only very high-income earners qualify for life insurance.	
j	Waiting periods may apply before coverage kicks in, especially for new policies.	

STATEMENT		AGREE/ DISAGREE
k	Premiums may increase over time, especially with age or health changes	
l	Insurance does not cover natural disasters.	
m	Policies often come with exclusions, leaving certain risks uncovered	
n	Insurance policies cover absolutely every type of loss without exceptions.	
o	Some policies have strict eligibility criteria, excluding certain individuals.	

### Activity 3.12

#### Benefits and Limitations of Insurance

Read the following case study and analyse the benefits and limitations of the insurance chosen by SunPower Solutions.

Working in groups, summarise the benefits and limitations in this case and present your reasoning to the class for discussion and feedback.

#### Case Study: SunPower Solutions

**Background:** SunPower Solutions designs and installs solar panels for residential and commercial properties. They have decided to take out a comprehensive business insurance policy to cover potential risks, including property damage, liability, and business interruption.

**Policy:** SunPower Solutions chose a policy that included:

1. Property Insurance: To cover damage to their office and equipment.
2. Liability Insurance: To protect against claims of injury or damage caused by their services.
3. Business Interruption Insurance: To cover lost income if their business operations were disrupted.

**Incident:** In 2023, a severe storm caused significant damage to their office and warehouse, resulting in a temporary halt in operations. The storm also damaged several solar panels that were ready for installation.

**Activity 3.13****Self-Assessment**

Answer at least one of the following questions to support the review of your learning in this lesson:

1. Discuss the importance of taking out insurance policies
2. Analyse the challenges and limitations of insurance policies.

**EXTENDED READING**

- Business Management for SHS, GABET series (2018), by Ben Attieku, Edward Marfo Yiadom, Thomas Darkey and Kwao Tekyi (Pages 223-235)
- Business Management in Perspective: A Practical Coaching Experience (2017) by Emmanuel Ansah-Antwi. (pages 145-165)

# Review Questions

1. A friend of yours recently lost their home in a fire. Explain how having insurance would help in this situation.
2. Discuss the importance of health insurance for a person with a chronic illness.
3. Summarise the benefits of liability insurance to a small business.
4. Analyse the impact of not having insurance on individuals and businesses.
5. Describe **four** limitations of insurance to businesses.
6. Analyse the benefits of insurance in maintaining economic stability.



A high-angle, top-down photograph of a business meeting. Several people are seated around a large, light-colored conference table. Their hands and arms are visible as they work on laptops, take notes in notebooks, and use pens. A white coffee cup with yellow liquid is on the table. The scene is brightly lit, suggesting an office environment.

## SECTION

# 4

# INTERNATIONAL BUSINESS





# GLOBAL BUSINESS

## International Business and E-Business

### INTRODUCTION

In Year One, you were introduced to the concept of international business, including its meaning, importance and the operations of multinational corporations. In this section, we are going to delve into different approaches to international business such as franchising, joint venturing, licensing and wholly owned subsidiaries. During these lessons, we will also cover the meaning and differences between domestic and international trade, the reasons and basis for international trade and introduce you to the types of documents used in trading and specific to international trade. Finally, we will start to look at the various restrictions in international trade, why they are in place, as well as looking at the benefits and challenges of international trade.

#### Key Ideas

- **Acquisition:** This is when one company buys another company. The acquiring company takes over the purchased company's assets and operations.
- **Franchising** is a way of doing business where one person (the franchisee) buys the right to operate a company using the brand and business methods of another person or company (the franchisor).
- **Joint venture:** This is when two or more companies come together to work on a specific project or business. They share resources, risks and profits but remain separate businesses.
- **Local market:** The area or community where a business sells its products or services. It focuses on the customers who live and work in that particular region.
- **Wholly owned subsidiary (WOS):** A business that is fully owned by another company (parent).

## FRANCHISING AS AN APPROACH TO INTERNATIONAL BUSINESS

In this lesson, we will start by looking at franchising and explore its advantages and disadvantages as an approach in international business.

## Franchising

Franchising is an approach to international business which involves a party or company (the franchisor) expanding its brand and business operations into foreign markets by granting local businesses (the franchisees) the rights to use or operate under its brand name and use its business model. The franchisor gives the right to the franchisee to use its trademark, products, etc., for the franchisee to pay a royalty (fee) to the franchisor for using the business model. It allows the franchisee to start a business without facing much risk as the franchisee has access to the established brand, products and systems.

**Table 4.1:** Key Elements of Franchising in International Business

Franchise Agreement	<p>The franchise agreement is a contract which outlines the terms and conditions of the franchise relationship, including the duration, fees, royalties, territory and obligations of both parties.</p> <p>The contract ensures that the franchisee adheres to the franchisor's established business practices and standards.</p>
Franchisor	<p>The franchisor is the company that owns the brand, business model and intellectual property.</p> <p>They provide the franchisee with the rights to operate a business using their established systems, trademarks and support services.</p> <p>For example, KFC could give the right to local businesses to use their name to operate.</p>
Franchisee	<p>A franchisee is the person or business that buys the rights to operate a branch of a larger company (called the franchisor).</p> <p>The franchisee pays fees and agrees to follow the rules and guidelines set by the franchisor to sell the company's products or services.</p> <p>In return, the franchisee gets to use the brand name and benefits from the company's support and reputation.</p>

## Advantages of franchising as an approach to international business

The advantages of franchising in the context of international business include:

1. **Brand Recognition and Market Penetration:** Franchising helps build brand recognition and achieve market penetration more effectively. As franchisees open new locations, the brand becomes more visible and accessible to a broader market, which enhances brand recognition, loyalty and drives overall business growth.

2. **Operational Efficiency:** Within the franchise model, franchisors provide franchisees with a proven business model, comprehensive training and ongoing support. This makes it possible for the franchisor to maintain operational efficiency and quality control through established systems and processes. This ensures that the franchisee operates well and upholds the brand's standards, leading to efficiency and customer satisfaction.
3. **Rapid Market Expansion:** Businesses can quickly expand and move into new markets without bearing the full cost and risk of opening new locations themselves. By leveraging the resources and local knowledge of franchisees, companies can establish a presence in multiple locations simultaneously. Franchising is good in international markets where local expertise is needed to help navigate regulatory and cultural differences.
4. **Reduced Financial Risk:** Securing the right to use the brand name of a well-established company minimises the financial risk for the franchisor as the franchisee typically provides the capital needed to open and operate the new unit. This risk-sharing model allows the franchisor to grow its brand and business footprint without significant capital investment, reducing the financial burden and exposure associated with direct expansion.
5. **Local Market Knowledge:** The local businesses (franchisees) bring with them valuable local market knowledge and expertise, which can enhance the franchisor's ability to succeed in diverse markets. Franchisees are often local entrepreneurs who understand their market, local regulations and competitive dynamics. This local insight can help tailor the franchised business to better meet the needs of the local market.
6. **Economies of Scale:** When a franchisor has many franchisees, they can get better deals from suppliers, spend marketing money more wisely and create consistent training programs. This helps both the franchisor and franchisees save money and earn more profit.
7. **Enhanced Innovation and Adaptability:** Different opinions from franchisees in different markets can create new ideas and ways of doing things that make the whole business better. Franchisors can use this feedback to change and improve what they offer, helping them stay relevant and competitive in the market.

## Disadvantages of franchising as an approach to international business

Whilst there are many advantages to operating as a franchise in international business, there are potential drawbacks, as listed below.

1. **Conflict:** Disagreements can occur about issues like fees, area rights, marketing plans and how to run the business. These conflicts can hurt relationships and disrupt business activities, sometimes needing legal help or mediation. They could also reduce profits for both businesses.
2. **Loss of Control:** Franchisees need to follow the rules set by the franchisor, but they can still make some decisions on their own. Since franchisors do not

have much control over how franchisees run their businesses every day, this can sometimes lead to differences in the quality of service. If franchisees do not stick to the brand's standards, it could harm the brand's reputation.

3. **Quality Control Issues:** Making sure that every franchise location provides the same level of quality can be tough. Differences in how local managers run things and their experience and dedication to the brand can lead to different levels of service and product quality. This can harm the brand's reputation and make customers less satisfied.
4. **Intellectual Property Risks:** Protecting trademarks and brand identity in foreign countries can also be hard. Franchisees might not use the franchisor's intellectual property properly, which could lead to legal problems and loss of business advantages.
5. **High Initial and On-going Costs:** Both franchisors and franchisee may face high startup and ongoing costs. Franchisors spend a lot on setting up and supporting the franchise system, including training and marketing. This can be a heavy financial burden, especially if profits fall short.
6. **Dependency on Franchisees:** If franchisees do not succeed, it can hurt the franchisor's income and reputation. Underperforming franchisees may lead to a lower presence in the market and reduce customer trust.
7. **Complexity of International Operations:** Running franchise operations internationally can be difficult and demanding. Expanding into new countries means dealing with different cultures, laws and logistics, which can be tough and expensive for both franchisors and franchisees.

## Case Study

*KFC (Kentucky Fried Chicken) is one of the largest and most successful fast-food chains in the world. The brand entered Ghana in 2011 through a franchise agreement with Masco Foods, a subsidiary of Mohinani Group. By leveraging KFC's globally recognised brand, established operational procedures and extensive training programs, Masco Foods successfully expanded KFC's presence across Ghana, with multiple outlets in Accra, Kumasi, and other major cities. Through the Franchise Agreement, Masco Foods signed an agreement with Yum! Brands (KFC's parent company) to operate KFC outlets in Ghana. Masco Foods is allowed to use KFC's brand name, recipes, marketing strategies and operating systems. The franchisee (Masco Foods) paid the initial franchise fees and ongoing royalties to Yum! Brands. KFC, on the other hand, provides training, marketing support, and quality control to ensure consistency in operations. While maintaining its core menu, KFC Ghana has introduced locally inspired items such as Jollof Rice and Spicy Chicken Wings to cater to Ghanaian tastes.*



**Figure 4.1:** KFC Restaurant in Accra  
<https://images.app.goo.gl/Ar3TZfw6dS9UrM138>

### Activity 4.1

#### Meaning of Franchising

1. In pairs, brainstorm the meaning of franchising.
2. Write your answers and share with another pair. Refine your definition if needed as a result of your discussion.
3. Continue your discussion in your pairs to identify the key elements of a franchise. You could record your answers in a table such as the one below.
4. Share your answers with the wider class for discussion and feedback.

Meaning of franchise	
Elements of a franchise	
	Description

### Activity 4.2

#### Advantages and disadvantages of franchising

1. In small groups, discuss the advantages and disadvantages of franchising as an approach to international business.

2. Write down your responses and share your responses with the class for discussion and feedback.

### Activity 4.3

#### Extension Activity

Identify an example of a successful international franchise. Carry out research to find out more about their business and how it has utilised the advantages of the franchise model. How successful have they been, and what risks do the disadvantages of franchising present to them?

Summarise your research in a short report and present it to your teacher for feedback.

## JOINT VENTURING AS AN APPROACH TO INTERNATIONAL BUSINESS

In this concept, we will start by looking at joint ventures and explore their advantages and disadvantages as an approach in international business.

### Explanation of Joint Venture

A joint venture is an agreement between two or more parties to work together and form a partnership. They combine their resources, knowledge and skills to reach common goals in a foreign market. The parties can be companies, governments, or individuals from different countries. A joint venture can be set up as a new company, a partnership, or a strategic alliance where the partners share their resources and expertise.

**Table 4.2:** Key Features of Joint Venturing

<b>Shared Ownership</b>	The parties forming the joint venture share ownership of the business, with each party contributing capital, technology, know-how and other resources for the business to succeed.
<b>Collaborative Management</b>	Managing the joint venture usually involves teamwork, where each side has a say in decision-making at all levels.
<b>Defined Objectives and Scope</b>	<p>Joint ventures are usually formed with specific objectives and a clear scope of work.</p> <p>These objectives can range from product development and market entry to research and development and large-scale projects.</p>

<b>Fixed Duration or Long-Term Arrangement</b>	Joint ventures can be established for a specific project with a fixed duration or as a long-term business arrangement.
<b>Shared Risks and Rewards</b>	<p>The groups involved share the financial risks and benefits of the joint venture.</p> <p>Profits and losses are usually divided according to how much each group owns.</p>

## Advantages of joint venturing as an approach to international business

The advantages of joint ventures in the context of international business include:

1. **Innovation and Synergy:** Joint ventures bring about combinations of different strengths, capabilities and perspectives that can lead to innovative solutions and collaborations which can result in new products, services and business models that neither partner could have developed independently. Joint ventures can enhance research and development capabilities by combining the research and development resources and expertise of both partners.
2. **Access to New Markets and Customers:** Joint ventures facilitate entry into new geographic markets that may be difficult to penetrate independently. Again, local partners often have established customer bases and brand loyalty and can provide immediate access to these customers, enhancing market reach and sales potential and business growth.
3. **Market Entry and Expansion:** The initiative to collaborate with a local company offers crucial understanding of the local market, consumer habits, regulatory landscape and cultural differences. This regional knowledge enables the customisation of products and services to better align with market needs. Furthermore, local partners typically possess established distribution networks and connections with suppliers, retailers and customers. This allows businesses to capitalise on these networks, expedite market entry and shorten the duration required to gain a foothold in the market.
4. **Resource Sharing:** Joint ventures allow companies to pool financial resources, reducing the financial burden on each partner. This shared investment can fund large-scale projects, research and development and market expansion activities. That is, partners involve bring unique technology, expertise and intellectual property to the joint venture to combine knowledge and take the lead to innovation and customer satisfaction.
5. **Regulatory and Compliance Advantages:** It is easy for a local partner to navigate regulatory requirements, obtain necessary permits, ensure compliance with local laws, mitigate political and legal risks by involving local stakeholders. This local involvement can improve relations with government authorities and reduce the risk the business could have faced.



6. **Operational Efficiency:** Joint ventures can achieve cost savings through shared resources, economies of scale, streamlined operations which can reduce operational costs and improve profitability. Additionally, it can enhance supply chain management by utilising local suppliers, reducing transportation costs and improving supply chain resilience.
7. **Risk Sharing and Mitigation:** The financial risks associated with entering a new market or undertaking a large project are distributed between the partners. In addition, joint ventures allow companies to vary their risk across different markets and projects. This can protect against market or product-specific decline.

## Disadvantages of joint venturing as an approach to international business

Whilst there are many advantages to operating as a joint venture in international business, there are potential drawbacks, as listed below.

1. **Profit Sharing:** When the joint venture makes profits, it must be shared between the partners involved, which can reduce the overall financial benefits for each party compared to operating individually. Partners may have different financial goals and expectations, leading to disagreements over profit distribution and reinvestment of earnings into the joint venture.
2. **Cultural and Operational Differences:** Different company cultures can lead to disagreements between partners. For instance, one partner might have a strict structure, while the other prefers teamwork. Mixing different ways of working can also cause problems and make things less efficient. This can hurt productivity and the success of the joint venture.
3. **Complexity and Conflict:** Joint ventures require partners to work together in managing operations and making decisions, which can be challenging. This is especially true when partners have different ways of managing, different company cultures and different goals. Disagreements may come up over things like sharing resources, dividing profits, setting a strategy and controlling operations. These conflicts can negatively affect the joint venture's success and may even cause it to end sooner than planned.
4. **Loss of Control:** In a joint venture, each partner has a say in the decision-making process which means businesses cannot easily apply strategies quickly and efficiently. Furthermore, partners may have to compromise on their individual business strategies to align with the joint venture's goals. This loss of autonomy can be particularly challenging for companies that are used to making independent decisions.
5. **Regulatory and Compliance Risks:** A joint venture often means working in different places, which can lead to different legal rules that must be followed. Keeping up with all these laws can be complicated and expensive. In some countries, joint ventures might also deal with problems like political issues, economic changes, changes in currency value and government involvement.



6. **Financial and Operational Risks:** To establish and maintain a joint venture requires important financial investment and ongoing operational costs. If the joint venture does not perform up to expectations, these costs can lead to financial strain for the partners. The success of the joint venture depends on the performance and co-operation of both partners. If one partner fails to meet expectations, it can negatively affect the joint venture.
7. **Integration Challenges:** Combining different systems, processes and technologies can be challenging and time-consuming. Ensuring compatibility and efficiency requires significant effort and resources. Again, integrating the workforce from different companies can lead to issues related to communication, alignment of objectives and morale. Employees may struggle to adapt to new management styles and organisational cultures.

## Case Study

Toyota Tsusho Corporation, a Japanese trading company, identified an opportunity to expand its market presence in West Africa by establishing a local vehicle assembly plant in Ghana. CFAO Ghana Limited, a subsidiary of CFAO Group (a French multinational), had an established presence in the Ghanaian automobile distribution sector, including retail and after-sales service. Recognising the mutual benefits of collaboration, the two companies entered into a joint venture (JV) to establish Toyota Ghana Company Limited. Toyota Tsusho Corporation partnered with CFAO Ghana Limited to create Toyota Ghana Company Limited, with both parties contributing expertise and resources. Toyota Tsusho holds a controlling stake, while CFAO Ghana provides local market knowledge and distribution infrastructure.

Toyota Tsusho Corporation provides technology and expertise in automobile manufacturing. It also supplies parts and technical support for assembling Toyota vehicles in Ghana and ensures compliance with Toyota's global quality standards. CFAO Ghana Limited on the hand offers local market knowledge, including customer preferences and regulatory insights. Furthermore, CFAO provides an established distribution network and sales channels in Ghana as well as manages after-sales services, including maintenance, spare parts and customer service.



**Figure 4.2:** CFAO Service Centre in Accra <https://images.app.goo.gl/VobWtPXXyWDDwSa29>

**Activity 4.4****Meaning and key elements of joint venture**

1. In pairs, brainstorm on the meaning of joint venture.
2. Write your agreed-upon definition in your workbook and share with another pair.

**Activity 4.5****Advantages and disadvantages of joint venture**

1. In small groups, discuss the following:
  - a. The key elements of joint ventures
  - b. Advantages and disadvantages of joint ventures
2. You may use digital tools and the internet to support your work. Are there examples of international joint ventures that can give you context?
3. Summarise the outcomes of your discussion on a flip chart and present your answers to the larger class.

## LICENSING AS AN APPROACH TO INTERNATIONAL BUSINESS

In this lesson, we will start by looking at licensing and explore its advantages and disadvantages as an approach in international business.

### Explanation of licensing as an approach to international business

Licensing is a form of contractual agreement where a company (the licensor) allows another company (the licensee) to produce and sell its products, use its brand name or utilise its intellectual property (such as patents, trademarks, or technology) in exchange for royalties or a fee. This method provides a way for companies to expand their market reach without the need to invest heavily in foreign operations.

**Table 4.3:** Key Elements of Licensing

<b>Licensor</b>	This is the business or company that owns the intellectual property or product.
<b>Licensee</b>	This is the company that receives the rights to produce and sell the licensor's products or use its intellectual property.

<b>Intellectual Property</b>	The licensor's patents, trademarks, technology, brand name or proprietary knowledge.
<b>Royalties/Fees</b>	Payments made by the licensee (the company) to the licensor (the owner of the product), often based on a percentage of sales or a fixed fee.

## Advantages of licensing as an approach to international business

The advantages of licensing in the context of international business include:

1. **Brand Recognition and Market Presence:** Licensing agreements can help a brand to be more visible and recognised in other countries. Successful licensees help promote the brand, making it better known around the world. Also, by working with local companies, licensors can reach more customers and connect with them better than if they tried to do it all by themselves.
2. **Revenue Generation:** By licensing your product, the licensor can earn regular income from royalties and fees, which offers a consistent revenue stream without needing to get heavily involved in operations. Royalties are usually a percentage of sales, which means both parties benefit together. Licensing lets companies make money from their inventions, trademarks and technologies without having to handle production or sales themselves.
3. **Low Investment and Risk:** Licensing makes it possible for businesses to enter foreign markets without the need to invest heavily in infrastructure, manufacturing facilities, or distribution networks. The licensee typically handles these aspects, reducing the financial burden on the licensor. In addition, the financial risks associated with market entry, such as economic fluctuations, political instability and cultural differences, are largely borne by the licensee. This reduces the risk for the licensor.
4. **Market Entry and Expansion:** It helps businesses quickly enter new markets by using the licensee's existing production and distribution strengths. This fast entry can be very important in competitive industries. Additionally, the licensee knows the local market well, including customer habits, rules and cultural details. This knowledge can improve market reach and support business growth and success.
5. **Focus on Core Competencies:** When businesses license out activities that are not their main focus, they can concentrate on what they do best, like research, innovation and planning. Meanwhile, the company they license to takes care of making and distributing products. This arrangement can also improve efficiency, allowing businesses to use their resources better and focus on areas where they excel.
6. **Strategic Partnerships:** Licensing a business can help build strong partnerships with important companies in other countries. These partnerships can give helpful market information, distribution options and local assistance. Successful

licensing deals often result in lasting relationships that promote growth and teamwork over time.

7. **Compliance and Regulatory Advantages:** The licensee is typically responsible for complying with local regulations, standards and legal requirements. This reduces the complexity and burden of regulatory compliance for the licensor. Licensing can help overcome trade barriers and restrictions that might otherwise delay market entry. Local licensees can navigate these challenges more effectively than foreign business organisation.

## Disadvantages of licensing as an approach to international business

Whilst there are many advantages to licensing in international business, there are potential drawbacks, as listed below.

1. **Loss of Control:** The company that owns the product (licensor) has little control over the company (licensee) that is allowed to make and sell it. This can lead to problems with how the product is made, its quality and how it is marketed. These issues can hurt the brand's reputation. Additionally, the success of the licensing deal relies a lot on how well the licensee performs. If the licensee does a poor job of marketing or selling the products, it can harm the owner's presence in the market and their earnings.
2. **Intellectual Property Risks:** Licensing an activity means allowing someone else to use your ideas or inventions. This can increase the chance that they might steal or misuse your work. Protecting your ideas in other countries can be hard and expensive. Also, when you share your technology or special knowledge, you might unintentionally help the other company become a competitor if they use what they learned to create similar products on their own.
3. **Market and Brand Risks:** Licensing helps keep quality the same in different markets, but this can be difficult. If the licensee does not meet the quality standards, it can hurt the licensor's brand reputation. Additionally, if the licensee uses the brand poorly—like using bad marketing or providing poor customer service—it can weaken the brand's image and reduce its value.
4. **Regulatory and Legal Challenges:** Licensing is an agreement that must follow the laws and regulations of both the country of the person granting the license (licensor) and the person receiving it (licensee). Dealing with these complexities can take a lot of time and money. Additionally, making sure that the terms of the licensing agreement, especially those related to intellectual property, are upheld in other countries can be difficult. This can lead to legal disputes that may need a lot of resources to settle.
5. **Cultural Differences:** The differences in culture practices and consumer behaviour between the licensor and licensee can lead to misunderstandings and operational inefficiencies. Adapting the product or service to fit the local market's cultural preferences and needs can be difficult. Failure to do so can result in poor market acceptance and performance.

6. **Limited Long-Term Benefits:** Licensing agreements are written to cover a specified time period (limited in duration). Once the agreement expires, the licensor may lose the market presence it had built through the licensee, unless a renewal or a new agreement is reached. After the expiration of the licensing agreement, the licensee might have gained enough knowledge and market understanding to continue operating without the licensor, potentially becoming a competitor.
7. **Dependency Risks:** It is risky to rely heavily on a single licensee for market entry and expansion. If the licensee faces financial difficulties or strategic changes, it can severely impact the licensor's market position.

## Case Study

Danone, a multinational food-products corporation headquartered in France, is a global leader in dairy products and was looking to expand its presence in Africa without establishing a full-scale manufacturing operation from scratch. Instead of direct foreign investment, Danone entered the Ghanaian market through a licensing agreement with FanMilk Ghana. Danone granted FanMilk Ghana the license to produce, distribute and sell Danone-branded dairy products, including yoghurt and other nutritional beverages, under strict quality and operational guidelines. This agreement allowed FanMilk to access Danone's proprietary formulas, production techniques and brand identity while continuing to operate as a local company. FanMilk Ghana manufactures the licensed Danone products using local production facilities, manages distribution and retail through its well-established supply chain, as well as handles regulatory compliance and customer engagement in Ghana. Danone, on the other hand, provides the proprietary technology, brand name and product formulas, ensures quality control by monitoring production processes, as well as supports marketing strategies based on global brand standards.



Figure 4.3: FanMilk Factory in Tema <https://images.app.goo.gl/1BZEchmFDTgBCLPW6>

### Activity 4.6

#### Meaning and key elements of licensing

1. In pairs, brainstorm on the meaning of licensing.
2. Refine your definition if needed as a result of your discussion.
3. Continue your discussion in your pairs to identify the key elements of licensing. You could record your answers in a table such as the one below.
4. Share your answers with the wider class for discussion and feedback.

Meaning of licensing	
Elements of licensing	
	Description

### Activity 4.7

#### Advantages and disadvantages of licensing

1. In groups, discuss the case study and answer the question that follows

##### Sam and Selina Partnership

Sam, a leading sports apparel and footwear manufacturer, sought to expand its global presence through licensing agreements. Sam entered into an agreement with Selina, a Ghanaian-based manufacturing and distribution company, allowing them to produce and distribute goods in Africa using the Sam brand.

2. Explain the advantages and disadvantages of licensing.
3. Write your answer and present your responses to the larger class.

## WHOLLY OWNED SUBSIDIARY (WOS) AS AN APPROACH TO INTERNATIONAL BUSINESS

In this lesson, we will start by looking at wholly owned subsidiaries and explore the advantages and disadvantages of these as an approach to international business.

### What is a wholly owned subsidiary (WOS) as an approach to international business?

A wholly owned subsidiary is a company whose entire stock is owned (100%) by another company, known as the parent company. This approach involves the parent company establishing or acquiring a fully controlled business entity in a foreign market. This strategy allows the parent company to retain complete control over the subsidiary's operations, policies and strategic direction.

### Establishing a Wholly Owned Subsidiary (WOS)

Wholly owned subsidiaries are normally created in one of two ways:

- **Greenfield Investment:** The parent company creates a new business in another country. This means buying land, buildings and hiring local workers. This approach lets the company set things up exactly how they want, but it takes a lot of time and money.
- **Acquisition:** This is when a parent company purchases another company in a foreign market. It allows for quick access to that market and the ability to operate right away, but it can also come with difficulties in combining the two companies and with higher upfront costs.

### Advantages of a wholly owned subsidiary as an approach to international business

The advantages of wholly owned subsidiaries in the context of international business include:

1. **Complete Control:** The parent company maintains full control over the subsidiary's operations, strategic decisions and management practices, ensuring alignment with corporate goals and standards.
2. **Protection of Intellectual Property:** Unlike joint ventures or licensing agreements, a wholly owned subsidiary allows the parent company to protect its intellectual property.
3. **Brand and Quality Consistency:** The company can ensure that its brand and product quality are consistent across all markets, helping to maintain its reputation and customer trust.



4. **Gain Market Knowledge:** The parent company can gain in-depth knowledge of the foreign market over time, which can be used to refine strategies and enhance the competitiveness of the market.
5. **Profits Retained:** The profits made by the subsidiary are retained within the parent company, leading to higher overall profitability compared to shared ventures.

## Disadvantages of a wholly owned subsidiary as an approach to international business

Whilst there are many advantages to operating wholly owned subsidiaries in international business, there are potential drawbacks, as listed below.

1. **High Costs and Investment:** It is costly to establish a wholly owned subsidiary business as it requires higher capital investment for infrastructure, staffing and higher operational costs.
2. **Risk Exposure:** All the risks associated with the subsidiary's operations are normally borne by the parent company. These risks include economic and market changes and political instability.
3. **Cultural and Regulatory Challenges:** Understanding the cultural, legal and regulatory environment can be complicated and needs considerable local knowledge and adjustments to successfully navigate a foreign market.
4. **Exit Barriers:** Exiting the market can be difficult and costly due to the large investments made and the potential need to separate assets or shut down operations.
5. **Integration and Management Challenges:** It is not easy to integrate the subsidiary into the parent company's overall operations and manage it effectively across different time zones and cultural contexts.

### Case Study

Nestlé, a Swiss multinational food and beverage company, initially operated in Ghana through distributors and partnerships, but to have greater control over its operations, branding and quality, the company established Nestlé Ghana Limited as a wholly owned subsidiary (WOS). The company set up its own production and distribution facilities in Ghana, eliminating dependence on third-party distributors by registering under the corporate laws of Ghana as a fully owned subsidiary of Nestlé S.A. (Switzerland). Consequently, Nestlé S.A. owns 100% of Nestlé Ghana Limited, maintaining direct control over operations, finances and strategic decisions. Though Nestlé Ghana Limited is a subsidiary of the Nestlé Group, it operates as a separate legal entity and complies with local regulations. However, the subsidiary benefits from Nestlé's global research, product development and advanced manufacturing processes, as well as follows Nestlé's strict quality assurance policies to ensure food safety and compliance with both



Ghanaian and international standards.



Figure 4.4: Nestlé Ghana Ltd. Office in Accra  
<https://images.app.goo.gl/8Keu98g8SKwZ2kuP8>

### Activity 4.8

#### Wholly owned subsidiary

1. In groups, use any electronic device (desktop, laptops, smartphones or tablets) to carry out online research on wholly owned subsidiaries to
  - a. Define what is meant by a Wholly Owned Subsidiary in the context of international business.
  - b. Find examples of wholly owned subsidiaries operating in the international market
  - c. Explain the advantages and disadvantages of wholly owned subsidiaries as an approach to international business
2. Present your findings to the larger class for discussion and feedback. Present your work in an engaging way, for example as a poster, presentation or on a flip chart

## DIFFERENTIATE BETWEEN DOMESTIC AND INTERNATIONAL TRADE

In this lesson, we will define the meanings of domestic and international trade, looking at the differences between the two and the types of transactions that are carried out in each.

## Meaning of Domestic Trade

1. Domestic, or local or internal trade, is the exchange of goods and services within the borders of a country.
2. It refers to the buying and selling of goods and services within a country's borders, involving transactions between businesses, governments and individuals.
3. Another term for domestic trade is *national trade*.

## Meaning of International Trade

1. International trade is the exchange of goods, services and capital between different countries.
2. This type of trade allows nations to expand their markets for both goods and services that otherwise may not have been available locally or domestically.
3. International trade is also known as *foreign trade*.

## What does international trade involve?

1. **Importing:** This is the buying of goods or services from another country for consumption.
2. **Exporting:** This involves the selling of goods or services to another country for consumption.
3. **Entrepot trade:** This refers to the importation of goods and services for re-export to another country e.g. A businessman in Mali imports goods to Ghana for re-export to Mali.

## Differences between Domestic and International Trade

There are a number of features of trade that differ when operating domestically and internationally. These include

1. **Geographical Scope**  
Domestic trade occurs within the borders of a single country while international trade involves trade between different countries across national borders.
2. **Currency**  
Domestic trade transactions are conducted in local money of that country, but international trade transactions often involve different currencies, requiring currency exchange and managing exchange rate risks.
3. **Transportation and Logistics**  
Domestic trade generally involves shorter transportation distances and simpler logistics. In the case of international trade, it often involves longer transportation distances, more complex logistics and international shipping regulations.
4. **Regulations**

Domestic trade is governed by the country's internal laws and regulations however, international trade is subject to international laws, treaties, trade agreements and customs regulations.

### 5. Market Knowledge

Businesses have a good understanding of local market conditions, consumer preferences and cultural differences in domestic trade. But international trade requires knowledge of different markets, consumer behaviours and cultural differences in various countries.

### 6. Trade Barriers

Domestic trade faces fewer trade barriers whereas international trade is often subjected to tariffs, quotas and other trade barriers imposed by governments.

### 7. Economic Impact

Domestic trade directly affects the national economy, contributing to GDP and employment within the country while international trade influences the global economy and affects the trade balance, economic growth and development of all of the countries involved.

### 8. Risk Factors

Risks are primarily related to the national economy and local market conditions in the case of domestic trade, whereas international trade is subject to additional risks such as political instability, currency exchange risk and differences in legal systems.

**Table 4.4:** Differences between domestic trade and international trade (Summarised table)

Feature	Domestic Trade	International Trade
Definition	It involves exchange of goods and services within a single country	It involves exchange of goods and service between different countries
Scope	It is internal or national	It is foreign or global
Currency	Single currency is used	Multiple currencies are used
Regulations	National laws and policies	International laws, agreements and tariffs
Transportation	It involves shorter distances and simpler logistics	It involves longer distances, complex logistics
Market Understanding	There is better local market understanding	It requires understanding of diverse markets
Risk Factors	National economic risks	Political, currency and international trade risks

Feature	Domestic Trade	International Trade
Barriers to Entry	Fewer barriers, easier entry	Many barriers, complex entry
Economic Impact	It contributes to national GDP	It influences global economy, trade balance

## Examples of Transaction in Domestic and International Trade

Some examples of transactions in domestic and international trade have been listed below. Can you think of examples of businesses or brands that you know that would fit any of these transactions?

### Domestic Trade

1. A furniture manufacturer in Ghana sells chairs and tables to retail stores in the country.
2. A Ghanaian film production company releases movie in theatres across the nation.
3. A national telecommunications company provides internet and phone services to consumers and businesses within the country.
4. A university offers courses and degrees to learners from various parts of the country.
5. A domestic e-commerce platform sells products to customers nationwide, offering home delivery and local pick-up options.
6. A construction company builds homes and commercial properties within the country and sells or leases them to local buyers and businesses.
7. A national hospital chain provides medical services to patients across different states or regions within the country.

### International Trade

1. A Ghanaian company exporting gold and other minerals to Europe.
2. A pharmaceutical company in Switzerland exports medications and vaccines to various countries worldwide.
3. A Saudi Arabian oil company exports crude oil to refineries in Japan, South Korea and India.
4. A Nigerian-based software company licenses its software to businesses and government agencies in South Africa and Asia, providing technical support and updates remotely.
5. An electronics company based in Japan exports televisions and smartphones to the United States, Europe and Ghana.

6. A steel manufacturing company in Germany imports iron ore from Brazil to produce steel products.
7. A German car manufacturer exports luxury car to dealerships in China, the United States and the Middle East.

### Activity 4.9

#### Example of domestic and international trade product

1. In pairs, identify and write down twenty products.
2. Classify the products into products manufactured in Ghana (local) and those manufactured outside Ghana (foreign).
3. Consider how you are able to buy or have access to goods manufactured in other countries.
4. Share your responses with another pair.

### Activity 4.10

#### Meaning of domestic and international trade

1. In pairs, discuss the meaning of domestic and international trade.
2. Make a note of your definitions in your workbook and share with another pair. Refine your answers if needed as a result of your discussion.

### Activity 4.11

#### Differences between domestic and international trade

1. In small groups, discuss the differences between domestic and international trade. Consider examples to help contextualise your answers.
2. Write your responses on a flip chart and present to the larger class. You may also choose to present your responses digitally by creating a short PowerPoint presentation.

### Activity 4.12

#### Self- Assessment

Answer the following question to support the review of your learning from this lesson: Explain domestic and international trade, giving examples of transactions for each type of trade.

# INTRODUCTION TO INTERNATIONAL TRADE

The underlying principles or economic theories that explain why countries trade with each other the basis for international business are.

These theories provide a framework for understanding how trade benefits countries. The basis for international trade includes:

## Comparative Advantage

This is the ability of a country, individual, or firm to produce goods or services at a lower opportunity cost than others. A country has a comparative advantage in producing goods if it can produce them at a lower opportunity cost compared to another country. It should be noted here that it is not necessarily about producing more efficiently but about sacrificing less of one good or service to produce another. This is a foundation theory of international trade developed by economist David Ricardo.

**Example 4.1:** Assume Countries A and B can produce cars and computers.

### Country A:

10 units of resources = 1 car

40 units of resources = 1 computer

### Country B:

15 units of resources = 1 car

30 units of resources = 1 computer

### Opportunity costs calculations:

#### For Country A:

Opportunity cost of 1 car = 0.25 computer

Opportunity cost of 1 computer = 4 cars

#### For Country B:

Opportunity cost of 1 car = 0.5 computer

Opportunity cost of 1 computer = 2 cars

### Conclusion:

Country A has a comparative advantage in cars because it sacrifices fewer computers to produce cars (0.25 vs. 0.5).

Country B has a comparative advantage in computers because it sacrifices fewer cars to produce computers (2 vs. 4).

## Absolute Cost Advantage

This is the ability of a country, individual, or firm to produce goods or services more efficiently (using fewer resources such as labour, capital, time, etc.) than another entity.

This concept was introduced by Adam Smith and suggests that specialisation and trade can benefit all parties involved by allowing each to focus on what they can produce most efficiently.

### *Example:*

#### **Country A:**

10 units = 1 car

40 units = 1 computer

#### **Country B:**

15 units = 1 car

30 units = 1 computer

### **Conclusion:**

Country A has an absolute advantage in producing cars because it uses fewer resources or produces cars more efficiently (10 vs. 15).

Country B has an absolute advantage in producing computers because it uses fewer resources or produces computers more efficiently (30 vs. 40).

**Table 4.5:** Summary

Country	Resources for 1 Car	Resources for 1 Computer	Opportunity Cost of 1 Car	Opportunity Cost of 1 Computer	Absolute Advantage	Comparative Advantage
<b>Country A</b>	10 units	40 units	0.25 computer	4 cars	Cars	Cars
<b>Country B</b>	15 units	30 units	0.5 computer	2 cars	Computers	Computers

## The Basis for International Trade

According to the principle of absolute advantage, Country A should specialise and focus on producing cars while Country B should specialise and focus on the production of computers since they are most efficient in the production of these commodities. This specialisation allows Country A to maximise its production output in cars and potentially export surplus to Country B or other markets and Country B maximises its production output in computers and export surplus to Country A. This leads to international trade.

## Competitive Advantage

This is the ability of a firm or entity to generate greater value for customers compared to its competitors. It is often based on factors such as quality, price, innovation, brand reputation and customer service. Unlike comparative and absolute advantage, which focuses on production efficiencies, competitive advantage emphasises the ability to outperform competitors in the market. It involves strategies that enable a company to differentiate itself and attract customers, ultimately leading to increase in productivity, market share and profitability for the business organisation.

**Example 4.2:** Company X has a competitive advantage in the smartphone market because it offers innovative features, superior quality and excellent customer service compared to its competitors. These factors allow Company X to charge higher prices while maintaining strong customer loyalty and market demand.

## Reasons for International Trade

The reasons for international trade are the drivers that prompt countries to engage in trade with each other. They emphasise the real-world motivations and goals that lead countries to participate in international trade.

**Table 4.6** summarises some of the reasons for countries engage in international trade.

**Table 4.6:** Reasons countries engage in international trade

Specialisation	<p>Countries can focus on industries where they are most efficient, leading to better resource allocation. By so doing, they have to engage in international trade to sell their products to other countries and buy what they do not have from other countries.</p> <p>For instance, Brazil focuses on agriculture and exports products like coffee and soya beans to other countries for foreign exchange.</p>
Access to Resources	<p>Countries are gifted with different natural resources e.g., Ghana has oil, minerals, timber, etc that other countries lack.</p> <p>For example, Ghana has fertile lands for the production of cocoa when compared to the US whilst the US are farther advanced in technology than Ghana.</p>
Technological Differences	<p>Nations with advanced technology and innovation can produce high-tech goods that other countries need. For instance, the United States exports medical devices and software due to its advanced technology sector.</p>



Taste for Variety of Goods	<p>Consumers in one country may demand products that are produced in another country, leading to trade.</p> <p>For instance, European countries import tropical fruits that cannot be grown in their climate. Ghana also imports apples from other countries where those fruits can do better.</p>
Market Expansion	<p>With the help of international trade, businesses seek to expand their markets beyond domestic borders to increase sales and profits. For example, a German car manufacturer exports cars to other countries to increase its market share.</p>
Political and Economic Relationships	<p>Two-sided (bilateral) and many-sided (multi-lateral) trade agreements reduce trade barriers and encourage exchange of goods and services. An example is the European Union which allows free trade among its member countries.</p>
Efficient Resource Utilisation	<p>Foreign trade allows countries to utilise their resources more effectively by exporting surplus and importing goods they do not have.</p> <p>An example is Saudi Arabia who export surplus oil and imports food products.</p>
Risk Diversification	<p>As a country is trading with other nations, businesses can diversify their markets and reduce economic risk.</p> <p>For example, a company that export goods and services to various countries can mitigate the impact of an economic decline in any single market.</p>

### Activity 4.13

#### Reasons why countries engage in international trade

1. In pairs, brainstorm why countries engage in international trade?
2. Write down your responses and share your answer with another pair.

### Activity 4.14

#### International trade

Organise yourselves into groups of not more than five. Your group will be allocated with flashcards that give an overview of a country's resources and production capabilities.

For each of your allocated countries, consider their areas of specialisation and their production capacity for each of the listed goods. Within your groups ask:

1. How much resource would it take to produce the first unit of goods.
2. How much would be required to produce 10, 50, 250 units?
3. How does this compare for different goods, and between countries?
4. What are the implications for international trade?

Make notes of your working and present your answers on flip charts to the rest of the class for discussion and feedback.

### Activity 4.15

#### Bases for international trade

1. In your groups, discuss the following bases for international trade
  - a. Comparative advantage
  - b. Absolute advantage
  - c. Competitive advantage
2. Consider how the examples in the previous activity may have exemplified one or more of these models.
3. Write down your explanations for comparative, absolute and competitive advantage in your workbooks and compare your answers with another group for feedback.

### Activity 4.15

#### Extension Activity

Write a short reflection on what you have learned about international trade in this lesson. Consider how this gives context to businesses you are familiar with and how one or more of the models of competitive, comparative or absolute advantage underpin their trading. Share this with your teacher for feedback.

## DOCUMENTS USED IN TRADING



**Figure 4.5:** Examples of trade documents

1. **Letter of Enquiry:** A letter of enquiry is normally prepared by a buyer who is in need of goods or services and sends it to the seller, or supplier, asking for information about products, prices, availability and terms involved.
2. **Material Requisition Form:** This is a document used by staff to request the supply of raw materials or components needed for production or other purposes within a business organisation.
3. **Quotation:** A supplier, or seller, of goods or services prepares a quotation to a potential buyer, detailing the prices and terms for specific goods or services available for sale.
4. **Purchase Order (PO):** An order is a trading document in the form of a formal request from a buyer to a supplier or seller to purchase goods or services as per the terms agreed on.
5. **Invoice:** The seller or supplier prepare this trading document (invoice) and send it to a buyer, detailing the goods or services provided and requesting payment for the goods to be supplied. It is a response to a quotation.
6. **Debit Note:** A debit note is a trading document that is prepared and sent by a buyer to a supplier or seller indicating a return of goods received or requesting a reduction in the amount payable due to discrepancies.

7. **Credit Note:** This is a trading document sent by a supplier to a buyer acknowledging that a certain amount has been credited to the buyer's account, usually due to returns of goods or overcharges.
8. **Receipts:** A receipt is a trading document issued by a seller to a buyer acknowledging that payment has been received for goods or services supplied or sold.
9. **Cheques:** A cheque is a written, dated and signed document that instructs a bank to pay a specific amount of money to the bearer, or the entity named on it.
10. **Delivery Note:** This is a document that accompanies a shipment of goods, listing the items delivered and their quantities. It confirms the delivery of goods to the buyer.
11. **Goods Received Note (GRN):** A GRN is trading document used by the buyer to confirm the receipt of goods ordered. It verifies that the delivered items match the purchase order and so on.

#### Activity 4.16

##### Documents used in trading

1. In groups, read the case below and answer the questions.

Akua Nyamesem is a new member staff with HOIS Company Ltd. She was tasked with buying some stationery items for the company but did not keep any records of the transaction. She has realised she needs to understand more about the documents used in business and has approached you, to help her with the following:

- a. Explain three documents used in business.
  - b. Discuss the purpose of the documents used in business
2. Write down your responses and share with another group.

#### Activity 4.17

##### Types of documents used in trading

Your teacher will present you with sample copies of the types of documents that are used in trading, for example a purchase order, delivery note, invoice. You can also follow this link to download some of the documents (<https://letstranzact.com>)

1. In your groups examine these documents and make a note of the key information they contain. Consider why this is important and why it is critical for businesses to use and keep records of these documents.

2. Make notes from your discussion and share your responses with the class as part of a wider group discussion.
3. Note the key points for each kind of document discussed by each group in your workbook.

## DOCUMENTS USED IN INTERNATIONAL TRADE

International trade documents are very important documents when transacting business or trade internationally as to ensure that transactions are legal, transparent and compliant with the regulations of the countries involved.

International trade documents are used to facilitate the smooth movement of goods across borders, ensuring that all parties understand their rights and obligations.

### Documents used international trade

Some of the key documents in international trade are outlined below.



**Figure 4.6:** Examples of International trade documents

1. **Letter of Credit:** This is an international trading document issued by a bank guaranteeing that a buyer's payment to a seller will be received on time and

for the correct amount, reducing the risk of non-payment in international trade transactions.

2. **Bill of Lading:** A bill of lading is an international business document issued by a carrier to acknowledge receipt of cargo for shipment. It serves as a shipment receipt when the carrier delivers the goods at the destination and outlines the terms for transporting the goods. It provides proof of shipment and details the terms and conditions under which the goods are transported or conveyed.
3. **Consular Invoice:** This is a foreign business document required by some countries, signed by the consul of the importing country stationed in the exporting country. It certifies the value, quantity and nature of the shipment. Its purpose is to verify the value and origin of the goods and to ensure that the goods comply with the regulations of the importing country or nation.
4. **Certificate of Origin:** A certificate of origin is a document declaring the country where the goods were manufactured. It is often required by customs authorities to determine whether the goods are eligible for import or subject to duties.
5. **Certificate of Insurance:** This certificate of insurance is a document issued by an insurance company certifying that shipment is insured against loss or damage during transit of goods.
6. **Export License:** An export license refers to a government document that authorises the export of specific goods in specific quantities to a particular destination. It is required for goods that are controlled or regulated such as guns, narcotics, chlorine gas etc.
7. **Import License:** This document is usually prepared and issued by a government authorising the import of certain goods into its country. It is required for goods that are subject to import restrictions.
8. **Shipping Note:** This is a document mostly used in international trade prepared by the shipper that provides detailed instructions to the carrier about the handling and delivery of the shipment.
9. **Airway Bill:** This is a document issued by an airline to acknowledge receipt of cargo for shipment by air. It serves as a contract of carriage and a receipt for the goods or items.
10. **Inspection Certificate:** This is issued by an independent third-party inspection company or agency verifying that the goods meet the specified quality and quantity requirements. Its purpose is to assure the buyer that the goods meet the agreed-upon specifications and standards.
11. **Customs Declaration:** In international business, customs declaration must be submitted to the appropriate authorities for the goods to be transported to the appropriate destination. It is a document submitted by the importer or exporter to customs authorities detailing the goods being imported or exported, including their nature, value and origin.

### Activity 4.18

#### Documents used in international trade

Organise yourselves into groups of not more than five. Your group will be assigned a set of flash cards. On one set will be the names of documents used in international trade and on the other will be descriptions of documents and their purpose.

Working in your group, match the description to the type of document. Stick your pairs of flash cards on the wall or on a flip chart and present your answers to the class for feedback.

Take time to move around the class and look at the documents assigned to other groups.

Make notes in your workbooks of the key documents and their purpose.

In your notes, make sure you can differentiate between an import license and an export license.

### Activity 4.19

#### Importance of documents used in international

1. In your groups, discuss the importance of the documents used in international trade.
2. Agree three reasons and present these on a flip chart and present to the larger class for discussion and feedback.

## RESTRICTIONS IN INTERNATIONAL TRADE

International trade is regulated by set of rules and agreements with the intention of facilitating the exchange of goods and services between countries involved. There are restrictions that can be imposed on parties engaged in international trade to ensure that the parties conduct themselves as specified in the agreement.

Foreign trade restrictions are policies implemented by governments to regulate and control the flow of goods and services across borders.

### Some of the restrictions used in international trade

1. **Tariffs:** Tariffs are taxes the government of a country impose on imported goods and services. These tariffs may be in the form of ad-valorem (a percentage of the value) or specific (a fixed fee per unit). The primary purpose of tariffs is to protect

domestic industries from foreign competition by charging higher tariff or taxes on imported goods to make them more expensive. This encourages consumers to buy domestically produced products. They can also provoke retaliatory tariffs from other countries, leading to trade wars that disturb global supply chains.

**Example 4.1:** In 2018, the U.S. imposed tariffs on Chinese imports, including steel and aluminium, under Section 301 of the Trade Act. This move aimed to counter unfair trade practices but led to retaliatory tariffs from China, affecting U.S. agricultural exports like soybeans.

2. **Quotas:** These are limits on the amount or quantity of a specific product that can be imported or exported from one country to another during a given timeframe. Quotas protect domestic producers by controlling the volume of foreign goods entering the local market, preventing market saturation and maintaining price stability. Quotas can create shortages or surpluses, leading to higher prices for restricted goods. They can also lead to inefficiencies as companies rush to import within quota limits and can lead to smuggling if demand exceeds supply.

**Example 4.2:** The European Union (EU) has a quota on the import of Chinese textiles to control the flood of low-cost clothing into its markets, ensuring fair competition for local manufacturers.

3. **Trade Embargoes:** Embargoes are official bans on trade, usually imposed for political or non-political reasons such as human abuses etc. Embargoes are used to exert economic and political pressure on governments to change policies or behaviour or to prevent the importation of a particular product into a country. Trade embargoes can be imposed on specific sectors of a region or sub-region. This can limit access to goods and services, leading to shortages and economic hardship in the targeted country.

**Example 4.3:** The U.S. has maintained a trade embargo on Cuba since the 1960s due to political differences. This embargo limits U.S. businesses from trading with Cuban entities, affecting Cuba's economy and restricting access to American goods.

4. **Subsidies:** Subsidies are financial support provided by governments to domestic industries to help them compete against foreign imports. They can take the form of direct cash payments, tax breaks, or low-interest loans. Subsidies given to local companies to lower production costs, allowing domestic business organisations to offer products at a cheaper price relative to foreign products. This will help control and reduce the quantity of foreign products into a country.

**Example 4.4:** The U.S. government provides subsidies to its farmers, particularly in the corn and soybean sectors, allowing them to sell their produce at lower prices than competitors from developing countries.

5. **Import Licenses:** These are government-issued permits required for the importation of certain goods or services into the country. They help the country to control the entry of products that might be harmful or not needed. The importing country can decide to reduce the number of licenses issued to importers for the importation of certain goods and services or raise the standard high for the



acquisition of import license. Import licenses can add administrative costs for businesses, delaying shipments and reducing the efficiency of supply chains. They can also be used as a protection tool to limit competition from companies from other parts of the world.

**Example 4.5:** India requires import licenses for certain electronic goods to ensure they meet quality and safety standards, preventing the influx of substandard products.

6. **Controls:** This regulation limits the export of certain goods, technologies, or information, particularly those with military or dual-use potential. Export controls are designed to protect national security, prevent the spread of weapons and sensitive technologies and comply with international treaties. Exporters in the country must obtain government authorisation, often in the form of export licenses, before controlled goods and services can be imported into the country. These controls are usually based on lists of items that are subject to restrictions. Export controls can limit companies' ability to access international markets, especially in high-tech industries. They can also strain political relations if countries perceive them as unfair barriers.

**Example 4.6:** The U.S. has strict export controls on semiconductor technology to China, restricting access to advanced microchips used in military applications.

7. **Technical Barriers to Trade (TBT):** These are regulations, standards, testing and certification procedures that goods or services must meet to be sold in a particular market. Technical barriers to trade ensure the safety, quality and compatibility of products, protecting consumers and the environment. These include labelling requirements, performance standards and conformity assessment procedures. They often require products to meet specific technical specifications. They can also act as non-tariff barriers that impede trade by increasing compliance costs and requiring technical modifications to meet local standards of making goods or services available for public consumption.

**Example 4.7:** The EU requires that all cosmetics be tested and certified according to stringent safety standards. This regulation makes it difficult for companies from countries with different safety norms to export their products to Europe.

8. **Trade Sanctions:** Sanctions are measures imposed by one or more countries against a targeted country, group, or individual to restrict trade and economic transactions. Trade sanctions are used to achieve political, economic, or security objectives and can range from comprehensive trade embargoes to targeted measures like travel bans and asset freezes of nations or officers.

**Example 4.8:** The United Nations imposed trade sanctions on North Korea, restricting the export of luxury goods and military-related materials to curb its nuclear weapons program.

9. **Anti-Dumping Duties:** Anti-dumping duties are tariffs imposed on foreign imports believed to be of inferior quality and priced below fair market value. The purpose of imposing anti-dumping duties on goods dumped into a country

is to protect domestic industries from unfair competition, market distortion and consumption of products that are not good.

**Example 4.9:** The EU imposed anti-dumping duties on Chinese solar panels in 2013 after investigations revealed they were being sold at artificially low prices, undercutting European manufacturers.

- 10. Sanitary and Phytosanitary Measures (SPS):** These are measures to protect humans, animals and plants from diseases, pests, or contaminants. They are particularly relevant in agriculture and food trade. They ensure food safety and prevent the spread of diseases and pests that could harm agriculture or ecosystems. These measures include quarantine requirements, inspections and testing. They must be based on scientific principles and risk assessments. SPS measures can restrict imports of agricultural products and increase compliance costs, but they are essential for maintaining health and safety standards. However, if not properly justified, they can be perceived as protection tools.

**Example 4.10:** Following the 2001 outbreak of foot-and-mouth disease in the UK, several countries banned British beef imports to prevent the disease from spreading.

- 11. Customs Regulations:** These regulations are requirements for customs declarations, payment of taxes and duties and inspection of goods. Customs regulations are used to raise or collect revenue for the government and also to prevent illegal goods from entering the country.

**Example 4.11:** The U.S. enforces strict customs regulations on luxury goods entering the country, requiring high-value imports to be declared and taxed accordingly.

In sum, international trade restrictions are designed to protect local businesses or industries, consumers, environment and promote trade practices which are fair. On the other hand, trade restrictions can make it expensive and difficult for companies to transact business internationally and lead to retaliatory measures from other nations.

### Activity 4.20

#### Restrictions in international trade

##### Case study: Cocoa Trade Dispute Between Country A and Country B.

**Background:** *Country A* and *Country B* are two of the world's largest producers of cocoa. Recently, the government of *Country A* have imposed a 25% tariff on cocoa beans imported from *Country B*, citing concerns over unfair trade practices and intellectual property theft. This move has the potential to affect trade and consumption of cocoa beans on the world market.

**Scenario:** *You are a trade analyst for a cocoa bean exporting company in Country B and have been tasked with evaluating the situation. The newly imposed tariffs*

have increased the cost of importing cocoa beans from **Country B**, leading to 15% decrease in exports to **Country A**.

**Response:** In light of these developments, the government of Country B has threatened to impose retaliatory tariffs on products imported from **Country A**. Your company is now considering various options to mitigate the impact of these tariffs and maintain its market position.

Organise yourselves into small groups.

Working in these groups, analyse the case study and prepare a presentation that evaluates the situation.

Your presentation should cover.

1. The meaning and application of tariffs
2. Other trade restrictions that could be applied
3. The potential short- and long-term effects of the situation described in the case study for both countries.
4. How **Country B** might mitigate the impact of the tariffs and maintain its market position.

Consider the economic impact, political considerations and long-term sustainability of the situation in your analysis.

Consider how you will present your analysis to your class for discussion and feedback (for example as a PowerPoint presentation, role play discussion between the analyst and representatives from the cocoa industry etc.)

Share your written notes and evaluation with your teacher for feedback.

## REASONS FOR RESTRICTIONS IN INTERNATIONAL TRADE

As you have learned from the previous lesson, trade restrictions are measures adopted by government of a country to regulate and limit international trade in order to protect local industries. The reasons for imposing and implementing trade restrictions in international trade often reflect the economic, political and social objectives of governments.

### Some of the reasons why restrictions are used in international trade

1. **To Protect Domestic Industries:** The government of a country may impose trade restrictions to protect young industries. This allows these young industries to grow, establish themselves and be prepared to face foreign business competition.

Restrictions such as tariffs and quotas can protect local industries from unfair competition from foreign companies.

2. **Safeguarding National Security:** Export controls and restrictions on sensitive technologies help prevent the spread of weapons and ensure that military goods do not fall into the hands of adversaries. The government of the various countries can maintain greater control over essential sectors critical to national security, such as energy, agriculture and technology as those nations reduce reliance on foreign goods.
3. **Protecting Public Health and Safety:** Sanitary and Phytosanitary Measures are restrictions that prevent the spread of diseases, pests, or contaminants that are harmful to human beings, animals, or plants. These measures ensure priority on food safety and public health thereby promoting the wellbeing of the citizens in the country. Technical Barriers to Trade are also regulations and standards applied to ensure that imported goods meet safety and quality standards, protecting consumers from poor quality products that are dangerous to human health.
4. **Encouraging Domestic Employment:** Restricting imports into the country means that the governments can support local industries and preserve domestic jobs. This is very important in sectors facing international competition. By imposing restrictions like embargoes on certain foreign products and granting subsidies to local industries, governments can help boost these industries and create domestic employment opportunities fostering economic development.
5. **Responding to Political and Diplomatic Concerns:** When trade sanctions are imposed on countries or goods, it means these sanctions are used as a tool to put pressure on those countries to change policies or behaviours, such as human rights violations or aggressive military actions. The government of a country may impose trade restrictions in response to unfair practices by trading partners, aiming to force them to change their policies or reach a negotiation.
6. **Revenue Generation:** Taxes or tariffs imposed on goods and services are sources of revenue to government. For some countries, especially developing ones, tariffs on imports are a significant source of government revenue. These funds support public services, infrastructure and economic development.
7. **Promoting Fair Trade Practices:** Foreign business organisations could produce inferior goods and dump them on the markets for sale and consumption. Anti-dumping duties are imposed to reduce the negative effects of dumping and foreign subsidies, ensuring fair competition for domestic producers. Restrictions help enforce intellectual property rights, preventing the illegal distribution and sale of inferior goods that can harm local industries and citizens.
8. **Environmental Protection:** Business restrictions in international trade can be used to enforce environmental standards, preventing the importation of products that do not meet sustainability or contribute to environmental degradation.
9. **Cultural and Social Considerations:** Trade restrictions may be placed on the import of cultural goods that could undermine or dilute a country's cultural

heritage and identity. These restrictions can reflect social and ethical standards, such as banning products that violate labour rights or animal welfare standards.

- 10. Promoting Economic Stability:** When a country imposes trade restrictions on particular goods, it can help manage the country's balance of payments by reducing imports and encouraging exports. This improves foreign exchange reserves and stabilises the economy of the country.

### Activity 4.21

#### Importance / Reasons for Trade Restrictions

1. Organise yourselves into small groups. In your groups, discuss the reasons for imposing restrictions on international trade.
2. Identify five reasons and agree a justification for each one. Exchange your work with another group for comparison and discussion. Edit your list and add any additional reasons.
3. Share your work as part of a wider class discussion, re-editing your list to ensure you have captured all reasons discussed by your peers.

### Activity 4.22

#### Extension Activity

#### Case study: Economic transformation of Amasia Kingdom

*The Amasia Kingdom was once an underdeveloped nation. However, it decided to implement strategic policies to boost economic activities and growth. Among these policies were trade restrictions designed to support and protect local industries.*

*For instance, Amasia imposed tariffs on imported agricultural products such as rice and wheat, encouraging local farmers to increase production. The government also provided subsidies for the cultivation of cocoa and coffee, which are now major export commodities. Additionally, Amasia restricted the import of textiles and garments, leading to the growth of a robust domestic textile industry.*

*Today, Amasia is a thriving nation that produces essential goods and services for its citizens. The country has become self-sufficient in food production, manufacturing high-quality textiles, and exporting surplus cocoa and coffee to other countries. These policies have not only boosted the local economy but also positioned Amasia as a key player in the global market.*

1. Analyse how trade restrictions support economic stability in a country like Amasia.
2. Write your analysis as a report and share it with your teacher for feedback.

# THE BENEFITS OR IMPORTANCE AND CHALLENGES OF INTERNATIONAL TRADE

## Benefits or Importance of International Trade

The benefits of international trade cannot be ignored, and this makes it very important for countries, businesses and consumers as it drives economic growth and improves quality of life.

**Table 4.7:** Importance of international trade

Economic Growth and Development	<p>Trade is an important activity that helps countries grow their economies.</p> <p>It increases their Gross Domestic Product (GDP) and allows countries to focus on producing goods and services that they do best.</p> <p>This attracts foreign investment and improves productivity.</p>
Access to Variety of Goods and Services	<p>Trade makes available different varieties of goods and services and offers consumers a broader selection of products at competitive prices, improving quality and affordability.</p>
Efficient Resource Allocation:	<p>Trade allows countries to focus on production of goods and services which have comparative advantage.</p> <p>Countries can use resources more efficiently by producing what they can produce best for sale to other countries and buy from other nations what they cannot produce efficiently increasing overall economic welfare.</p>
Economies of Scale	<p>Good trading policies and practices help businesses grow by allowing them to sell more products in international markets.</p> <p>They also help lower costs and promote creativity, innovation and research to develop new goods and services that improve people's lives.</p>
Employment Opportunities	<p>One of the reasons why trade is considered very important is that it creates jobs in export industries for people to earn a living.</p> <p>Business activities promote skill development and exposure to international markets.</p>
Enhanced Political and Economic Relations	<p>Trade brings about economic interdependence and co-operation among nations engaged in it.</p> <p>It can be a means of reducing conflict and encouraging global collaboration on shared challenges.</p>



Innovation and Technology Transfer	<p>Today, technology is considered paramount to most nations.</p> <p>Trade facilitates the exchange of technology and competitive pressure, driving innovation and increasing productivity.</p>
Increased Market Access	<p>Trade makes it possible for businesses to produce goods and services, expand beyond domestic borders, increasing revenues and reaching diverse customer bases.</p>
Improved Quality of Life	<p>To promote citizens' well-being, good trading practices should be followed.</p> <p>This makes sure that essential goods and services are available, which helps improve living standards.</p>
Environmental benefits	<p>Trade encourages cultural exchange, efficient use of resources and the sharing of green technologies, supporting sustainable development.</p>

## Challenges of International trade

International trade also presents several challenges. These challenges can impact economies, businesses and consumers in various ways. Some of these challenges include:

**Table 4.8:** Challenges of International trade

Trade Barriers	<p>Trade barriers include tariffs, quotas and non-tariff barriers such as regulatory standards and import licenses.</p> <p>These trade barriers can increase the cost of goods, limit the quantity of goods that can be traded and complicate the trading process.</p>
Changes in Currency Exchange Rates	<p>When a country's currency exchange rates are not stable, it can impact how much international transactions cost and how much profit businesses make.</p> <p>Changes in exchange rates can create uncertainty in prices and profits, making it hard for businesses to plan and manage their budgets.</p>
High Transportation and Logistics Cost	<p>In international trade, different countries are involved, and goods can be transported over long distances, often across multiple borders or countries.</p> <p>In this light, high transportation costs, delays and logistical difficulties can increase the overall cost and risk of trading internationally.</p>
Political and Economic Instability	<p>Political instability, economic crises and changes in government policies can disrupt trade.</p> <p>Such instability can lead to sudden changes in trade regulations, increased risk of non-payment and breaks in supply chains.</p>

Regulatory Compliance and Standards	<p>Different countries are involved in international trade with varying standards and regulations for products, including safety, health and environmental standards.</p> <p>Businesses are expected to operate smoothly by navigating complex regulatory environments and ensure compliance with multiple standards, which can be time-consuming and costly.</p>
Intellectual Property Rights (IPRs)	<p>The protection of intellectual property rights, like copyrights, trademarks and trade secrets, differs from country to country.</p> <p>In some places, weak protection can result in problems such as counterfeiting and theft of ideas, which can hurt businesses and innovation.</p>
Cultural Differences	<p>Differences in language, customs, business practices and consumer preferences can pose challenges to nations involved in foreign trade.</p> <p>Disagreements and miscommunications can occur, making it difficult for fruitful negotiation, marketing and customer relations to take place.</p>

### Activity 4.23

#### Benefit and challenges of international trade

Organise yourselves into groups of no more than five. Each group will be asked to analyse either the benefits or the challenges of international trade.

Discuss your assigned topic and record your ideas for either benefits or challenges. Can you think of any examples to support your answers?

Present your groups' response to the class for discussion and feedback. Make notes of the other groups' presentations and record your summary of all of the benefits and challenges discussed in your workbook.

## EXTENDED READING

- Business Management for SHS and Tertiary Institutions in West Africa (1<sup>st</sup> Ed), Pages 233 – 252 by George Agyekum and Eric Oduro
- Business Management for SHS, GABET series, Pages 258-281 by Ben Attieku, Edward Marfo Yiadom, Thomas Darkey and Kwao Tekyi
- Business Management Made Simple for SHS in West Africa (5<sup>th</sup> Ed), Pages 307 – 334 by Franklin Atogiyire



# Review Questions

1. Explain international business.
2. Explain the meaning and the key elements of joint venturing as an approach to international business.
3. Describe the reasons why international trade is important to a country's growth and security.
4. Analyse four reasons why it is important to use documents in international trade.
5. Case Study: Sikaman's economic development through international trade:

*In 1960, Sikaman was one of the poorest countries in the world, with Gross Domestic Product per capita of GH79. It had limited natural resources and high unemployment. Sikaman's government adopted an export-led growth strategy where the country invested in infrastructure (ports, roads, telecommunications), established export processing zones, provided incentives for foreign investment and focused on human capital development (education, training).*

*The Sikaman government also adopted international trade developments, signed free trade agreements and developed key industries (textiles, electronics, automotive) to drive exports.*

*Soon after these measures were adopted, GDP increased, unemployment dropped, and the country has become a key trading partner in the region.*

- a. What role did international trade play in Sikaman's economic development?
- b. How did Sikaman's government facilitate international trade and investment?
- c. What were the key benefits of the free trade agreements?
- d. What lessons can other countries learn from Sikaman's experience with international trade?
- e. How did Sikaman's economic growth impact its standard of living?
- f. What challenges did Sikaman face in its early years and how did international trade help overcome them?

SECTION

# 5

## HUMAN RESOURCE MANAGEMENT



# MANAGING BUSINESS AND THE LEGAL FRAMEWORK OF BUSINESSES

## Functional Areas of Management

### INTRODUCTION

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Over the next five weeks you will be studying Human Resource management which is a functional area in business management and focuses on human resource planning, recruitment and selection, orientation, placement, training and development, human resource information management and so on. You will also gain knowledge and understanding of labour and industrial relations, collective bargaining, the role of government in industrial dispute and industrial action, the causes and consequences and how to settle or resolve industrial disputes.

#### Key Ideas

- **Collective Bargaining:** Steps involved in negotiations between representatives of trade unions and employers about condition of work, service and other terms of employment.
- **Human resource management:** The long and short-term strategies that ensure the effective and efficient approaches to operate labour or human aspects of the organisation.
- **Human resource planning:** A process that helps an organisation to ensure the right people with skills needed are identified both in the short and long term to meet organisational goals
- **Labour Turnover:** The rate at which employees leave an organisation with a specific period.
- **Placement:** The task of assigning a selected candidate to their role in the organisation.
- **Talent management:** The process in human resource management that involves attracting, developing and retaining employees in an organisation.

# HUMAN RESOURCE PLANNING AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

## Meaning of Human Resource Management (HRM)

Human Resource Management is the strategic approach adopted to efficiently manage an organisation's employees or workforce to achieve its stated goals and objectives. HRM involves a range of practices and policies that aim at maximising employee performance and satisfaction, fostering a productive and harmonious work environment. The functions of Human Resource Management include Human Resource Planning, Recruitment and Selection, Training and Development, Orientation and Placement, Performance Management, Health and Safety.

## Human Resource Planning (HRP)

Human Resource Planning is a strategic process that identifies and analyses an organisation's current and future human resource needs and develops plans to meet those needs by ensuring that the right number of employees are engaged to effectively and efficiently perform their work and achieve organisational overall objectives.

It is a critical component of strategic human resource management as it ensures adequate supply of skilled personnel, to align Human Resource strategies with the organisation's goals, reduce the cost of labour to avoid shortages or surpluses of skilled personnel.

## Importance of Human Resource Planning

1. Human resource planning ensures adequate staffing to achieve organisational objectives.
2. It brings about talent acquisition and retention.
3. It helps the organisation to make good use of its workforce (employees) to achieve the business's strategic goals.
4. Human Resource Planning improves productivity.
5. It gives the organisation competitive advantage and reduces labour turnover.
6. Promotes employee development.
7. It helps organisations quickly adapt to changes.

## Steps Involved in the Human Resource Planning Process

1. **Analysing Organisational Objectives:** To achieve the organisation's short-term and long-term goals, it's important to make sure that Human Resource plans match the overall business strategies and objectives. This involves looking closely at both internal factors (like company culture and employee skills) and

external factors (such as market trends and competition) to understand how they will affect the business. By doing this analysis, the organisation can better align its Human Resource efforts with its goals.

2. **Assessing Current Human Resources:** It is important for organisations to look closely at their current employees, gather information about their skills, education, work experience, performance and backgrounds and identify what each job in the organisation requires. The tasks and responsibilities for every position should be clearly outlined and each job role be examined to understand what skills and abilities are necessary to succeed in that position.
3. **Forecasting Human Resource Demand:** Predicting future Human Resource needs by looking at the company's plans, market trends and the economy considering things like business expansion, technology changes and new projects.
4. **Forecasting Human Resource Supply:** Estimating the availability of qualified candidates, both internally and externally by examining labour market changes and potential sources of talent.
5. **Gap Analysis:** Comparing the predicted human resource demand with the current human resource supply. Then identifying the difference between the current workforce and future needs, including shortages or surpluses of specific skills in the organisation.
6. **Human Resource Strategies Development:** It is important to frame strategies to address identified gaps, such as recruitment, training, succession planning and retention programmes. Developing action plans for workforce reduction if necessary, such as layoffs or early retirement schemes for the business to be able to make savings on human resource.
7. **Implementation of Human Resource Plans:** Implementing the strategies and action plans developed to meet Human Resource needs well. Co-ordinating human resource efforts across departments to ensure alignment and effectiveness for productivity to be increased.
8. **Monitoring and Evaluation:** Continuously checking the implementation of human resource plans and strategies adopted by the organisation. Assessing the outcomes against objectives and make adjustments as needed to increase productivity.

### Activity 5.1

#### Meaning of human resource management

1. In pairs, brainstorm the meaning of Human Resource Management.
2. Write down your responses and share with another pair. Adjust your definition as needed as a result of your discussion.

3. In your pairs, take part in a wider class discussion to list the key functions of human resource management in an organisation.
4. Record the outcomes of these discussions in your workbook. You could use a table such as the one below.

Definition of human resource management
Key Functions of human resource management
1. 2. 3. 4. 5. etc

### Activity 5.2

#### Meaning and importance of Human resource planning

1. Organise yourselves into groups of not more than five. In your groups, discuss human resource planning as a function of human resource management.
2. Through your discussion, define what is meant by human resource planning and identify why it is important.
3. Write down your responses and share with the larger class.

### Activity 5.3

#### Steps in human resource planning process

1. In your groups, identify the steps in the human resource planning process and explain what happens at each stage.
2. Record your work as a flow chart such as the one illustrated below.
3. Present your work to the class for discussion and feedback.



### Activity 5.4

#### Self- Assessment

Answer at least one of the following questions to support the review of your learning from this lesson.

1. Explain the meaning of human resource management.
2. Describe human resource planning as a function of human resource management.
3. Discuss the importance and process of human resource planning.

## RECRUITMENT AND SELECTION AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

### Recruitment and Selection

Recruitment and selection are major components of Human Resource Management aimed at attracting, identifying and hiring the best candidates for a job to meet an organisation's staffing needs.

### Recruitment

Recruitment is the process of attracting, identifying and encouraging potential candidates to apply for job vacancies within an organisation. It involves creating a pool of qualified applicants from which the organisation can select the most suitable candidates to occupy a vacant position and work.

### Key Components or Activities of Recruitment

**Table 5.1:** Summary of key activities in the recruitment process

<b>Job Analysis</b>	<p>The systematic process of collecting, analysing and recording information about the content, context and requirements of a job.</p> <p>It involves identifying the key responsibilities, tasks and skills required to perform a job successfully.</p>
<b>Job Description</b>	<p>Creating a detailed description of the job duties, responsibilities and requirements to be able to get the right results.</p>

<b>Sourcing Candidates</b>	Identifying potential job candidates through various channels such as job postings, social media, recruitment agencies, employee referrals and campus recruitment drives to fill a vacant position.
<b>Employer Branding</b>	This is an aspect of recruitment which promotes the organisation as an attractive place to work to attract very skilful employees.
<b>Advertising</b>	The use of various media such as on-line job boards, company website, newspapers and others to advertise job openings and get the qualified personnel to work.

## Selection

Selection is the process of choosing the best candidate from the pool of applicants generated through the recruitment process. It involves assessing candidates' qualifications, skills and fit with the organisational culture to make a hiring decision.

## Key Components or Activities of Selection

**Table 5.2:** Summary of Key activities in the selection process

<b>Initial Screening</b>	Application letters and resumes received from job applicants should be properly reviewed to be able to shortlist candidates who meet the job criteria for interview.
<b>Screening Interviews</b>	An initial interview conducted to further assess the suitability of a candidate.
<b>Assessment Tests</b>	A test administered to evaluate candidates' skills, abilities and personality traits relevant to the job to know whether the candidate is fit for the job.
<b>In-Depth Interviews</b>	A detailed interview (e.g. behavioural, technical, panel) to assess candidates' competencies and cultural fit.
<b>Background Checks</b>	Verifying candidates' employment history, qualifications, references and, if necessary, conducting criminal background checks.
<b>Decision Making</b>	The company makes a final decision on the best candidate after reviewing candidates' qualifications, interview performance and selection criteria.
<b>Job Offer</b>	After making a decision to employ a worker, an offer is made to the selected candidate, including details of salary, benefits and other terms of employment for them to accept and begin work in the organisation.



**On-boarding**

Integrating the newly hired personnel into the organisation through orientation and training programmes to make them feel at ease and work effectively.

## Steps Involved in the Recruitment and Selection Process

The process for the recruitment and selection of candidates to fulfil vacancies within an organisation involves the following steps:

1. **Job Analysis:** Identifying the job requirements and responsibilities to know the skills needed to get the work done.
2. **Job Description:** Creating a document which outlines the job duties, skills and qualifications that are needed to perform a particular job.
3. **Job Advertisement:** Advertising the job through various channels such as job boards, social media, newspapers or employee referrals for qualified personnel to apply for the job.
4. **Application Collection:** Collecting application letters or forms from interested candidates who have applied for the job.
5. **Application Screening:** An organisation should review applications to ensure candidates meet the minimum qualifications for shortlisting.
6. **Shortlisting Applications:** A process of selecting candidates to go for an interview based on their qualifications and experiences.
7. **Conducting Interviews:** A company conducts interviews with shortlisted candidates, either in-person, phone, or video to identify qualified candidates to move to the next stage of recruitment.
8. **Conducting Assessment Tests:** Administering skills assessments, personality tests, or other evaluations to further evaluate candidates.
9. **Reference Checks:** Verifying candidates' previous work experience and checking professional references including background.
10. **Final Selection:** At this stage, the company chooses the best candidate for the job offer.
11. **Job Offer or Appointment of Candidate:** The business organisation extends a job offer to the selected candidate, including details of salary, benefits and other employment details.
12. **On-boarding and Integration:** After offering the job to the qualified person, On acceptance of the offer, a business welcomes the new employee and provides them with the necessary training, orientation and mentorship to integrate into their organisational systems.
13. **Monitoring and Evaluation:** The business organisation at this juncture monitors employees' performance, providing guidance and constructive feedback to improve their performance.



**Figure 5.1:** An executive manager holding candidate's CV while discussing about job description and salary offer

### Activity 5.5

#### Meaning and key component of recruitment and selection

1. Take five minutes to sit and think about how your school gets new prefects to take on various student leadership positions. Engage in a wider class discussion to share your thoughts.
2. Think about how this process relates to that of recruitment and selection in the world of work. Consider:
  - a. How do organisations get employees to occupy the various job vacancies needed to achieve organisational goals?
  - b. What term would you give to the processes of getting new employees into an organisation?
3. Working in pairs, discuss the meaning of recruitment and selection
  - a. Write down your responses and share with another pair. Adjust your definition as needed as a result of your discussion.
  - b. In your pairs, take part in a wider class discussion to list the key activities in the recruitment and selection processes.

- c. Record the outcomes of these discussions in your workbook. You could use a table such as the one below.

Meaning of recruitment	Meaning of selection
Key activities in the recruitment process	Key activities in the selection process
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
etc	etc

### Activity 5.6

#### Steps in recruitment and selection process

1. Working in groups, read the case study and complete the activity that follows.  
*XYZ enterprise is a distributor of drinks in the central region of Ghana. They intend to open more branches in the other regions therefore have identified a need for more employees.*
2. Imagine that you are the human resource manager, explain the steps you would apply for the recruitment and selection of the staff needed.
3. You could present your answer in the form of a process flow such as the one below.
4. Present your answer to the larger class for discussion and feedback.

### Activity 5.7

#### Activities and their descriptions in recruitment and selection process

1. In pairs, match each activity with its corresponding description.

Activity	Description
Job analysis	The process of attracting potential candidates.
Job description	Promoting the organisation as an attractive place to work.
Interview	The job duties, responsibilities and requirements.
Employee branding	Skill, experience and qualification needed for a job.
Selection	Face to face interaction with panellist by a job seeker.
Recruitment	Choosing the most suitable applicant for the job.

2. Share your answer with another pair for comparison.

### Activity 5.8

#### Creating a job description

1. Working in pairs, pick an occupation in an organisation of your choice. This could be one that you know well or an organisation that you have made up.
2. Create a job description for your chosen role.
3. Think about the kinds of information you will need to include, for example job title, the duties and responsibilities of the post holder, the required experience or qualifications.
4. Draft your description either as a written or typed document and share with your class for feedback.

### Activity 5.9

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Explain recruitment and selection.
2. Identify key activities in recruitment and selection.
3. Outline the steps in the process of recruitment and selection.

# COMPENSATION AND BENEFIT AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

## Compensation and Benefit

Compensation and benefits are very important components of human resource management which aim at attracting, motivating and retaining employees. They represent the total rewards that an employee receives in exchange for work properly performed.

## Compensation

Compensation is the financial reward, or remuneration and incentives, that employees receive in exchange for work done. This includes salaries, wages, overtime pay, bonuses, commissions and incentives.

## Types of compensation

1. **Base Salary or Wages:** This is a fixed regular payment made to employees for work done, typically expressed as an annual salary or hourly wage.
2. **Bonuses:** This is normally in a form of additional financial rewards given to employees for meeting specific performance targets or for working exceptionally to achieve a set target.
3. **Commissions:** Is a payment or fee earned by an individual or organisation for facilitating a transaction, sale or service. It is often a percentage of the total value of the transaction.
4. **Incentives:** These are rewards or motivations tied to specific performance outcomes or objectives, such as productivity targets or project completion.

## Purpose of compensation

**Table 5.3:** The main purposes of compensation are outlined in the following table.

<b>Attracting Talent</b>	Good or competitive compensation helps attract skilled and talented employees to the organisation to work towards achieving set targets.
<b>Motivating Performance</b>	Performance-based compensation structures motivate employees to achieve goals and improve productivity of the organisation.
<b>Retaining Employees</b>	When employees are adequately remunerated or paid, it reduces staff turnover by making employees feel valued and be willing to stay to work for the company.

<b>Ensuring Fairness</b>	Structured compensation systems ensure pay equity and consistency across an organisation where all employees feel that that they have been fairly paid.
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## Benefits

Benefits are non-monetary rewards provided to employees to improve their wellbeing and quality of life.

These benefits improve the overall value of employment and contribute to employees' job satisfaction and well-being.

### Types of Benefits

- 1. Health and Wellness Benefits:** Health insurance, paid time off, dental and vision care, wellness programmes and life assurance are all examples of health and wellness benefits companies might provide for its employees.
- 2. Retirement Benefits:** Pension plans, other retirement savings programmes are examples of retirement benefits so that when an employee retires, they are given a lump sum to cater for old age.
- 3. Paid Time Off:** Vacation days, sick leave and parental leave are examples of paid time off. For example, when a member of staff is sick, their employer continues to pay their salary for a stated period of time.
- 4. Work-Life Balance Benefits:** Flexible work schedules, remote work options and childcare assistance. For example, employees such as nursing mothers could take paid leave to take care of their babies.
- 5. Financial Benefits:** Life insurance, disability insurance and tuition reimbursement.

### Purpose of Benefits

**Table 5.4:** Purposes of employee benefits

<b>Enhancing Job Satisfaction</b>	Benefits contribute to overall job satisfaction and well-being of employees.
<b>Attracting Talent</b>	A well-structured benefits packages make organisations more attractive to potential employees.
<b>Improving Employee Retention</b>	Benefits that support employees' health, financial security and work-life balance help retain top talent in a business
<b>Promoting Employee Health</b>	Benefits help to contribute to a healthier workforce, reducing absenteeism at work and increase productivity.

<b>Supporting Diversity and Inclusion</b>	Benefits like flexible work arrangements and childcare assistance help create a more inclusive workplace for employees to work at will and increase productivity.
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**Table 5.5:** Differences between compensation and benefits

Aspect	Compensation	Benefits
<b>Nature</b>	Direct financial payment	Indirect non-monetary rewards
<b>Components</b>	Salary, wages, bonuses, commissions, incentives.	Health insurance, retirement plans, paid time off, wellness programmes, etc.
<b>Purpose</b>	Primarily to reward and motivate performance	Primarily to enhance overall well-being and job satisfaction
<b>Flexibility</b>	Usually fixed and performance- based	Often more flexible and varied
<b>Tax Implications</b>	Generally taxable as income	Some benefits may be tax-advantaged (e.g. health insurance, retirement contributions)
<b>Attraction and Retention</b>	Attracts and retains staff through direct financial rewards	Attracts and retains staff through enhancing quality of life and work-life balance

## Integration of Compensation and Benefits

Compensation and benefits are distinct functions of human resource management they are often integrated into a comprehensive total rewards package for employees. This is to fairly reward employees and motivate them to give their best in working towards accomplishing organisational goals.

### Activity 5.10

#### Compensation and Benefits

1. Working in small groups, read the case study and complete the activities that follow.

#### Sagoe Ltd.'s Compensation and Benefits Strategy

*Sagoe Ltd is a medium-sized technology company with over 400 employees nationwide. The company is known for its innovative products and services, and it operates in a highly competitive industry.*



*To attract and retain top talent, Sagoe Ltd offers a comprehensive compensation and benefits package to its employees. It also offers competitive salaries based on employee's job roles, experience and performance. The company has a clear pay scale structure, which ensures that employees are compensated fairly and equitably.*

*In addition to their regular salaries, employees at Sagoe Ltd are eligible for performance-based bonuses and incentives. These rewards are designed to motivate employees to achieve specific goals and targets, and they are linked to the company's overall performance.*

*Sagoe Ltd provides a comprehensive benefits package to its employees, including health insurance, dental insurance, vision insurance, life insurance and retirement plans. The company also offers paid time off, sick leave and vacation days.*

*The company also offers an Employee Assistance Program (EAP) to its employees, which provides confidential counselling and support services for personal and work-related issues. Again, the company promotes a healthy work-life balance by offering flexible working hours, remote work options and a supportive work environment.*

- a. Explain compensation and benefits as a function of Human Resource Management.
  - b. List three purposes of both compensation and benefits in an organisation.
  - c. Identify the key differences in compensation and benefits.
  - d. List examples of the types of compensation and benefits offered by Sagoe Ltd. Are there others that you or members of your group are aware of that could make their package even more comprehensive?
2. Write your responses on a flip chart and present to the larger class for discussion and feedback.

### Activity 5.11

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Discuss the meaning of compensation, its types and purpose in human resource management.
2. Discuss the meaning of benefits, their types and purpose in human resource management.
3. Identify the key differences between compensation and benefits.



# TRAINING AND DEVELOPMENT AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

## Training and Development

Training and development play a significant role in ensuring that employees are well-equipped to meet the current and future demands of their roles to contribute effectively to the organisation's goals.

## Training

Training is a systematic process of acquiring and enhancing the skills, knowledge and competencies of employees to perform specific tasks or jobs efficiently. It is typically a structured approach which is short-term and focused on the immediate needs of an organisation for good results to be achieved.

**Table 5.6:** Types of Training

<b>Orientation Training</b>	Training for newly employed staff to introduce them to the company and help them to understand its culture, policies and procedures.
<b>On-the-Job Training</b>	Training where employees learn by doing, for example, through supervision by an experienced or senior colleague or officer.
<b>Technical Training</b>	Training related to the development of specific technical skills required to perform a job, such as using software or machinery to work
<b>Soft Skills Training</b>	To avoid deviations at workplaces, employees should be properly trained in order to acquire interpersonal skills, communication skills, teamwork and leadership abilities.
<b>Compliance Training</b>	Training is given to employees to ensure that they are aware of legal and regulatory requirements relevant to their roles.
<b>Safety Training</b>	Employees are educated on issues concerning workplace safety protocols to prevent accidents and injuries.

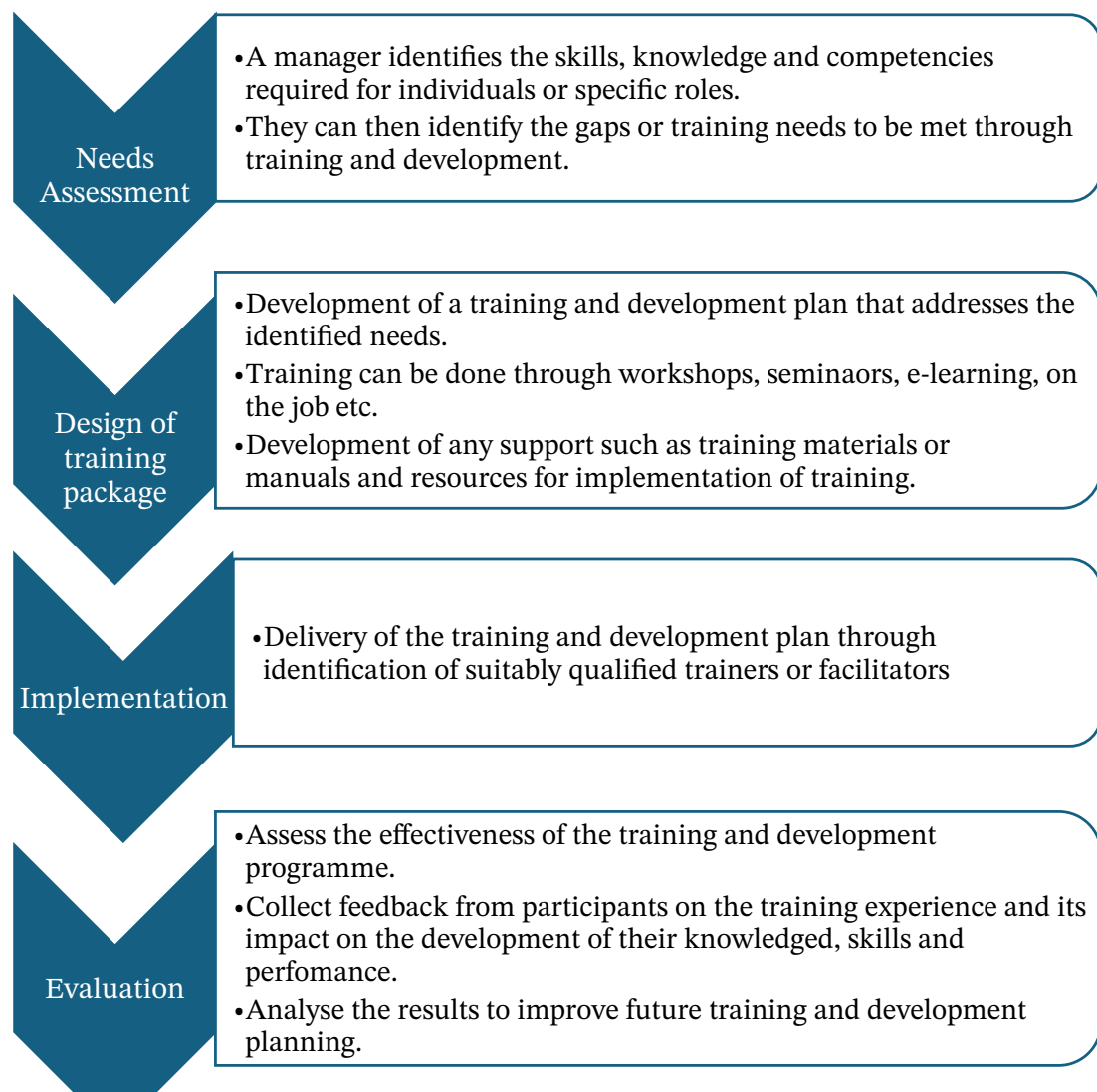
## Development

Development is a systematic process which focuses on the long-term growth and career advancement of employees in an organisation. It is broader than training and involves enhancing an employee's potential to take on future roles and responsibilities.

**Table 5.7:** Types of Development

<b>Leadership Development</b>	<p>Every business organisation should be able to groom its employees to assume a leadership position in future.</p> <p>This type of development is aimed at preparing employees for leadership and managerial roles.</p>
<b>Career development</b>	Supporting employees in planning and progressing their careers within their organisation.
<b>Professional Development</b>	Encouraging employees to continuously learn to develop and acquire new skills relevant to their profession.
<b>Succession Planning</b>	<p>Managers are aware that after leading the organisation for some years, there may be a need to retire for others to continue. Therefore, it is important that the manager identifies and prepares high-potential employees for future key roles in the organisation.</p>

## Training and Development Process



**Figure 5.2:** Training and Development Process

## Importance of Training and Development

The main reasons why training development is important are listed below

1. **Builds Future Leaders:** Training and development prepare employees for leadership and critical roles, ensuring organisational sustainability.
2. **Supports Organisational Change:** These functions of Human Resource Management (training and development) equip employees with the skills to adapt to changes and drive innovation.
3. **Fosters Loyalty and Reduces Turnover:** Employees will be loyal and more likely to stay with an organisation that invests in their training and development.
4. **Improves Organisational Performance:** A skilled and developed workforce will be able to work better and contribute to the overall performance of the business organisation.

5. **Enhances Job Satisfaction:** A well-trained employee feels more competent and confident in their work.
6. **Addresses Skill Gaps:** Training and development ensure that employees have the necessary skills to meet organisational demands.
7. **Promotes Innovation:** Training and development encourage continuous learning and adaptation to new technologies and processes for employees to be able to perform their work efficiently.

## Challenges in Training and Development

The main challenges to delivering effective training and development are summarised below.

1. **Difficulty in identifying needs:** It is not always easy to identify needs accurately to be able to know how training should be packaged.
2. **Employee resistance to change:** Reluctance of employees to participate in training programmes.
3. **Difficult to transfer knowledge:** Inability to transfer learning from training into performance on the job.
4. **Inadequate time:** Time and resources may not be enough, thereby affecting the quality of the training.
5. **Inadequate support from management:** There may be limited support from senior managers within an organisation for training programmes, which could make training and development incomplete.
6. **It could be monotonous:** The use of irrelevant training models during training and development could make the training boring or tedious.

### Activity 5.12

#### Training and development as a function of human resource management

1. Your teacher may arrange a visit from an HR professional to talk to your class about training and development as a function of human resource management.
2. Ahead of the visit, make a list of questions you would like to ask as part of the discussion.
3. Make a note of these in your workbooks and record the answers during the session.

**Activity 5.13****Meaning and types of training and development**

1. Working in pairs, discuss the meaning of training and development and examples of each.
2. Share your responses with another pair and adjust your definitions as needed as a result of your discussion.
3. Record the outcomes of your discussion in your workbook. You could use a table such as the one below.

Definition of training	Definition of development
Examples of types of training	Examples of types of development
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
etc.	etc.

**Activity 5.14****Importance and challenges of training and development**

1. Working in small groups, explain the reasons why training and development is important to an organisation.
2. Discuss the challenges involved in offering training and development.
3. Write your responses on a flip chart and present to the larger class for discussion and feedback.

Training and development	
Importance	Challenges

# ORIENTATION AND PLACEMENT AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

## Orientation and Placement

In human resource management, orientation and placement are integrated to create a unified experience that ensures new hires are not only welcomed and informed but also placed in positions where they can thrive.

## Orientation

This is the process of introducing new employees to an organisation, its culture, policies and their specific roles within the company. It is the first step in the orientation process and helps newly hired employees to adapt to their new work environment.

## Objectives of orientation

1. **Acclimatisation:** This helps new employees understand and be familiar with the company culture, policies and values to be able to work well.
2. **Information Dissemination:** Orientation provides necessary information about the company's policies, procedures and benefits.
3. **Role Clarity:** It is very good to clearly explain job roles, expectations and responsibilities to the newly employed person. This helps the employee to be aware of their duties and responsibilities.
4. **Integration:** Facilitating social integration within the team and the broader organisation.

## Importance of Orientation

1. **It Reduces Anxiety:** Orientation helps recruits feel more comfortable and less anxious about their new roles.
2. **It Improves Retention:** A well-planned orientation leads to a positive experience, which increases the likelihood that new employees stay with the company.
3. **Boosts Productivity:** Well-oriented employees are likely to become more productive as it makes them conversant with the company's culture, policies, etc.
4. **Enhances Engagement:** Orientation helps the newly employed staff to understand their role, the company's culture, and they are more likely to be engaged and motivated.

## Placement

Placement involves assigning new employees to specific jobs that match their skills, qualifications and career aspirations. It ensures that employees are in roles where they can perform effectively and grow professionally.

### Objectives of placement

1. **Skill Utilisation:** Placement ensures that employees' skills and competencies are effectively utilised at work.
2. **Job Satisfaction:** Matching employees with roles that align with their interests and career goals to enhance job satisfaction.
3. **Organisational Efficiency:** Placing employees in positions where they can contribute most effectively to the organisation's goals.

### Importance of Placement

1. **Optimises Talent Use:** Placement considers the skills or talent of an employee before he or she begins work. This ensures that employees are in roles where they can perform best, maximising their potential.
2. **Increases Job Satisfaction:** When employees are well-matched to their roles, they are more likely to be satisfied and motivated.
3. **Enhances Organisational Performance:** Placement of employees at the right position in the organisation contributes to the overall efficiency and effectiveness of the organisation.
4. **Placement Reduces Turnover:** Employees who feel well-placed are less likely to leave the organisation.

#### Activity 5.15

##### Orientation and placement

1. Take five minutes to sit and think about how you got to know about your school's rules and regulations, information about your courses and where to find places and information. Share your thoughts as part of a wider class discussion.
2. Your teacher may show you a short video of an example orientation or placement programme from your school or a business.
3. Working in pairs, brainstorm the meaning of orientation and placement and record your definitions in your workbooks.
4. Share your responses with another pair and adjust your definitions as needed.



**Activity 5.16****Objectives and importance of orientation and placement**

Working in pairs, continue to discuss orientation and placement. Consider the following:

1. What is the objective of carrying out orientation for first-year learners at Senior High School?
2. Based on your experience of orientation at school, how do you think this translates to new employees starting work in an organisation? Why is it important?
3. Make notes on the objectives of both orientation and placement and why each of these processes is important.
4. Present your answers on a flip chart and share with the class as part of a wider discussion. You could use a table such as the one below to present your answers.

Orientation	Placement
<b>Objectives</b>	
<b>Why is it important?</b>	

## PERFORMANCE MANAGEMENT

### Performance Management

Performance Management is a continuous process that helps to check, assess, improve and support employee performance. It ensures that an organisation meets its goals smartly and effectively. This includes various activities aimed at boosting both individual and overall performance.

## Components of Performance Management

**Table 5.8:** Components of performance management

<b>Performance Planning</b>	<ul style="list-style-type: none"> <li>• An organisation should establish clear, measurable and achievable goals for employees that align with organisational objectives.</li> <li>• Define performance expectations and standards of excellence.</li> <li>• Create individual development plans (IDPs) to support employee growth and address skill gaps.</li> </ul>
<b>Performance Monitoring</b>	<ul style="list-style-type: none"> <li>• Schedule regular meetings between managers and employees to discuss progress and provide feedback to improve performance in the organisation.</li> </ul>
<b>Performance Evaluation</b>	<ul style="list-style-type: none"> <li>• Managers should conduct formal periodic performance appraisals or reviews (e.g., annually, semi-annually) to formally evaluate employee performance.</li> <li>• Gather feedback from peers, line reports and other stakeholders for a comprehensive assessment of the performance of employees against set targets.</li> </ul>
<b>Performance Improvement</b>	<ul style="list-style-type: none"> <li>• An organisation should organise training programmes, coaching and mentoring to help employees overcome performance challenges and enhance capabilities for the appropriate results to be accomplished.</li> </ul>
<b>Recognition and Reward</b>	<ul style="list-style-type: none"> <li>• At the end of a particular period (e.g. end of the year), an organisation could offer financial incentives and bonuses for outstanding performance.</li> <li>• A company could provide non-monetary rewards such as recognition, awards and career advancement opportunities to motivate employees who do well.</li> </ul>
<b>Performance Documentation</b>	<ul style="list-style-type: none"> <li>• As a manager, it is a good practice to maintain detailed records of performance appraisals, feedback and improvement plans for individual employees.</li> </ul>

## Importance of Performance Management

Some of the key reasons for carrying out performance management are listed below.

1. **Enhanced Employee Performance:** An organisation should provide a good channel of communication where continuous feedback and support are available to help employees improve their performance and productivity.
2. **Improved Employee Engagement:** When an organisation states its goals clearly and recognises the efforts of employees, it increases their commitment and job satisfaction.

3. **Career Development:** Performance management helps identify career development opportunities, fostering employee growth and retention.
4. **Alignment with Organisational Goals:** Performance management ensures that individual efforts contribute to the overall success of the organisation.
5. **It helps Organisations to take Data-Driven Decisions:** Performance data provides insights for making informed human resource decisions, such as promotions, rewards, and training needs to retain employees and maximise profit.

## Challenges in Performance Management

The key challenges to carrying out effective performance management are summarised below.

1. **Bias and Subjectivity:** Performance evaluations can be influenced by partiality and personal opinions, leading to unfair assessment of employees in an organisation.
2. **Resistance to Feedback:** Employees may resist feedback on performance management, especially if it is perceived as negative or not constructive.
3. **Inconsistent Implementation:** Uneven application of performance management processes across departments can lead to discrepancies.
4. **Time-Consuming:** Performance management can be time-consuming, requiring significant effort from managers and human resources.
5. **Changing Business Goals:** Changes in business goals can make it difficult to keep performance management with current organisational priorities.

## Best Practice for Effective Performance Management

1. **Setting Clear and Achievable Goals:** For effective performance management, business managers should ensure that goals are specific, measurable, achievable, relevant and time-bound (SMART).
2. **Providing Continuous Feedback:** Regular communication with employees about their performance, offering constructive feedback, and praise supports them to achieve their personal and organisational goals.
3. **Training Managers:** Managers should be equipped with the skills and tools needed to conduct effective performance evaluations and to provide support to the business and employees.
4. **Use of Technology:** Leverage of performance management software to streamline the process and ensure accurate tracking.
5. **Fostering a Feedback Culture:** Employees should be made to value feedback; create a culture where feedback is valued and viewed as an opportunity for growth.

6. **Aligning with Organisational Strategy:** For an organisation to accomplish its objectives, it can align performance management practices with the evolving goals and strategy of the company.

### Activity 5.17

#### Performance management

1. Working in small groups, read the case study below and answer the questions.

#### WAIT FOR IT ELECTRONICS

*Wait for it Electronics is a retail store that sells electrical gadgets. The store has ten employees, including sales staff, technicians and management. Osei has recently been appointed as the Human Resource Manager. Lesley, the CEO, has expressed concern about employees' performance and productivity and asked you to carry out an analysis.*

*The findings revealed that while Employee A consistently meets sales targets, they lack strong customer service skills. Additionally, there are issues with employee absenteeism, frequent tardiness, and a general lack of motivation. The analysis also identified a lack of performance goals, inadequate feedback and coaching, limited training opportunities, and insufficient performance evaluations.*

- a. What is the primary purpose of performance management?
  - b. What components will Osei need to include in his performance management plan?
  - c. Identify the benefits that effective performance management would bring to Wait for it Electronics.
  - d. List the challenges that Osei may face in implementing and new performance management plan.
  - e. What are some best practices Osei can follow for effective performance management?
2. Summarise your responses on a flip chart and present to the larger class for discussion and feedback.

### Activity 5.18

#### Self-Assessment

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Explain performance management and identify its importance
2. Analyse the challenges of performance management.

3. Discuss best practices for effective performance management.

## HEALTH AND SAFETY AS A FUNCTION OF HUMAN RESOURCE MANAGEMENT

### Health and Safety

Health and Safety at work are the policies, procedures and practices put in place to protect employees and other stakeholders from harm, injury, or illness while on the job. It is a critical aspect of organisational management, ensuring a safe and healthy work environment.

### Components of Workplace Health and Safety

The main components of health and safety management are summarised below. Whilst health and safety are everybody's responsibility, oversight and management of this is a function of human resource management.

**Table 5.9:** Components of health and safety management

<b>Policies and Procedures</b>	<ul style="list-style-type: none"> <li>Organisations should develop clear policies outlining safety protocols and expectations.</li> <li>Procedures for responding to emergencies, such as fires, chemical spills, or natural disasters, must be properly established for employees to act positively anytime the need arises</li> </ul>
<b>Risk Assessment</b>	<ul style="list-style-type: none"> <li>Identification of potential hazards in the workplace through regular inspections and assessments of work.</li> <li>Evaluation of the likelihood of risks associated with identified hazards to implement measures to mitigate or eliminate those risks.</li> </ul>
<b>Training and Awareness</b>	<ul style="list-style-type: none"> <li>Organisations should provide employees with training on safety protocols; equipment use and emergency procedures to reduce fatalities when an accident occurs.</li> <li>Regularly update training programmes to reflect new risks, regulations and best practices.</li> </ul>
<b>Safety Equipment and Resources</b>	<ul style="list-style-type: none"> <li>Managers should ensure employees have access to necessary safety gadgets (PPEs) such as helmets, gloves, goggles and masks.</li> <li>Use of clear signs to show hazards and safety information.</li> </ul>

<b>Monitoring and Evaluation</b>	<ul style="list-style-type: none"> <li>• Establish a system for reporting and investigating accidents.</li> <li>• Conduct regular safety audits and inspections to ensure compliance and effectiveness of safety measures.</li> <li>• Review and improve safety practices based on feedback and analysis.</li> </ul>
<b>Health Promotion</b>	<ul style="list-style-type: none"> <li>• Implement programmes that promote physical and mental health, such as fitness programmes, stress management workshops and healthy eating initiatives.</li> </ul>

## Challenges in Implementing Health and Safety Programmes

- 1. Limited Resources or Budget:** Small or medium-sized businesses may not have the resources or budget to invest in comprehensive health and safety programmes for their employees. In this case, workers suffer when accidents occur.
- 2. Difficulty in Ensuring Employee Compliance:** It is not easy for employees to follow safety protocols and procedures. Some employees may not take safety measures seriously and may cost the organisation when an accident occurs.
- 3. Keeping Up with Regulations:** The rules and regulations of safety must be properly followed to reduce or avoid accidents in the workplace. Staying current with changing health and safety regulations and standards can be time-consuming, resource-intensive and difficult.
- 4. Difficulty Addressing Mental Health Issues:** Mental health and stress are increasingly recognised as important health and safety issues. However, addressing these issues can be complex, and it requires good resources. Organisations may not be equipped to identify mental health issues and address them immediately.
- 5. Balancing Productivity with Safety:** There may be a perceived trade-off between productivity and safety. Managers may feel pressured to prioritise productivity over safety, which can compromise health and safety standards.
- 6. Inadequate reporting and investigation:** In some organisations, accidents are not reported for the safety managers to further investigate and ascertain the root cause of the accident.

## Importance of Effective Health and Safety Programmes

The key reasons why health and safety programmes are important are listed below.

- 1. Reduced Accidents and Injuries:** Effective health and safety programmes lead to fewer workplace incidents and create a safer work environment.

2. **Increases Productivity:** When a company put in place good safety measures to reduce accidents, it leads to fewer workplace incidents, workers are safe and sound to work harder and this increases productivity.
3. **Legal Compliance:** Effective health and safety management means that organisations can avoid fines and legal issues related to non-compliance with safety regulations.
4. **Enhanced Employee Morale:** A safe working environment boosts employee morale and leads to job satisfaction and higher productivity for an organisation.
5. **Lower Costs:** Effective health and safety programmes lead to reduction in costs associated with medical expenses, workers' compensation and loss of productivity due to workplace accidents.
6. **Improved Organisational Reputation:** A good safety record promotes the image of the business with customers, clients and potential employees.

### Activity 5.19

#### Health and safety

1. Thinking about your classroom, school or home, write down in your workbooks some suggestions you would make to ensure a healthy and safe environment.
2. Share your tips with the person sitting next to you and expand your list. Be prepared to share your ideas as part of a wider class discussion.

### Activity 5.20

#### Meaning of health and safety

1. Working in pairs, discuss the meaning of health and safety and record your definition in your workbooks.
2. Identify three health and safety measures that could be implemented by a human resource department to promote workers' safety. Write these in your workbooks and be prepared to share as part of a class discussion.

### Activity 5.21

#### Challenges and importance of health and safety

1. In small groups:
  - a. Discuss the challenges with health and safety programmes. Identify the importance of effective health and safety programmes.

**b.** Write your responses on a flip chart and share with the larger class.

You could use a table such as the one below to record your answers.

Health and safety programmes	
Challenges	Why it is important
1.	1.
2.	2.
3.	3.
etc	etc

### Activity 5.22

#### Extension Task

Write a short reflection on this lesson. What are the two main points that you have taken from this lesson? What is the significance of this for organisational management? Consider if there are particular aspects you would like to know more about and how you will action this.

## HUMAN RESOURCE INFORMATION MANAGEMENT (HRIM)

Human Resource Information Management is a systematic process of collection, storage, management and analysis of employee data to support decision-making in an organisation. HRIM uses information systems and technology to support various human resource activities, thereby ensuring that human resource operations are efficient.

### Human Resource Information Management (HRIM) Tools

These are software applications and systems that help organisations manage and analyse Human Resource data, automate Human Resource processes and improve decision-making.



**Table 5.10:** Some of the tools include:

Type	Summary	Examples
<b>Payroll Systems</b>	Manual or software-based system used to automate payroll processing, including salaries and wages calculations, tax deductions and employee payments	ADP Gusto Paycom
<b>Time and Attendance Systems</b>	Monitors employee working hours, attendance, and leave management.	Kronos TSheets Replicon
<b>Performance Management Systems</b>	Tracks and evaluates employee performance, sets goals, provides feedback and conducts performance reviews.	BambooHR Lattice 15Five
<b>Compensation Management Systems</b>	Manages workers' compensation, including salary structures, bonuses and incentives.	PayScale CompXL Salary.com
<b>Human Resource Analytics Tools</b>	Provides insights into Human Resource data, such as workforce trends, turnover rates and performance metrics, to support strategic	Visier PeopleInsight Qlik
<b>Onboarding Systems</b>	Streamlines the on-boarding process for new hires, including document management, training schedules and integration into the company culture.	BambooHR Work Bright Clear Company
<b>Off-boarding Systems</b>	Manages the exit process for departing employees, including final pay checks, return of company property and exit interviews.	HR Acuity Offboard ExitPro
<b>Learning Management Systems (LMS)</b>	Manages employee training and development, including course administration, tracking and reporting.	Moodle Cornerstone OnDemand Talent LMS
<b>Applicant Tracking Systems (ATS)</b>	Manages the recruitment and hiring process, from job postings to tracking applicants and scheduling interviews.	Greenhouse Lever Jobvite

## Importance of HRIM Tools

1. **Increasing Efficiency:** HRIM tools automate routine human resource tasks, freeing up HR professionals for more strategic activities with the aim of accomplishing the company's overall objectives.
2. **Improving Data Accuracy:** HRIM tools ensure accurate, consistent data management and reduce errors.
3. **Enhancing Accessibility of HR information:** These tools provide easy access to Human Resource information for employees and managers and enhance transparency in the organisation.
4. **Enhancing Data-Driven Decisions:** HRIM tools support strategic decision-making with detailed analytics and reporting.
5. **Enhancing Security and Confidentiality:** Human Resource Information Management as a tool helps business organisations to protect Human Resource data, limiting access to unauthorised persons.

### Activity 5.23

#### Meaning and tools of human resource information management

1. Organise yourselves into groups of no more than five. Using a computer, laptop or tablet, research Human Resource Information Management systems and answer the following questions:
  - a. Explain the meaning and use of Human Resource Information Management systems (HRIM).
  - b. Identify **four** HRIM tools. For each tool, summarise its use and functions.
2. Present your findings as a brief presentation or on a flip chart to the larger class for discussion and feedback.

### Activity 5.24

#### Benefits of the HRIM tool

1. In pairs, discuss the benefits of HRIM tools and record these in your workbooks
2. Share your responses with another pair. Add to your list based on this discussion (if required).

**Activity 5.25****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson.

1. Explain the meaning and purpose of human resource information systems.
2. Describe the tools used in human resource information management.
3. Discuss the benefits of using human resource information tools.

## LABOUR AND INDUSTRIAL RELATIONS

### Meaning of Industrial Relations

Industrial Relations (IR) refers to the interactions and relationships between employers (management), employees (workers), government agencies and labour unions (trade unions).

It involves the study and management of collective bargaining, labour laws, trade unions and employer-employee relations. The aim of industrial relations is to maintain peaceful relationships in the workplace to improve productivity and achieve organisational goals.

### Trade Unions

Trade Unions, otherwise known as labour unions, are organisations formed by workers to protect their interests, improve working conditions and advocate for their rights and benefits. These unions serve as a collective voice for employees, enabling them to negotiate with employers on issues such as wages, working hours, benefits, job security and workplace safety.

### Examples of Trade Unions in Ghana

1. Ghana National Association of Teachers (GNAT),
2. Health Service Workers' Union (HSWU)
3. Public Services Workers' Union (PSWU),
4. General Agricultural Workers' Union (GAWU),
5. Teachers and Educational Workers' Union (TEWU)
6. Railways Workers' Union (RWU),
7. Ghana Private Road Transport Union (GPRTU),
8. Ghana Medical Association (GMA),
9. Trade Union Congress (TUC).

## Trade Union Congress (TUC) of Ghana

The Trade Union Congress (TUC) of Ghana is the umbrella organisation for trade unions in Ghana. Established in 1945, the TUC plays a central role in coordinating the activities of various affiliated trade unions and representing workers' interests at both national (local) and international levels. Through collective bargaining, advocacy, support and public education, the TUC plays a vital role in promoting fair labour practices and improving the working conditions of Ghanaian workers.

## Functions or Roles of Trade or Labour Unions

1. **Engage in Collective Bargaining:** The labour unions negotiate with employers on behalf of their members to secure favourable terms and conditions of employment. This process, known as collective bargaining, covers issues such as pay rates, working hours, workplace policies and benefits.
2. **Organising and Representing Members:** Trade unions bring members together and represent them in discussions and negotiations with employers, as well as in grievance and disciplinary procedures. These unions ensure that members' rights are protected and that their concerns are addressed.
3. **Advocacy and Protecting Workers' Rights:** Labour unions advocate for labour laws and policies that benefit and improve working conditions of workers. They also ensure that employers comply with labour laws and regulations to prevent their members from being intimidated.
4. **Providing Support and Services:** Trade unions provide various support services to their members, including legal advice, training, career development opportunities and welfare benefits.
5. **Grievance or Dispute Resolution:** Labour unions help resolve disputes between workers and employers in the organisation through mediation, arbitration and other conflict resolution mechanisms.
6. **Supporting Industrial Action:** Trade unions organise strikes, boycotts, or other forms of protest to put pressure on their employers to be able to achieve the union's objectives.
7. **Providing Training and Education:** Trade unions also organise courses, workshops and resources to enhance members' skills and knowledge.

## Employers' Association

An employers' association is an organisation that represents the interests of employers in negotiations with trade unions, government bodies and other stakeholders. These associations provide a collective voice for employers, advocate for business-friendly policies and offer support and services to their members.

## Key Functions of Employers' Associations

1. **Collective Bargaining:** Employers' associations engage in collective bargaining on behalf of their members; they negotiate with trade unions on issues such as wages, working conditions and employment terms. This helps ensure consistent and fair agreements across industries and reduces the burden on individual business organisations.
2. **Advocacy and Lobbying:** These associations advocate for policies and legislation that benefit employers, such as labour laws, tax policies and regulatory reforms. By influencing government policies, they create a more favourable environment for businesses to thrive.
3. **Legal Support:** Employers' associations provide legal advice and support to their members, helping them to navigate complex labour laws and regulations. This reduces legal risks and ensures compliance with employment laws.
4. **Training and Development:** These associations offer training programmes and professional development opportunities for employers and their staff. This equips the workers with professional skills and knowledge for them to be productive.
5. **Research and Information:** Employers' associations conduct research on labour market trends, economic conditions and industry-specific issues that is of interest to them. This helps to provide members with valuable insights and data to inform their business decisions.
6. **Dispute Resolution:** These associations assist in resolving industrial disputes through mediation, arbitration and other conflict resolution methods. This helps maintain industrial peace and prevents disruptions to business operations or activities.
7. **Networking:** Employers' associations facilitate networking opportunities among members through conferences, workshops and events. Associations enable employers to share best practices, collaborate and build strategic partnerships.

## Examples of Employers' Associations in Ghana:

1. Ghana Employers' Association (GEA)
2. Association of Ghana Industries (AGI)
3. Chamber of Mines
4. Ghana National Chamber of Commerce and Industry (GNCCI)
5. Private Enterprise Federation (PEF)
6. Ghana Chamber of Telecommunications.

**Note:** Ghana Employer's Association is the umbrella association of all the employers' associations in Ghana, representing the interests of employers across various sectors. It was established in 1959.

**Activity 5.26****Trade Unions and Employers' Association**

1. Think about examples of trade unions or employers' associations that you are aware of.
2. Make notes of your examples and share with the larger class.

**Activity 5.27****Trade Unions and Employers' Association**

1. Divide yourselves into two groups. Each group will be assigned a topic, either to research trade unions or employers' associations.

**Employers' association group**

Discuss:

- a. The meaning of industrial relations
- b. Examples of employers' associations
- c. The role and functions of the employers' associations that you have identified.

**Trade unions group**

Discuss:

- a. The meaning of industrial relations
- b. Examples of trade unions
- c. The role and functions of the trade unions you have identified.

You will be provided with resources and have access to the internet to support your discussions.

Summarise the outcomes of your discussion and present these to the other group, either as a flip chart or a software-based presentation.

2. Write down your responses and share with another group for feedback.

**Activity 5.28****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson.

1. Explain the meaning of industrial relations
2. Discuss the meaning and functions of trade unions
3. Discuss the meaning and functions of employers' associations

# COLLECTIVE BARGAINING

## Meaning of Collective Bargaining

Collective bargaining is the process through which employers and a group of workers negotiate and agree upon the terms and conditions of employment. This process is typically conducted through representatives of the employees, usually trade unions or labour unions and representatives of the employer. The goal of collective bargaining is to reach a collective agreement that will regulate working conditions, wages, hours, benefits and other aspects of workers' compensation and rights.

## The Key Components of Collective Bargaining

### 1. Negotiation

The core of collective bargaining involves negotiation between the representatives of employees (trade unions) and employers or the organisation. Both parties discuss and negotiate various aspects of employment to reach a mutually agreeable solution for the organisation to accomplish its objectives.

### 2. Collective Agreement

The outcome of collective bargaining is a collective agreement, also known as a labour contract. This contract is legally binding and outlines the terms and conditions agreed upon during the negotiation process.

### 3. Bargaining Units

This is a group of employees with a clear and identifiable interest. Labour unions represent these units during negotiations with other bodies, such as employers.

### 4. Good Faith Bargaining

Both parties involved in the negotiation are expected to participate in the bargaining process with honest intentions and a willingness to reach an agreement. This includes sharing relevant information and avoiding unfair or negative practices.

### 5. Mediation and Arbitration

If negotiations reach an impasse, a neutral third party (mediator) may be brought in to help facilitate for fruitful discussion. Arbitration is a process where an arbitrator makes binding decisions if necessary; it is used if mediation fails.

Examples of collective bargaining cases in 2024 in Ghana include:

- a. Teacher unions' negotiations with the Ghana Education Service resulted in a 15% pay rise.
- b. Healthcare workers' union negotiations with the Ministry of Health, where the health workers' pay was increased by 20%.



## Process or Stages of Collective Bargaining

Figure 5.3: Stages of Collective Bargaining

### Importance of Collective Bargaining

The main reasons for collective bargaining are summarised below.

1. **Improved Working Conditions:** With the help of collective bargaining, employees can negotiate better wages, benefits and working conditions, leading to a more motivated and satisfied workforce.
2. **Conflict Resolution:** The Collective bargaining process includes mechanisms for resolving conflicts, which helps maintain a positive work environment.
3. **Industrial Harmony or Peace:** Collective bargaining helps prevent industrial disputes by providing a structured process for resolving differences between employers and employees. This promotes harmonious work environments.
4. **Employee Representation:** It ensures that employees have a voice in decisions affecting their work, promoting fairness and democracy in the workplace.
5. **Stability and Predictability:** Collective agreements provide clear guidelines for both parties, reducing uncertainty and promoting stable labour relations between the parties at the negotiation table.
6. **Increased Job Security:** Collective bargaining can lead to stronger job security provisions, protecting workers from unfair dismissals and layoffs.
7. **Protecting both workers' and employers' rights:** Collective agreement ensures workers' rights are protected, including the right to organised strike and participation in union activities. It also helps employers to take corrective measures to discipline employees or workers who intend to negatively affect productivity and work rules.

### Challenges in the Collective Bargaining Process

1. **Resistance from Employers:** Some employers (companies) may not be willing to accept collective bargaining, fearing increased costs or loss of control over workers.
2. **Internal Union Conflicts:** Conflicts within unions, such as leadership disputes or different opinions, can hinder collective bargaining efforts. This can impact the rate at which disagreements are resolved in the organisation.
3. **Economic Constraints:** Economic conditions such as high inflation in the country may limit the ability of employers (companies) to meet the unions' or workers' demands.
4. **Communication Issues or Breakdowns:** Poor communication between the union representatives, members and employers can hinder collective bargaining.



5. **Complexity of Issues:** Collective bargaining often involves complex issues where misunderstanding can occur; this makes it difficult for parties to reach good agreements.
6. **Time-Consuming Process:** It can be a time-consuming process; it delays the resolution of issues as much time is needed to solve disagreements between parties.
7. **Limited Resources:** The labour unions may face limited resources including funding, expertise and personnel, hindering collective bargaining efforts.

### Activity 5.29

#### Role play

Organise yourselves into groups of not more than five. Each group will be assigned a scenario to role play, for example you are a group of industry workers negotiating with their employer for higher wages, or union representatives lobbying for better protective clothing.

Discuss your roles within the group and perform your piece to the rest of the class.

Make notes of any questions you have as you watch the other performances and engage in a whole class discussion to address any questions and provide feedback.

### Activity 5.30

#### Collective Bargaining

1. In pairs, discuss the definition of collective bargaining and identify its key components.
2. Write your responses in your workbooks and share with another pair for discussion. Add to or adjust your own responses as appropriate.

You could record your responses in a table such as the one below.

**Definition of collective bargaining****Components of collective bargaining**

- 1.
- 2.
- 3.
- 4.
- 5.

**Activity 5.31****Process of Collective Bargaining**

1. Working in groups, discuss the stages that are involved in the collective bargaining process.
2. Record each stage on post it notes or a flip chart and create a flow chart of the process. Think about what occurs at each stage.
3. Share your work with another group for feedback and discussion.

**Activity 5.32****Importance and Challenges of Collective Bargaining**

1. In your groups, discuss the importance of collective bargaining.
2. Identify the challenges of collective bargaining.
3. Write your responses on flip chart and share with the larger class.

**Activity 5.33****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson:

1. Explain the term “collective bargaining”
2. Analyse the stages of collective bargaining.
3. Discuss the importance and challenges of collective bargaining in industrial relations.

# INDUSTRIAL DISPUTES AND ACTIONS

## Industrial Disputes

An industrial dispute is a disagreement between employers and employees, or between different groups of employees, regarding issues such as wages, working conditions, job security and other employment terms. These disputes or conflicts can lead to various actions being taken by either party to express their grievances or push for their demands.

## Causes of Industrial Disputes

The types of issues that can lead to industrial disputes can typically be classified in the following categories.

1. **Wages and Benefits Disputes:** This is a disagreement between the employer and employees over salary increases, bonuses and other benefits.
2. **Working Conditions Disputes:** There is disagreement regarding safety, work hours and other conditions of employment.
3. **Job Security Disputes:** These are issues concerning layoffs, contract terminations and job stability that can lead to industrial disputes or conflict.
4. **Management Policies Disputes:** Disagreements over changes in company policies, management styles and operational decisions.
5. **Union Recognition Disputes:** Disputes over the recognition and role of trade unions within the workplace may not be acceptable. This can occur where employers do not recognise the union of workers in the organisation.
6. **Discrimination Disputes:** Disagreement could occur because of unfair treatment, discrimination, dismissal at workplace.

## Industrial Actions

Industrial actions refer to collective measures taken by employees, trade unions, or employers to enforce demands, express grievances, or support a cause during a labour dispute. These actions are aimed at exerting pressure on the other party to negotiate and address the issues at hand.

Examples of an industrial action include:

1. Teachers and nurses going on strike to demand for a pay increase and better conditions of service.
2. A technology company announces mass layoffs, leading to a lockout as employees demand job security guarantees

## Types or Forms of Industrial Actions

The most common forms of industrial action are strikes, working to rule, picketing and lockouts. We will look at each one in turn in more detail.

### Strikes

Strikes are a form of industrial action where employees' express grievances to stop working to press for their demands.

An example of a strike is factory workers walking off the job to demand higher wages.

### Types of strikes

- a. **Sit-In or Down Strike:** Employees remain at their workplaces but refuse to work. For instance, office workers stay at their desks without performing any tasks to protest changes in management policies.
- b. **Slowdown or Go-Slow Strike:** Employees deliberately reduce their pace of work; they slowdown the work rate. Example of this strike is construction workers slowing down their work rate to put pressure on the employer for better safety measures.
- c. **Wildcat Strike:** This is a strike that is not authorised by the union and often occurs spontaneously. An example of this strike of factory workers walking out without union approval to protest sudden changes in work shifts.
- d. **General Strike:** It is a widespread strike involving employees from various industries and sectors. Nationwide strike by public workers to protest government measures i.e. government to reduce public spending etc.
- e. **Political Strike:** Employees strike against government policies or actions. A political strike usually involves workers from specific sectors directly affected by the political issue.
- f. **Sympathy Strike:** Employees strike in support of workers from another company or work sector who are on strike. For example, teachers striking in support of healthcare workers protesting for better safety measures, etc.

### Work-to-Rule

Employees perform their duties exactly as per the job description but refuse to take on additional tasks or work overtime. Example, teachers following only the basic requirements of their job, refusing to stay after hours or participate in extracurricular activities.

### Picketing

Employees gather outside their workplace to protest and dissuade others from entering into the company to work. An example of this is where retail employees standing outside their store with signs boards to protest unfair labour practices and discourage the rest from working.

## Lockout

Temporarily closing a workplace or preventing workers from entering during a dispute. An example is a company shutting down places of operations in response to employees' demands for better working conditions.

## Consequences of Industrial Disputes

The economic, social, legal and reputational consequences of industrial disputes and actions are summarised below.

### Economic Impact

There may be loss of productivity, revenue and potential profits for companies. It can cause financial strain on employees due to loss of wages during strikes or lockouts.

### Social Impact

Strikes could cause strain on employee-employer relationships and overall workplace morale. They disrupt services and could affect customers and the broader community.

### Legal Consequences

A party to the contract can sue or take legal action against the other party if disputes or strikes violate labour laws or contractual agreements.

### Reputational Damage

Disputes give negative publicity to an organisation and could damage the company's reputation which can affect the future business prospects and employee recruitment.

## SETTLEMENT OF INDUSTRIAL DISPUTES

When industrial disputes occur, the next action to take is to find ways to resolve them for a peaceful work environment to prevail. Listed below are the ways of resolving industrial disputes:

1. **Negotiation:** This is a process where direct discussions take place between employers and employees or their representatives to reach a mutual agreement and continue work for the organisation to achieve its set targets.
2. **Mediation:** This is where a neutral third party facilitate discussions and help the parties to agree on an issue.
3. **Arbitration:** This another way by which disputes can be settled where a neutral third party makes a binding decision based on the evidence and arguments presented by both sides. In this case, both parties will abide by the decision that is taken by the third party for peace to prevail.

4. **Conciliation:** Here, a third party helps the disputing parties to resolve their differences but does not impose a decision, they suggest and appeal to the parties to embrace peace.
5. **Court Intervention:** This is a method of settling disputes where legal or court action is taken by one of the parties or both to resolve disputes that cannot be settled through other means.



**Figure 5.4:** GTUC stands in solidarity with unions denied right to collective bargaining

Link: <https://images.app.goo.gl/bneYcKDVaoXyaAYHA>



**Figure 5.5:** Teacher unions protest over unpaid allowances

<https://images.app.goo.gl/cBcky7g7o8v922Y4A>



**Figure 5.6:** Strike by Ghana Mine Workers Union at Tarkwa

<https://cdn.ghanaweb.com/image/lib/pics/648/64890599.jpg>

### Activity 5.34

#### Industrial Disputes and Actions

1. Working in groups, read the scenario below and perform the tasks that follow:

##### **CLOGSAG Strike (Ghana)**

*In 2024, the Civil and Local Government Staff Association of Ghana (CLOGSAG) embarked on a nationwide strike demanding improved salaries, better working conditions and payment of outstanding allowances. However, the government's inability to meet CLOGSAG's demands, delayed salary payments and poor working conditions were issues that prompted CLOGSAG as a union to declare strike.*

*The consequences of the strike declared were disruption of public services due to closure of government offices and a halt on essential services, economic losses and negative impact on citizens of the country who were unable to access necessary services.*

*The Accra High Court intervened by issuing an injunction restraining the union against further strike action for 10 days and ordering them to resume negotiations to resolve the dispute.*

*You can find out more detail about this example on the internet.*

From the scenario, discuss the following:

- a. The meaning of industrial disputes.
  - b. The causes of this dispute between CLOGSAG and the government
  - c. What type of industrial action was implemented by CLOGSAG? What other forms of action could have been taken?
  - d. What were the consequences of this strike, and strike actions more generally, on the economy and citizens?
  - e. How was this dispute resolved?
2. Summarise the key points of your discussion prepare a presentation to share your response with the larger class.

### Activity 5.35

#### Types of strike

1. In pairs, identify the different types of strikes.
2. Explain each of the types of strike identified and see if you can find an example
3. Write down your responses and share with another pair.



**Activity 5.36****Extension Task**

1. Research another example of an industrial dispute, either on a local or national level. Analyse the issues that caused the dispute and the actions taken by the parties involved.
2. How effective was the action taken in this case and what steps were taken to find a resolution. Do you think the action was justified? Why?
3. Write up your research as a report and share this with your teacher for feedback.

**Activity 5.36****Self-Assessment**

Answer at least one of the following questions to support the review of your learning from this lesson.

1. Explain the terms “industrial dispute” and “industrial action”
2. Analyse the causes of industrial disputes
3. Describe the types of industrial action
4. Discuss the consequences of industrial disputes and how these disputes can be resolved or settled.

## ROLE OF THE GHANA GOVERNMENT IN LABOUR RELATIONS AND FACTORS THAT CONTRIBUTE TO LABOUR EFFICIENCY IN ORGANISATIONS

### Role of Ghanaian Government in Labour Relations

The government of Ghana plays a significant role in shaping and regulating labour relations within the country. This involvement is essential for promoting fair labour practices, protecting workers' rights and ensuring industrial peace.

Here are the key roles the Ghanaian government plays in labour relations:

#### 1. Enactment of Labour Laws

The government enacts laws and regulations that govern labour relations, ensuring that both employers and employees adhere to fair practices.



Key legislation includes the Labour Act, 2003 (Act 651), which consolidates and updates all existing laws relating to labour. The Labour Act sets out provisions on employment contracts, working hours, minimum wage, health and safety standards and dispute resolution.

## **2. Enforcement of Labour Laws**

Government agencies are responsible for enforcing labour laws and regulations to ensure compliance and protect workers' rights.

The Labour Department and the Fair Wages and Salaries Commission (FWSC) oversee the implementation and enforcement of labour laws and wage policies.

## **3. Promoting Collective Bargaining**

The government supports and promotes collective bargaining by providing a legal framework and support for negotiations between employers and employees or their representatives.

The Labour Act encourages the formation of trade unions and employers' associations to facilitate collective bargaining and improve labour relations.

## **4. Providing Training and Education**

The government provides training and educational programmes to enhance the skills and knowledge of workers, union representatives and employers regarding labour laws and best practices.

Workshops and seminars conducted by the Labour Department and other agencies help stakeholders understand their rights and responsibilities.

## **5. Mediation and Arbitration Roles**

The government resolves industrial disputes by:

- a.** Acting as a mediator through negotiation to resolve labour disputes for a peaceful work environment in the country.
- b.** Acting as arbitrator and based on findings, make binding decisions to resolve conflicts.

Example: The National Labour Commission (NLC) plays a critical role in resolving industrial disputes through mediation, arbitration and adjudication.

## **6. Protecting Workers' Rights:**

The government implements policies and programmes to protect vulnerable workers, such as child labour laws, maternity leave policies and anti-trafficking regulations.

The government also work to prohibit employment discrimination based on race, disability, religion, etc.

Example: The Ministry of Employment and Labour Relations (MELR) works to enforce child labour laws and provide protections for pregnant and nursing mothers.

## Factors that Contribute to Labour Efficiency in Organisations

Labour efficiency is essential for the productivity and profitability of any organisation. Several factors contribute to enhancing labour efficiency. Understanding and optimising these factors can help organisations improve their overall performance.

1. **Assigning Clear Duties and Responsibilities to Employees:** One of the ways to make employees efficient in the performance of their duties is when they know exactly the task to perform without any ambiguity. It is therefore important to define and assign specific duties to employees to perform and hold them accountable.
2. **Employee Training and Development:** Skilled employees can perform tasks more efficiently and with higher quality. Ongoing training programmes keep employees updated with the latest skills and technologies.
3. **Safe and Comfortable Work Environment:** A safe and comfortable work environment reduces accidents and increases morale.
4. **Effective Organisational Leadership:** Strong leadership guides employees and aligns their efforts with organisational goals. Managers who provide clear instructions and constructive feedback help employees perform better.
5. **Efficient Supervision:** Proper supervision ensures that tasks are completed correctly and on time. Supervisors who monitor progress and address issues promptly maintain workflow efficiency.
6. **Provision of Motivation and Incentives:** Motivated employees are more engaged and productive. Providing recognition and rewards for good performance boosts morale and efficiency. Incentives such as bonuses and overtime encourage employees to meet and exceed performance targets.
7. **Adoption of Advanced Technology:** Using modern technology and automation enhances productivity and reduces manual effort. Automated production lines can increase employees' output and reduce errors.
8. **Provision of Proper Work Tools and Equipment:** Providing the right tools and equipment helps employees to perform and complete their assigned tasks efficiently. Organisations that do not have adequate tools for staff end up achieving less productivity.
9. **Effective Communication:** Effective communication ensures that employees understand their tasks and expectations. Regular team meetings to discuss goals and address concerns. Giving employees feedback on their performance helps identify and resolve issues quickly, hence increasing productivity.

## The National Tripartite Committee (NTP) and National Labour Commission (NLC) of Ghana

Both the National Tripartite Committee (NTC) and the National Labour Commission (NLC) play pivotal roles in the labour relations landscape in Ghana. Each institution

has distinct functions and responsibilities, but both contribute to maintaining industrial harmony and addressing labour- related issues.

**Table 5.11:** Table on National Tripartite Committee and the National Labour Commission

	National Tripartite Committee (NTC)	National Labour Commission (NLC)
<b>Purpose</b>	The NTC was established to facilitate dialogue and collaboration among key stakeholders in the labour sector, including the government, employers and employees.	The NLC is an independent statutory body responsible for ensuring compliance with labour laws, resolving disputes and promoting fair labour practices.
<b>Composition</b>	<p>The NTC is composed of representatives from:</p> <p>The Government of Ghana (typically represented by the Ministry of Employment and Labour Relations).</p> <p>Employers' organisations (such as the Ghana Employers' Association).</p> <p>Workers' organisations (such as trade unions).</p>	The NLC is headed by a chairperson and includes commissioners appointed by the President of Ghana. Its members are usually experts in labour relations, law and management.
<b>Functions</b>	Setting and reviewing the national minimum wage	<p>Dispute Resolution</p> <p>Enforcement of labour laws by investigating complaints and taken actions.</p> <p>Mediation and Arbitration services</p> <p>Promotion of fair labour practices</p>

### Activity 5.37

#### Group discussions

Organise yourselves into groups of not more than seven. Each group will be assigned a topic for discussion. This might be the role of the government in labour relations, or the factors that contribute to labour efficiency in organisations.

1. Make notes on your discussion and share your responses with another group who were tasked with the same topic.
2. Consolidate your ideas and present your combined responses to the class for feedback and discussion.

### Activity 5.38

#### **Discussion on National Tripartite Commission and National Labour Commission**

1. Working in pairs, discuss the National Tripartite Commission and National Labour Commission.
2. Write down the roles of each of these organisations in your workbook together with the functions they perform.
3. Prepare a digital presentation on the NTC and NLC and present this to the class for feedback and discussion.

### Activity 5.39

#### **Self Assessment**

Take five minutes and write down two concepts you have learned from these lessons on industrial relations. What are the things that you would like to find out more about, or what have you learned that has made you challenge your preconceptions or opinion on these issues.

## EXTENDED READING

- Business Management for SHS , GABET series, Pages 307- 358 by Ben Attieku, Edward Marfo Yiadom, Thomas Darkey and Kwao Tekyi.
- Business Management for SHS and Tertiary Institutions in West Africa (1<sup>st</sup> Ed), Pages 281 – 326 by George Agyekum and Eric Oduro.
- Business Management Made Simple for SHS in West Africa (5<sup>th</sup> Ed), Pages 365 – 403 by Franklin Atogiyire.

# Review Questions

1. State three objectives of orientation and three objectives of placement to an organisation
2. State three components of health and safety in organisations
3. Differentiate between orientation and placement.
4. Identify three tools of human resource information management (HRIM).
5. State four benefits of HRIM tools.
6. Describe the steps involved in the human resource planning (HRP) process
7. Differentiate between recruitment and selection
8. Explain three reasons why effective orientation and placement programmes are important in an organisation
9. Explain three reasons why training and development is important to an organisation
10. Explain the purpose of the following HRIM tools
  - Payroll Systems,
  - Compensation Management Systems,
  - Performance Management Systems,
  - Onboarding System
11. Differentiate between a trade union and an employers' association. Describe three benefits of being a member of an employers' association
12. Analyse the steps involved in the recruitment and selection process
13. Analyse the potential long-term effects of unresolved industrial disputes on employee morale and organisational culture
14. You are the HR manager at a growing start-up company. What compensation and benefits packages would you put in place to attract and retain top talent while managing limited resources?
15. What is the impact of collective bargaining agreements on the workforce and employers? Use examples to support your answer
16. Evaluate the factors that contribute to labour efficiency in organisations.

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## GLOSSARY

### A

- **Allocation:** The process of assigning resources (people, money, materials) to specific tasks or projects.

### B

- **Brand recognition:** How easily people can identify a brand by its name, logo, or products. How well customers know a brand.
- **Business footprint:** Describes the overall presence and impact a company has in the market.

### C

- **Candidate:** A person who applies for a job or is being considered for a position.
- **Collective bargaining:** Negotiations between employers and a group of employees (usually represented by a union) to agree on work conditions, pay and benefits.
- **Compensate:** To provide payment or reimbursement for losses or damages.
- **Competencies:** Skills or abilities that someone needs to do a job well.
- **Consideration:** Is the price paid by one party to secure the obligation of the other party in a contract.
- **Coverage:** The scope of protection provided by an insurance policy.

### D

- **Diversification:** Spreading investments or risks across different assets or industries.
- **Duress:** This is a form of threat that compromises the free consent of a party to a contract.

### E

- **Economic fluctuations:** These are ups and downs in the economy, like changes in employment, production, or consumer spending.
- **Embargoes:** These are official bans on trade or other commercial activity with certain countries or groups, often for political reasons.
- **Enemy alien:** Nationals of a country at war with the contracting nation.

## F

- **Factual possibility:** Refers to the existence of circumstances that makes an outcome possible.
- **Financial burden:** A responsibility that can strain an individual's or organisation's resources.

## G

- **Geographic:** Specific area or location

## I

- **Impasse:** A situation where no agreement can be reached, usually in negotiations, meaning both sides cannot come to a decision.
- **In pari delicto:** It is a Latin expression which means both parties equally at fault.
- **Incentives:** Rewards or benefits offered to encourage people to do something, like discounts for buying products or bonuses for employees.
- **Indemnity:** Compensation for losses or damages.
- **Insurer:** An organisation that provides insurance coverage to policyholders.

## L

- **Labour market:** The place where employers look for workers and workers look for jobs. It includes all the available jobs and the people looking for work.
- **Layoffs:** When a company lets go of employees, usually because it needs to save money or has too many workers for the amount of work available.
- **Leveraging:** Using something to maximum advantage. In business, it often refers to using resources (like money or relationships) wisely to achieve greater results.
- **Logistics:** Planning and movement of products from one place to another. It includes how goods are stored, transported and delivered.

## M

- **Market penetration:** Percentage of a market that a company has captured.
- **Market saturation:** When a market is full and there are not many new customers to attract, meaning everyone who might buy a product already has it.
- **Micromanaging:** Closely controlling and overseeing every detail of a task or project, often to the point of limiting others' autonomy.
- **Mitigate:** To reduce or minimise risks or losses.

- **Moral:** Relating to principles of right and wrong, ethics and values.
- **Mutual assent:** It is where parties understand and agree to the terms of the contract (meeting of the minds).

## N

- **Navigate:** Finding your way through something, whether it's physical locations or complex situations in business.
- **Negligence:** Failure to exercise reasonable care or diligence.
- **Novation:** Is the process of replacing a contract with a new one.

## O

- **Operational management:** The process of managing the day-to-day activities of an organisation to achieve its goals.
- **Organisational culture:** The shared values, beliefs and behaviours that define an organisation's identity and influence its members' actions.
- **Orientation:** The act of introducing new employees to the history, culture, mission and work environment of an organisation to guide and help with adjustment.

## P

- **Policies:** Written contracts between an insurer and policy holder outlining terms, and conditions.
- **Principle:** A fundamental rule or guideline that guides decision-making and behaviour.
- **Prioritise:** To decide which tasks or items are the most important and should be done first.
- **Public policy:** They are principles and standards guiding the behaviour and decisions of all for a common good.

## R

- **Recruitment:** The process of attracting capable and qualified candidates to fill a job, position or vacancy in an organisation.
- **Reputation:** How people see or talk about a person or company. It is their image based on past actions and behaviours.
- **Rescission:** Is the termination of a contract with the aim of restoring parties to their pre-contractual position.

- **Restrictions:** Rules or limits that prevent or control certain actions, like laws or regulations that businesses must follow.
- **Retention:** Keeping employees at a company, so they do not leave for other jobs.
- **Routine decisions:** Regular, repetitive decisions made in the course of daily operations, often with established procedures.

## S

- **Selection:** A process in recruitment where the best candidate is chosen to fill a vacancy.
- **Strategic Management:** is the long-term planning and direction-setting process for an organization, focusing on achieving sustainable success.
- **Synergy:** Two or more things (like companies or teams) work together in a way that creates a better outcome than if they worked separately.

## T

- **Tactical Management:** involves short-term actions and operational decisions to support and implement the strategic plan effectively.
- **Tenants:** Individuals or organisations renting or occupying a property.

## U

- **Uncertainties:** Situations or events with unpredictable outcomes.
- **Unforeseen:** Events or circumstances that cannot be predicted.

## V

- **Variations:** Differences or changes in something, like different versions of a product or different outcomes in a situation.
- **Void:** This is a contract that is not valid from its inception due to fundamental defects.
- **Voidable:** A contract that is valid until one party decides to cancel which may be due to defects.