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The effects of financial constraints on investment decisions : a case study of premier Breweries PLC, Onistha, Anambre State

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THE EFFECTS OF FINANCIAL CONSTRAINTS ON INVESTMENT DECISIONS: A CASE - STUDY OF PREMIER BREWERIES PLC, ONITSHA, ANAMBRA STATE.

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A PROJECT REPORT SUBMITTED TO THE SUB-DEPARTMENT OF PUBLIC ADMINISTRATION AND LOCAL GOVERNMENT, UNIVERSITY OF NIGERIA, NSUKKA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF PUBLIC ADMINISTRATION

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CERTIFICATION.

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Master in Public administration (MPA).

The work embodied in this project is original and has not been submitted in part or full for any degree of this or any other University.

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APPROVAL PAGE.

This project has been approved for the award of the degree of Master in Public Administration in the Sub - Department of Public Administration and Local Government, University of Nigeria, Nsukka.

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DEDICATION.

To my parents, Mr. E.N. Emerole and Mrs. Elfrida Emerole, for sacrificing a lot not only for my education but also in building me up.

To my brothers and sisters for their encouragement and understanding.

Above all, to God Almighty for translating my ambition into a reality.

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ABSTRACT

The effects of scarcity of financial resources on the investment decisions of the Premier Breweries PLC, Onitsha, were examined. It was discovered that the company modified and, in some cases, abandoned most of its expansion programmes as a result of dwindling financial fortunes which became apparent in the 1989 / 90 financial year and continued till 1992 / 93 financial year.

Some management techniques were recommended to pull the company out of the financial wood, and to ensure future growth and development of the company.

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CHAPTER ONE

1.0 INTRODUCTION

The Nigerian indigenisation Decree of 1972 brought awareness about investing in financial assets as against real estates. Before this Decree, many Nigerians held equity shares of negligible amounts in some of the foreign owned companies, but this law made it mandatory for Nigerians to own up to 60% of the equity shares in these companies. Also triggered off was the security investment awareness, whose bed - mate is high interest in the portfolio selection, resulting in many people investing in the indigenised firms.

However, as we are fully aware, man's resources for attainment and satisfaction of wants are limited. Incidentally, he is always faced with the problem of allocating the limited resources at his disposal in such a way that maximum benefit will be attained or achieved from the utilization of the resources. The same problem is applicable to any organization or government of any nation. This is mainly because its resources which are always from taxation and other relevant sources are not always sufficient for meeting the ever growing needs of the nation due to the complexities in economic and social environment. Hence the government and non-government organizations are always faced with the problem of allocating resources in such a way that the objectives could be attained with some degree of efficiency.

In a business organization, efficiency in the management could be determined by comparison between input and output which can be measured in terms of money unit and then measured against input otherwise known as cost. But in some government organizations like defence services, education services, health services, it will be difficult to measure output in terms of monetary values.

One may, however, easily think that the main objective of any government may be social, economic and political development through improved education services, health facilities, food production, defence and national security services in addition to other welfare services rendered by government. Though this is not far from the truth, yet problem arises when attempts are made to allocate resources to the above mentioned objectives.

In the light of the above facts, I have in this study, decided to take a look at the effects of financial constraints on the investment decisions, using Premier Breweries PLC, Onitsha as a case study.

1.1 Statement of the Problem.

Capital investment involves the outlay of cash or other resources in the expectation of receiving larger sum of money outside the current period of investment (Anyanwu, 1994). The size of capital outlay and the period of time involved are often substantial, and once an investment decision is made, it is usually irreversible. Confronted with this fact, the most serious problem inhibiting the progress of indigenous enterprises in Nigeria is the shortage of finance. Caution is therefore invited in its commitment. Consequently, most firms rank capital shortage highest in the order of their problems.

The issue of industrial financing has been a source of great concern to Nigerian business. With increases in business activities, small firms have been grappling with the problem of increasing their production and commercial activities, while large ones have reached modernization and expansion stages. Both forms of expansion could be adversely affected by the inadequacy of funding.

Among the critical problems of developing countries are low income, low saving and hence inadequate investment. Other obstacles in developing countries include critical shortage of viable projects and inadequate capital market for the buying and selling of shares. In Nigeria, where majority of the participants in the financial system are commercial banks, the possibility of obtaining enough loan for industrial financing is small. It was in the hope of correcting this financial anomaly that such banks like the Industrial Development Bank, Agricultural Banks and other financial houses were established (Ojo, 1986).

Premier Breweries PLC, which is my case study is faced with these problems. While one of the reasons was poor portfolio management at an early stage, the major reason is lack of finance.

Hence, rather than sacrifice the idea of taking the decision; it is sacrificed by reductions in investment bid of the company. And where such is the case, in the face of mass turn - out of employable manpower, mass unemployment reigns.

My familiarity with the general investment problems and the peculiar problems of the Premier Breweries PLC, caused by financial constraints and other factors forms the bed - rock of this study.

1.2 Objectives of the study.

My problem statement has exposed the problems caused by financial constraints, which are reductions in investment bids and mass unemployment in the face of mass turn - out of employable manpower.

Against this background, this research is being executed with the following objectives:

(a) To find out the problems caused by financial constraints on investment decisions of Premier Breweries PLC.

(b) To make recommendations, based on the findings, on how these problems can be ameliorated.

1.3 Literature Review.

Koontz and D'Donnell (1980) defined decision - making as the selection from among alternatives of a course of action. According to Globerman (1986), it is a course of action consciously chosen from available alternatives for the purpose of achieving a desired result.

Decision - making is sometimes seen by managers as their main job because whatever they do is done through making decisions. Decisions can be made as a matter of routine by a manager. Indeed, he may not even realize that he is making them or that they may affect the future existence of the enterprise and require years of systematic analysis.

Management is always a decision - making process since managers must constantly choose what is to be done, who is to do it, and when, where, and even how it will be done. Hence, Koontz et al.,(1980) see decision - making as part of everyone's daily living.

Practically, no problem in life, whether business or elsewhere, ever present itself as a case on which a decision can be taken. What appear at first sight to be the elements of the problem rarely are the real important or relevant things. They are at best symptoms, and often the most visible symptoms are the least revealing ones. For example, the problem of poor organization structure may be seen by management as mere clash of personalities. The first job in decision - making is, therefore, to find the real problem (Drucker, 1979). This is the first step in virtually all decision - making processes. "A problem well defined is half solved" (Hicks, 1972; Shinly and Kinnuem, 1975). The decision maker must first find out what the cause of the problem is.

The second phase in decision - making is analyzing the problem i.e. classifying it and finding the facts. According to Steven Globerman (1986), a good decision is dependent upon recognition of the right problem. It is necessary to classify the problem in order to know who must make the decision, who must be consulted in making it and who must be informed. Without prior classification, the effectiveness of the ultimate decision is seriously endangered. "Get the facts or information" is the first commandment in most texts on decision - making (Drucker, 1979). Information as used in this context may be defined as "words, recorded or unrecorded experience which will reduce the level of uncertainty in making a decision" (Churchman, 1961). This involves the collection of all facts that are relevant to the problem at hand. But these can not be done until the problem has first been defined and classified. Definition and classification determine which data are relevant i.e. the facts. The manager has to providè data concerning possible exceptions he feels, through judgement and past experience, should be considered in solving the problem (Hocking and Hocking, 1976).

Pandey (1978) in his book Financial Management took a global look at the question of capital budgeting techniques. He holds that because capital budgeting involves the commitment of current asset into long term activities like mechanization of a process, replacing and modernizing a process; to mechanize and increase efficiency, to introduce a new product and finally to expand the business with future expectations, proper care have to be taken to ensure the realization of these objectives. The features of capital budgeting decisions he identified as:

a. the exchange of current funds for future benefits;

b. the funds are invested in long term activities;

c. the future benefits will occur to the firm over series of years.

From all indications, it could be seen that the capital decision of a firm influences the firm's wealth. The firm's wealth will increase if the investment is profitable, otherwise, it will decrease. As a consequence, the market value of the firm is affected by the investment decisions. The investment proposals, therefore, should be evaluated on the basis of a criteria which is compatible with the objectives of maximizing the market value of the firm. Any such criterion he holds will involve the use of the concept of minimum rate of return required by the investor. The market value of a firm will increase if the investment project yields a rate higher than the minimum required by the investor otherwise it will be adversely affected.

To find out the viability of a project, he said, all the necessary appraisal methods will have to be brought to bear on that project - pay back period, rate of returns on investment; net present value, internal rate return, discount cash flow, profitability index and other appraisal processes. Then risk and uncertainties will be checked and discounted.

Harold Bierman Jr. and Seymour Smidt - Professors of Business Administration and Managerial Economics respectively; of graduate school of business and public administration Cornell University, in their book The Capital Budgeting Decision, (1976), tackled the issue from the angle of economic analysis and financing of investment projects. In their opinion, businessmen and economists have concerned themselves with the problem of how financial resources available to firm should be allocated to the many possible investment projects. Should a new plant be bought ? equipment replaced ? bonds refunded ? a new project introduced ? All these they hold are the premises of capital budgeting decisions to which there are theoretical sound solutions. They were, for these reasons, in their 1960 publication insistent that the present value method was superior to any other method of making investment decision. Even when later the rate of discount and the general method of incorporating uncertainty in the investment decision process underwent some changes, the present value method continued to receive attention.

They spoke of having been lured into this writing for the fact that decades ago, economists such as Bohn - Bawerk, Wisksell and Irving Fisher (1961), laid with their writings, the theoretical foundation for a sound economic approach to capital budgeting. This technical literature has in recent years proved to contain articles that have significantly increased our understanding of what is required for sound capital budgeting decisions. Unfortunately these works by Fisher et al have not been directed towards business managers and until recently the work of these men have had no perceptible influence on the way businessmen actually made capital investment decisions. Businessmen have tended to make capital budgeting decisions using their intuition, rules of thumb, or investment criteria with faulty theoretical foundation, and thus (from birth) have been likely to give incorrect answers in a large percentage of decisions.

Bierman and his companion were convinced that the present value method is superior to other methods of evaluating the economic worth of investment that have been discussed in the business literature. They recognized that considerations other than economic worth are also important in making investment decisions. The early pages of the book tried to show that cash payback and "return on investment" may give incorrect result. The "yield" or investors method is shown to be inferior to the present value method, especially where there are several alternative investments available.

What these two writers failed to realize here, was that, one's special circumstance can dictate the method one will use in appraising the cash flow of the investment. For the small investors, like the unemployed graduate who gets a loan of seven (7) million to be paid back in the next one or two years, the most used method of appraisal or rather computing the yield will be the "pay back" method and not discount cash flow. So any of these methods will be "correct" or "incorrect" depending on one's special circumstance.

These two writers went on to contend that investment decision may be tactical or strategic. Strategic decisions are basic, long -term decisions which settle the organization's relationship with its environment, notably in terms of its product or service and its market (Cole, 1986). These are the decisions which set the principal goals and objectives of the organization. Also included here are the major policy statements of the organization. Such decisions tend to be non - routine and non - repetitive. Just like strategic planning, strategic decisions undergo all the five basic decision - making processes.

The use of cost - benefit analysis is also seen as an approach to investment decision. Heyel, in the Encyclopedia of Management (1968), defined it as the quantitative examination of alternative prospective systems as to the potential trade - offs with regard to the benefits or effectiveness to be gained and the cost to be incurred among the alternatives for the purpose of identifying the preferred system.

According to Robbins (1980), cost - benefit analysis is an approach for appraisal and controlling performance. It is both a way of thinking and a control device. As a way of thinking, it forces us to look at all activities as having strengths (benefits) and weaknesses (cost).

Nnabuogo (1988) defined cost - benefit analysis as a decision making technique based on what one might generally refer to as a calculated assessment of the likely result of any given decision option. It is based on a common sense comparative assessment of likely consequences (favorable or unfavorable) of any decision option as against other alternative decisions with a view to identifying the most profitable option.

Okafor (1983), said that the profitability index model will be most desirable for investment decisions. Profitability Index (P.I.) otherwise known as benefit - cost ratio, is the ratio of the present value of future cash benefits at the required rate of returns to the initial cash inflow of investment. The formula for calculating the Profitability Index is as follows:

$$P/I = \frac{\text{PV of cash inflow}}{\text{Initial cash outlay}} = \frac{PVi}{Ci}$$

where P/i = profitability index of project i

PVi = sum of present value of cash inflow from project i

Ci = sum of present value of cash outflows of project i

The Profitability Index method compares two or more assets by computing their profitability indices and the asset with the largest index will be the most desirable.

The Internal Rate of Return (IRR) model is among the several models commonly employed by business executives in capital - budgeting decisions. the IRR can be defined as that rate which equates the present value of cash inflows with the present value of cash outflows of an investment. In order words, it is the rate at which the Net Present Value (NPV) of investment is zero (Pandey, 1981). Okafor (1983) said "the task environment is a very important factor in investment decisions". According to him, the tax system of the national, state and local governments has had a marked regulatory effect on business. The tax collector sits at the elbow of every executive who makes a decision involving funds. As a matter of fact, with high rate applicable to corporate income, the impact of taxation is often a policy determining factor that overshadows such traditional business considerations as plan expansion, marketing policies and economical operations. Uniformity of tax policies therefore becomes a consideration of primary importance to company management. This spells centralization because managers with out appropriate tax advice may not make wise decisions (Koontz, 1980).

Thus the structure of taxation is a major environmental factor in investment decision. In the final analysis, the real cost and benefit of any project can only be determined conclusively when evaluated on an after - tax basis.

Inventory control model also play a very important role in investment decision. We use inventory control model to analyze and control inventories of goods that are bought (Hicks and Gullett, 1983). The basic model is called the economic order quantity or the EOQ model.

There are two classes of cost associated with an inventory. the first class are those costs related to storing objects requiring space and requiring that funds be invested in the purchase of those objects. For example, funds might have to be borrowed or at least diverted from other uses to purchase and store inventory . These costs are called annual carrying cost (Cc) (Hicks and Gullett, 1983).

The second class include those costs associated with placing an order for the product to be inventoried eg. administrative cost incurred during the placing of an order. The basic

$$Q = \sqrt{\frac{2CD}{iP}}$$

equation for the economic order quantity , Q, is given as follows:

where :

Q = Economic order quantity;

C = Procurement cost of each order;

D = Demands in units during the period;

i = Stock holding cost expressed as a percentage of the stock value;

P = Cost price per item.

According to Anyanwu (1994), an organization neglecting the management of inventory will be jeopardizing its financial position, disrupting its services and long - term profitability if it is profit - making concern.

Nwoko (1988) also emphasized that availability of incentives reveal to the decision maker, existing government incentives in the area of its proposed investment. Some of these incentives include tax reliefs, tariff rebates and government awards. The study will then enable the sponsors to take advantage of such incentive schemes. Similarly, the study will expose both restrictive and general legislation that are likely to affect the project.

Pierre Masse (1962) is another writer who tried a "shot" at approaching the issue of investment from the criteria for choice and the attendant action. In his book, Optimal Investment Decision: Rules for Action and Criteria for Choice, which is an English translation of the French version which appeared originally in 1959. Masse tried to present an analytical insight for making investment decisions, especially those peculiar to, an electric power industry which however has been revealed to be applicable to both public and private sector of enterprises. The materials were believed to be of immense interest to management scientists, especially those principally concerned with capital budgeting.

Another writer, Fred Weston (1966) looked at the issue from the angle of finance. In his book "The Scope and Methodology of Finance.", he tried to bring out the importance of finance in investment decision. "Investment, he said, is inextricably related to financial decision." What business finance executives do according to Weston is to determine the boundaries of business finance functions.

Though Weston's study focussed mainly on the financial perspective, what he did not point out or expose is the effect which financial constraint has on investment decisions. This gap forms the main focus of this study.

Ross (1964), in his book "The Judgement Factor In Investments Decisions: reprints from Harvard Business Review, USA, 1964; could not resist the temptation to study the investment decision from the angle of faulty judgement and uncertainties. He regarded investment decisions as the most complex of all managerial sciences. He cited Dr. Joel Dean (1951) as insisting in his capital budgeting that the planning and control of capital expenditures are the basic top - management functions since management is originally hired to take control of stockholders funds and to maximize their earning power. He corrected that the matter can never be a matter of simple straight profit - making arithmetic. It rather remains a grudging management compromise with inscrutable estimating uncertainties of the future.

West and Wood (1972) both agreed in their work that to accumulate wealth, one must first learn the various courses of action available to one and must develop the financial discipline that will enable one to progress. To guard against the risk on assets, they hold that one must protect assets against insurable risks. After endeavoring to trace the finance could be managed to avoid risk, they, however, concluded that there is no simple solution to the investment risk, while at the same time pointing out that there is no substitute for carefully developed plan and meaningful course of action. Logical financial decision can only be made in the context of an individual's present situation, his goal and the course of action he has chosen.

These writers did their best in trying to point out the risks in investment but erred in not furnishing us with the methods of discounting risk.

Steiner, Shapiro and Solomon (1958) in their book tried to expose their sources of finance for investment and the role of saving in particular, considering especially the mechanism that makes it available to the investor. They tried to draw a line between internal and external financing.

They tried to draw out the components of internal financing which include personal savings, depreciation allowance, retained profit; and those of external financing which include equity, debentures, loans and others. They acknowledge precisely that savings are used to finance gross private domestic investment which consists of plant, equipment etc.

Analyzing the above exposition, one will come to the understanding that financial constraints will invariably generate some drastic effects in investment decisions.

Miles and Coles (1960) in their work took a look at how new investments and growing ones are financed. For them a new business or investment can be financed by one person, mostly the investor, by a small syndicate of businessmen and by general body of investors. A new investment can be in the form of a company's expansion or extension. They both agreed that new business does not normally start with bank loan. But the problem with syndicate funding, they hold, is their usual insistence to have a controlling interest of the investment.

These still imply that without finance you can not "talk of investment", and hence the importance of finance in investment.

1.4 Theoretical Framework.

In my anxiety to do justice to this study, I will lean heavily on these two theories:

(ii) Portfolio management theory and,

(ii) Administrative behavior theory of Herbert Simon.

Portfolio Management Theory.

The basis of modern portfolio theory was established by Markowtz (1952). The essence of the theory is that the risk of a portfolio of assets can be reduced by diversification of its composition. As a theory of efficiency, it seeks to select for an investor a portfolio that offers the highest return for a given level of risk or the lowest level of risk for a given return.

The problem of portfolio management is concerned with that of determining the best selection of investments to hold taking into account both the expected returns for individual investments and the risk attached to it (Anyanwu, 1994). Thus portfolio investments are designed to build and sustain a portfolio that maximizes portfolio returns, whether from income or capital gains sources while minimizing risk.

The objectives for portfolio investment which are prevalent among investors and portfolio managers are:

a) to derive a steady source of income over time while ensuring safety of invested capital;

b) to maximize immediate gains as a result of changes in stock prices;

c) to benefit from long - term capital appreciation - that is growth in the value of security investment (Irving Fisher, 1961);

d) ascribe probabilities to each part of the range thus enabling analysis to be in the form of expected values and;

e) to subject the results to sensitivity analysis and test the stability of the Net present value results to changes in key parameters resulting from deviation from their probable values.

The investor needs to make a trade - off and compromises between conflicting goals and must also determine the degree of risk he is willing to assume in the hope of realizing given goals. The portfolio manager should be able to in a financial constraint situation, identify and select those portfolios or projects that pose less risk at all time and diversify investments into those areas than investing heavily in one, which might mean loosing all principals in the event of a change in economic policy or slight change in market.

The relevance of this theory to the study is that it is the most ideal in a financial constraint situation which is really the area of concentration of this study. It will provide the formula for erecting the buffer against the devastating effect of investing all your resources into one uncertain project, by insisting on diversification of the risk.

It will serve in this write - up as a guide when I get involved in the problem of financial constraints on investment decision, especially within this Structural Adjustment Programme sapped economic condition.

Administrative Behavior Theory of Herbert Simon (1968)

Another theory I would like to use here is the administrative behavior theory of Herbert Simon (1968). Herbert Simon, renowned writer on public administration, in his attempt to instill rationality in official behaviors in relation to decision, gave birth to the above theory. According to him, "choice insofar as it is rational and cognizant of its objective conditions, involves a selection of one alternative from among several. The alternatives differ with respect to the consequences that flow from them ...." (Simon, 1968). This implies that choice, albeit rational choice or decision - making always requires the appreciation of the alternative means and consequences; the comparison of these alternative means in terms of the respective ends to which they will lead.

"At each movement, (in the choice process), the behaving subject, or the organization composed of numbers of such individuals is confronted with a large number of alternative behavior, some of which are present in the consciousness and some of which are not. Decision or choice as the term is used here is the process by which one of these alternative for each movement behavior is selected to be carried out" (Simon, 1968). If any one of the possible strategies is chosen and is followed out, certain consequences will result. The task of rational decision is to select that one of the strategies which is followed by the preferred set of consequences" (Simon, 1968). In order to achieve this, the administrator should get involved in these three steps:

a) The listing of all the alternative strategies.

b) The determination of all the consequences that follow upon each of these strategies.

c) The comparative evaluation of these sets of consequences.

Knowledge of the consequences becomes the pre requisite for a proper choice.

The function of knowledge in decision - making process is to determine which consequences follow upon which of the alternative strategies. However, the extent of this knowledge is bedeviled by the fact of man's bounded rationality, which causes him to loose sight of, perhaps, better alternatives, explaining why there are risks even in the most appreciated of alternatives, reinforcing the why and need for constant re - appraisal and the establishment of feedback mechanism. Being aware of the possibility of error, what the administrator does is to form expectations of future consequences, these expectations being based upon known empirical relationships and upon information about the existing situation.

In "ensemble" the task confronting an administrator in the making of choice or decision, is that of selecting the alternative that best fulfills the objective of an action, after a true appreciation of the consequences attendant on each possible alternative have been reached or attended.

This theory is deemed very pertinent in this study, because for every rational decision on investment, involves a comprehensive choice from all alternative investments with their shadowing consequences that fulfills the aspiration or objective of the investor. Investment decision or capital budgeting involves a (rational) choice behavior, which is the foundation and premise of this theory. That is to say that, whenever a man is faced with investment decision, he consciously or unconsciously behaves according to the stipulations of this model. This theory is also very important in financial management decisions.

1.5 Hypothesis.

In order to carry out a satisfactory study on the effects of financial constraints on investment decisions using Premier Breweries PLC, Onitsha, as a case study, it is hypothesized that:

1. Scarcity of financial resources affects investment decisions negatively.

2. Lack of proper diversification of sources of revenue is a contributory factor to the financial constrained position of the company.

1.6 Definition of Concepts.

The following concepts which appear in my study are hereby given operational definitions.

Investment: In this study the term "Investment" is used to mean the undertaking of a present sacrifice for future benefit. In other words it refers to the commitment of the capital or assets of an enterprise or organisation to a present venture in the hope of realising a return or profit on it in the future.

Investment Decision: In this study "Investment Decision" is used to refewr to all the processes involved in arriving at the decision to commit fund in real property or financial asset with the primary objective of obtaining a future claim to income or benefit.

Essentially, it is an irreversible commitment and once an investment decision has been reached and fund committed, it can not be changed without loss or cost. Thus an investment decision takes into consideration the totality of the risk and possible benefits entailed in a commitment before embarking on it or translating it into action.

Financial Constraint: This refers to the obstacle placed before an organisation in the process of arriving at an investment decision due to the lack of finance or inadequate cashflow to finance or execute such decisions.

Thus financial constraint also refers to the level of liquidity of the organisation as well as its ability to raise fund or capital from the banks taking cognizance of the lending regulations and other procedures laid down for banks by the Central Banks of Nigeria.

1.7 Methods of Data Collection and Analysis.

The Research Design.

We employed both primary and secondary sources to obtain the required data for this study. The primary data is collected through the application of survey research. In other words field survey was conducted. The field survey was conducted through the administration of questionnaires, direct observation and scheduled interview. The interview was face-to-face.

Furthermore, secondary data were collected through the inspection of internal records, analysis of annual reports, a review of relevant textbooks, journals and other publications. Thus, the methods of data collection involved a combination of empirical survey of investments and a review of relevant literature on the subject.

SAMPLE POPULATION:

A total of 250 questionnaires will be administered to the staff and employees of the Premier Breweries Plc., Onithsa to obtain the information required. The purposive sampling technique will be adopted. The work will be further subdivided into the Senior and Junior Management cardres.

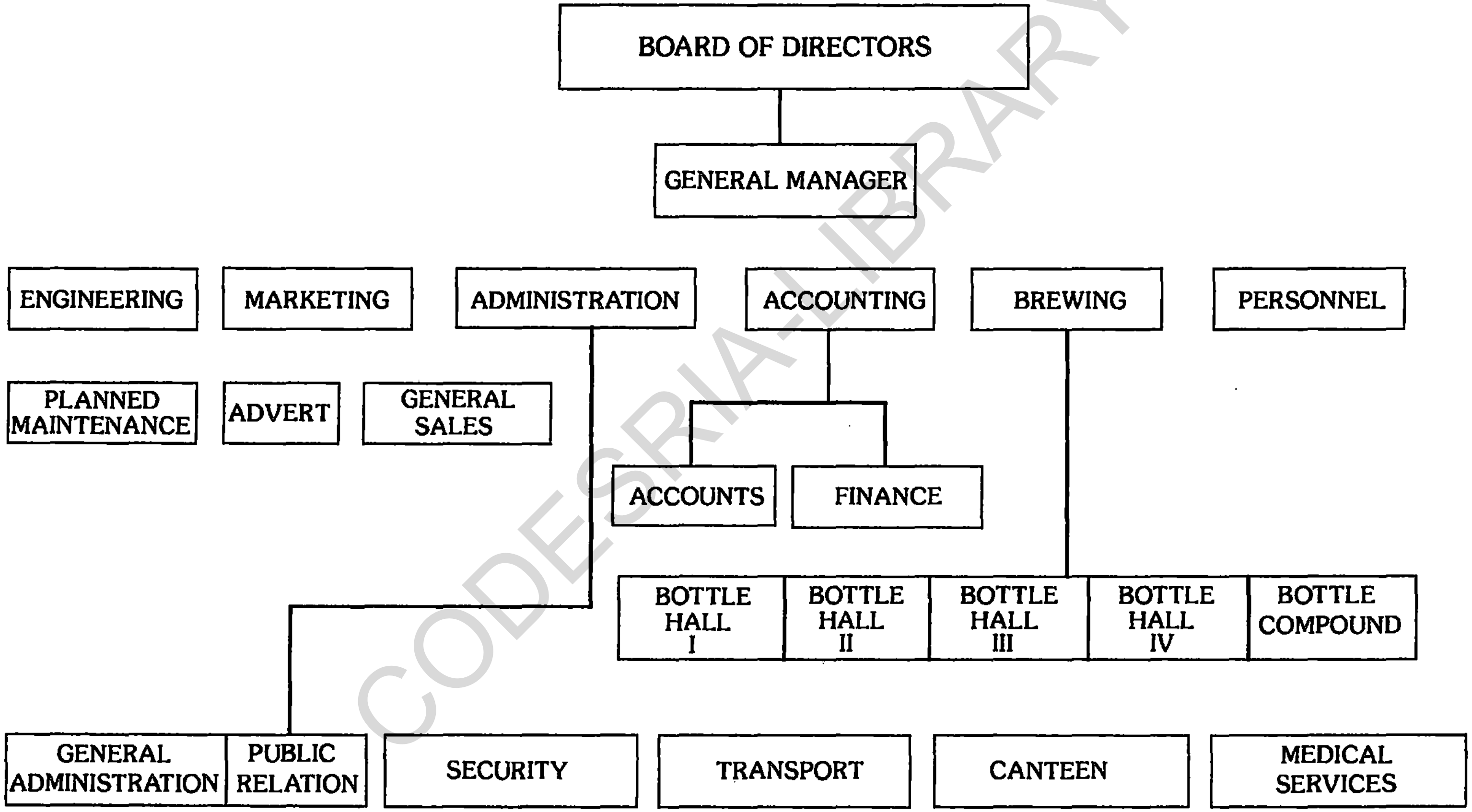
Procedure: As a pre-test, copies of the questionnaires will be administered to 150 workers at the Golden Guinnea Breweies Limited, Umuahia, Abia State. The choice of Golden Guinnea Breweries for pre-test is appropriate because the two organisations represented adequate examples of two similar organisations - one public, i.e., Premier Breweries Plc., and the other private - Golden Guinnea Breweries Ltd., both are in the same socio-economic environment.

The Interview: Six Managers within the top Management echelon will be chosen for the personal interviews. They include the production manager; the marketing manager; the administration manager; the accounts manager; the engineering manager and the personnel manager.

The six manager above were chosen for study because of a number of reasons; first, to reflect the interest of the various departments and secondly, investment decision is investment decision of which the critical department is represented so whatever decision that is taken by the Board of directors, if they are not present at the meeting, will be

ORGANISATIONAL STRUCTURE OF PBL. ONITSHA

SOURCE:
ADMINI. MANAGERS' OFFICE.


BOARD OF DIRECTORS
GENERAL MANAGER
ENGINEERING
MARKETING
ADMINISTRATION
ACCOUNTING
BREWING
PERSONNEL
PLANNED MAINTENANCE
ADVERT
GENERAL SALES
ACCOUNTS
FINANCE
BOTTLE HALL I
BOTTLE HALL II
BOTTLE HALL III
BOTTLE HALL IV
BOTTLE COMPOUND
GENERAL ADMINISTRATION
PUBLIC RELATION
SECURITY
TRANSPORT
CANTEEN
MEDICAL SERVICES

communicated to them by the General Manager. This implies that any of the areas could be chosen for the study and the same result will be obtained. Finally, the six managers were chosen for convinience, cost and data availability.

Data Analysis: Percentages will be employed in analysing the data obtained.

1.8 Significance of the Study.

Large scale industries, even in the face of the ever - increasing financial constraints imposed by the Structural Adjustment Programme and its attendant Second - tier Foreign Exchange Market (SFEM), are groaningly trying to expand horizontally into the areas of very primary and small scale production. It is very unfortunate to point out here that many of these investors with their borrowed capitals, end up "backing the wrong horses", thereby aggravating the already financial constraint position of the enterprise.

This study hopes in the face of the present day problems and their peculiar situations to reveal to the management certain aspects of investment appraisals and the area to be properly monitored to stem waste, ensure efficient financial management and avoid unnecessary risks.

The researcher is also hoping to, through this study

a) point out to the government at this difficult time of mass unemployment, the need to provide a better answer to the investors in order that investment might increase industrial development and create more employment opportunities for the masses;

b) furnish the investors and recipients of the government loans a better way of approaching investment decisions;

c) make available to the potential investor, the system through which he (investor) will ameliorate the chances of his loosing his capital by avoiding putting all his eggs in one basket;

d) reveal to the management of Premier Breweries PLC how efficiently or otherwise its limited resources are being managed.

1.9 Limitation of the Study.

I want to point out at this stage, the enormous hinderance I encountered in the course of this research.

All my search to come across any book that dealt with the topic of this research "per se" proved abortive. The nearest book is treating investment decision and, perhaps, the role other factors play in this decision. None, however, has made any attempt at exposing the effects of financial constraints on investment decisions either because the problems are obvious or because they have not considered them important enough to warrant the academic attention I am now giving them. In which case I was denied the help I was banking on by the authors. With respect to interviews, and as is typical of most companies, almost every information is classified. I was granted a special favor by the information given to me and yet this information at the best of times is not enough, leaving one with no option than to employ unorthodox method of information gathering, which at best is adulterated. One is therefore left most of the time with speculations of what is likely to be the case .

Therefore the table on the shortfall in the expected revenue that accrued to the company can not be said to be authentic since no company can issue out its statement of account to outsiders.

The effort to carry out this study was viewed with suspicion which contributed to the paucity of information. Another attempt promises to be more fruitful. I, therefore consider this topic to be innovative. More attention should be paid to this area of research and, perhaps, to the same company.

1.10 Brief Historical Background of the Case - Study.

Located at the Industrial layout, Bridge head, Onitsha, Premier breweries limited, the brewers of Premier Larger beer, came into business in 1977. This was the year they began producing beer. The history of Premier Breweries dates back to late 1974 when the government of former East Central State entered into machinery supply agreement and a plant design contract with the German firm of Messrs Brauhaase for the establishment of a new brewery at Onitsha. The proposed brewery was to be an off - shoot of Golden Guinea Breweries Limited, Umuahia. On January 25, 1976 an independent company with the name Diamond Breweries Limited was incorporated but the name was later changed to Premier Breweries Limited in December of the same year. The first pint of beer was produced on

December 13, 1977. On March 11, 1978, Premier Breweries Limited was officially commissioned by the then Military Governor of Anambra state, Col. John Atom Kpera. The initial production capacity of the plant then was 350,000 hectoliters per annum or about 320,000 cartons of beer per month.

Immediately after the first commissioning, the brewery went into the first expansion programme costing over fifteen million Naira (N 15m) which was completed in 1981. This expansion programme was commissioned by the then Governor of Anambra state, Chief Jim Nwobodo on May 15, 1982. This brought the production capacity of the company to 750,000 hectoliters per annum. In the same 1982, the company embarked on the second phase of its expansion programme, costing about nine million Naira (N 9m). The programme was completed in 1983 and it brought the production capacity to 1.2 million hectoliters per annum. This has made Premier Breweries Limited, according to the Public Relations Manager of the company, "the third largest brewery and second largest producer of Larger beer in the country" (Chike Azubike, 1986).

Premier Breweries Limited, now has depots spread in nine towns of the country, viz : Onitsha, Awka, Enugu, Abakiliki, Nsukka, Aba, Benin, Lagos and Makurdi. The company has created these depots in order to facilitate distribution and also to make its products accessible, as much as possible to its numerous consumers (Azubike, 1986).

In pursuance of one of the objectives for which the company was established and probably too to justify the name "Premier", the company has taken a lead in bringing innovation in beer packaging in the country. In recent times, the use of easily perishable paper cartons for packaging beer in Premier Brewery is gradually giving way to the use of plastic crates. The company has established a plant for the manufacturing of plastic bottle crates and other plastic wares at Emene, near Enugu. The establishment known as Eastern Plastics Limited cost the company over four million Naira (N 4m) according to Azubike (1986). The Eastern Plastics Limited was commissioned on June 20,1986 by the Military Governor of Anambra state, Group Captain Samson Emeka Omeruah. The Governor commended Premier Breweries PC for embarking on the project and further said "At this time when the lean foreign exchange resources of the country are stretched between multifarious competing ends, it is a welcome development that Premier Breweries is making some head way towards self - sufficiency by establishing this factory for the production of packaging crates. The product of the factory will serve not only Premier Breweries but other interested breweries in the country and even beyond" (Premier Scope : 1986).

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CHAPTER TWO

2.0 INVESTMENT APPRAISALS TECHNIQUES.

Capital investment involves the outlay of cash or other resources in the expectation of receiving larger sums of money outside the current period of investment. Typical capital investment includes the following -: the replacement of equipment and building; the expansion of company activities, eg. factory expansion and, the undertaking of research and development.

The size of capital outlay and the period of time involved are often substantial and once an investment decision is made , it is usually irreversible. It is therefore essential that at the outset, the project should be examined in detail and thorough appraisal of all available data made. Capital project evaluation is concerned with the process of collecting, presenting and evaluating data concerning the proposed investment. A final decision as whether to proceed with a project must still be made and the application of certain mathematical techniques will provide some considerable guidelines.

All said and done, there are three main techniques of investment appraisal namely -: the payback period method; the return on investment method and the more sophisticated method usually referred to as the discounting cash flow method otherwise known as D.C.F. For the purpose of clarity, we shall discuss them one after the other.

2.1 Pay back Period Method.

The payback period method of an investment is the number of years required to recover the initial investment or capital outlay. The estimated expected annual returns normally after tax but before depreciation are aggregated until the amount of the initial investment is recovered. This method is often used when cash liquidity is the prime factor and the time value of money may be discounted, because since the time is very short, the value of money may not change.

Supposing a project A proposal has initial capital outlay of N 20,000 and enjoys a life span of five years and you are to compute the payback period:

Project life = 5 years

Project outlay (i.e. cost) = N 20,000

Estimated future profit

Year I = N 4,000

Year II = N 12,000

Year III = N 8,000

Year IV = N 8,000

Year V = N 9,000

Solution: Calculation of the payback period or the number of years it will take to get back the initial capital investment on the project :

Year I	=	N 4,000
Year II	=	N 12,000
1/2 of Year III	=	N 4,000
		N 20,000

The payback period from the above illustration is 2 1/2 years because the initial investment of N 20,000 was recovered at the sixth month of the third year. Using the above criteria, the project has been evaluated in terms of the length of its payback period. Under this method, two decision rules or criteria can be used as appropriate :

1) Select all projects with payback period less than a stated maximum i.e. maximum time of return.

2) If there are a number of alternative projects, select the project with the shortest payback period.

2.2 Return on Investment Method.

The next computing aspect of investment decision is the rate of return of an investment technique. This method simply expresses the average annual profits, normally after both tax and depreciation have been deducted - as a percentage of the original investment in the project. The return can alternatively be expressed as a percentage return on the average value of the investment during the life of the project.

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An illustration will make the issue clearer. Supposing the life span of a project is five years, with a capital outlay of N 20,000 and the basis of depreciation is straight line method, (20 %), i.e depreciated at the same rate.

Illustration 2.1.

Years	Expected Income (N)	Depreciation (N)	Net profit (N)
1	4,000	4,000	-
2	12,000	4,000	8,000
3	8,000	4,000	4,000
4	8,000	4,000	4,000
5	8,000	4,000	4,000
	40,000	20,000	20,000

In the above illustration, it could be seen that the total net profit is N 20,000 after N 20,000 depreciation using straight line method.

$$\text{Average annual profit} = \frac{\text{sum of Net profit}}{\text{number of years}}$$

$$\frac{8000 + 4000 + 4000 + 4000}{5} = \frac{20,000}{5} = \text{N } 4,000$$

Then rate of return on the project will be :

$$\text{R. Return} = \frac{\text{Average A/P}}{\text{Capital outlay}} * 100\,\%$$

$$= \frac{4,000}{20,000} * 100\,\%$$

$$= 20\,\%$$

Therefore, Return on investment expressed in percentage = 20 %

The major fault of this computation is its failure to take into considerations the timing of the cash proceeds. Again when juxtaposed with the payback method of analysis, it gives conflicting results, as will be illustrated in the next computation, where the capital outlay is N 10,000 and the life span of the project is 5 years.

Illustration 2.2.

Years	A	B	C
1	8,000	2,000	2,000
2	10,000	3,000	2,000
3	10,000	4,000	7,000
4	4,000	3,000	1,000
5	1,000	4,000	-
	15,000	16,000	12,000

Payback = 3 years; 3.3 years; 2.8 years

Return on Investment 10 %; 12 %; 4 %

Calculated this way - :

Aggregate earnings for 5 years = N 15,000

Less cost of Investment = $\underline{\text{- N 10,000}}$

= N 5,000

Net profit for 5 years = N 5,000

Therefore average Net profit = $\frac{5,000}{5}$ = 1,000

The return on Investment = $\frac{1,000}{10,0000}$ * 100 %

= 10 %

N/B: The same system is used for the computation of the other projects "B and C".

What is, however, clear from the above is that while the payback method will advocate for project "C" as the most ideal, because it has the least number of years to pay back its project cost, the return on Investment technique will insist on project "B" because it has the highest rate of return on investment 12 %. The payback period method, however, gives some indication of the risk associated with each project. Both methods are widely used in practical life.

However, reliance on these methods alone could be misleading as each suffers from the fundamental deficiencies pointed out above. Let us go on to consider the next topic that promises to be the most suited to calculating an investment worth.

2.3 Discounted Cash Flow Methods.

Discounting rests on two propositions : that all costs and benefits of a project are relevant to calculating its return, irrespective of when they occur in the lifetime of the project, and that such amounts become progressively less important the more remote they are from the present. We can take the first of these propositions as axiomatic: the second requires explanation. Given the alternative of two certain outcomes, of receiving N 100 now or N 100 in a year's time, the rational response is to choose N 100 now. Money received now can be used immediately: for example, it could be deposited in a bank where it would yield a rate of interest or it could be spent to yield satisfaction to the spender. Money received a year hence deprives the receiver of what satisfaction the money might have conferred during that year. Here the reader will recognize an opportunity cost concept: late receipt of money imposes a cost on the recipient equivalent to whatever advantage he might have enjoyed had he received it earlier. Economists express this idea in the concept of time value of money.

Consider an economy in which there is no price inflation and the interest rate is 10 % and is expected to, remain at this level in the foreseeable future: what is the value of N 100 received today, in one year's time, in two year's time, etc. ? With the discount tables it can be shown that the value of N 100 declines as follows :

Value of N 100

Received now	100	(N 100 * 1.000)
To be received in : one year's time	91	(N 100 * 0.91)
two year's time	82	(N 100 * 0.82)
three year's time	74	(N 100 * 0.74)

We saw that the earlier accounting rate of return method incorporated no adjustment for the timing of the profits: a profit in year one was treated as being of equal value as the same figure of profit in year five. The profits of each year were added together to calculate the overall rate of return. Now you can see that the procedure is defective: the figures of profit in each year are not expressed in the form of a common denominator. There present values are different. It is therefore misleading to add them up. Discounting corrects for this and reduces the figures of cost and profit to the common basis of present value. It therefore allows a valid comparison of sums occurring at different moments in time. Figures of cost and profit can be added or subtracted because they are expressed in directly comparable form adjusted for the time value of money. Thus, if the future profits from an investment can be calculated, their present value can also be found and compared with cost also expressed at present value.

2.4 Ranking of Investment Proposals.

Because of the problem of capital for investment, a firm faced with investment opportunities, will, after a comprehensive appraisal of the opportunities, rank them in order of priority, using present value concept of investment appraisal.

For instance, an organization considering the following investment opportunities "A" "B" "C" "D" "E" with various capital outlays and future cash flows as tabled below:

Illustration 2.3.

Expected Future Cash Flow.

Projects	A	B		D	E
Cap.Outlay Yr.0	30,000	24,000	12,000	24,000	6,000
Year 1	18,000	-	4,200	6,000	3,600
Year 2	12,000	-	4,200	6,000	3,600
Year 3	15,000	12,000	4,200	6,000	3,000
Year 4	-	12,000	4,200	6,000	4,200
Year 5	-	12,000	4,200	6,000	3,60

PROJECT A

Capital Outlay N 30,000

	Cash Inflow	Interest Rate	PV
Year 1	18,000	.9524	17143.2
Year 2	12,000	.9070	10884
Year 3	15,000	.8638	12957
Year 4	-	-	-
Year 5	-	-	-
			N 40,984.2

NPV = PV - Capital Outlay

where

NPV = Net Present Value ;

PV = Present Value.

N 40,984.2 - 30,000

NPV = N 10,984.2

PROJECT B.

Capital Outlay = N 24,000

	Cash Inflow	Interest Rate	PV
Year 1	-	-	-
Year 2	-	-	-
Year 3	12,000	.8638	10365.6
Year 4	12,000	.8227	9872.4
Year 5	12,000	.7835	9402
			N 29,640

NPV = N 29,640 - 24,000

= N 5,640

PROJECT C.

Capital Outlay = N 12,000

	Cash Inflow	Interest Rate	PV
Year 1	4,200	.9524	4000.08
Year 2	4,200	.9070	3809.4
Year 3	4,200	.8638	3627.96
Year 4	4,200	.8227	3455.34
Year 5	4,200	.7835	3290.7
			N 18,183.48

NPV = N 18,183.48 - 12,000

= N 6,183.48

PROJECT D

Capital Outlay = N 24,000

	Cash Inflow	Interest Rate	PV
Year 1	6,000	.9524	5714.4
Year 2	6,000	.9070	5442
Year 3	6,000	.8638	5182.8
Year 4	6,000	.8227	4936.2
Year 5	6,000	.7835	4701
			N 25,976.4

NPV = N 25,976.4 - 24,000

= N 1,976.4

PROJECT E

Capital Outlay = N 6,000

	Cash Inflow	Interest Rate	PV
Year 1	3,600	.9524	3428.64
Year 2	3,600	.9070	3265.2
Year 3	3,000	.8638	2591.4
Year 4	4,200	.8227	3455.34
Year 5	3,600	.7835	2820.6
			N 15,561.18

NPV = N 15,561.18 - 6,000 = N 9,561.18

Ranking the projects in order of priority using Net Present Value concept of investment appraisal, at 5 % discount rate for 5 years will end up like these :

Projects -		
	"A" =	10,984.2
	"E" =	9,561.18
	"C" =	6,183.48
	"B" =	5,640
	"D" =	1,976.4

The organization will choose the project to invest in the order drawn above, starting with investment "A", followed by "E", "C", "B" and "D" at last.

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CHAPTER THREE

3.0 SOURCES OF CAPITAL.

One of the pre - requisite for the establishment of any investment is the availability of capital. By capital here is meant, "money with which a business etc. is started eg. for building or buying factories or buying machineries. The quantity of capital available or the ease with which it could be obtained, determine the extent of investment undertaken.

And so, one of the most serious problems inhibiting the progress of Premier Breweries is the shortage of financial capital. Of the sources of capital available, none is at present significantly viable. Consequently, the company rank capital shortage highest in the order of their problems. Connected with their other special difficulties which have become accentuated by the failure of the banks to adequately adapt their conventional practices to suit local conditions (Ojo, 1976). For the purpose of clarity, we shall examine the components of these sources one after the other.

3.1 Internal Sources of Capital.

3.1.1 Personal Savings.

This involves savings of a potential investor over a period of time, perhaps from previous activities. This type of financing would have been able to save the company, from certain bank drills and the shame of being found credit unworthy by banks or other financial houses.

Unfortunately, this aspect of financing poses a great deal of problems to the company which instead of making use of its little savings in boosting the financial status of the company, is deeply engrossed in luxury competition, leaving the financial position of the company in a deplorable state.

3.1.2 Retained Profits.

This is the retaining of the dividends that should have been shared out to share - holders for purposes of business. In relation of financing of an investment, it is the plowing back into business of fund acquired internally.

This is a very acceptable investment financing system, for these obvious reasons -:

a) It avoids the heavy transaction costs which must be incurred in borrowing funds or issuing new securities.

b) It incurs less uncertainty for management which can be sure of any funds it holds back while it may not be entirely confident of the result of any attempt to market stock or bonds.

c) Many stockholders seem to prefer this method of financing because it tends to transform income into capital gain by increasing the value of the company's stock rather than provide dividend payments.

3.1.3 Depreciation Allowance.

As pointed out before, every business starts with a certain amount of capital outlay. (This does not include the "cost leader" or the "sunk cost"). This capital outlay is used in buying equipment - capital assets, for the business. These capital assets are expected to last for a number of years. Before their expiring day, if the business is to arbitrary continue, they are expected to payback the amount used in buying them; this is different from produce cost : because the equipment are used as means in the production of the products; (and of course the cost of production is included in the price of goods produced). Certain amount of money spread over the life span of the equipment deducted every year from the gross profits of the enterprise. This is what is called "depreciation allowance". And it compensates for the fall in the value of the equipment which wears out "with the aid of use".

Normally the depreciation allowance is kept aside, so that a new equipment could be bought if the old one becomes technically useless. However, the money so realized could be used to finance investment. Depreciation allowance is deducted before tax is computed. This allowance is legally recognized and normally expressed as a percentage of the cost of the equipment.

3.2 **External Sources of Capital.**

This is called an "external capital source", in the sense that the capitals are realized from without. The components of this source include :

3.2.1 Equity Financing.

Equity per se is defined as ordinary share and stock of company not bearing fixed interest. That is to say that their dividends or profits which can accrue to them is not fixed. They are by nature, the owners of the business concern and so bear the misfortunes of the enterprise. Equity financing will, therefore, be that system of raising fund for a company in which the buyers of the share become part - owners of the company.

This type of financing is rift with problems, especially when banks are involved. Equity participation is strongly objected to by businessmen or companies because they fear that if they relinquish equities or options, they may ultimately be alienated from their control over the enterprise. Even the right of first refusal does not completely safeguard a subsequent sale of the company's alienated shares to rivals or groups with whom the owners may not wish to share ownership and management, if the owners can not finance the repurchase of the shares when they are offered. The resistance to surrender equity is strongest where sizable financing is sought from state banks.

The presence of bank appointees on the board which as a rule accompanies sizeable equity financing, may interfere with the decision-making process of the enterprise and as such hamper the efficiency of operations of the company.

Long-term lending which investment demands, like equity participation, also contributes its own draw-backs. As a general policy, development banks seek maximum security for their loans, while insisting on prompt payment and a proper use of the fund. Yet the security the borrower is expected to provide, may be, twice the amount to be borrowed depending on the credit worthiness of the borrower, the marketability of the pledged as security or other surrounding circumstances.

In Nigeria, in particular, the banks usually require, in addition to the first mortgage, the personal guarantee of the share holders or directors of the enterprise for the full amount of the loan and added to current assets, sometimes including receivables. Often alien may include not only the eligible assets but also assets that may yet be purchased by the company. Other share holders may be required to provide additional capital and to agree that they will not dispose of their shares without the banks approval. Banks may proscribe the payment of dividends or limit their amount. They may further require that they be consulted on proposed changes in management and may place limits to the compensation of directors and managers.

As a rule further borrowing, new loans and new capital expenditures may not be incurred without the prior consent of the bank (Maniatis, 1971). Depending on the size of the loan, banks may insist upon board membership as a means of keeping discreet eye on the operation of the enterprise and often influence policy decisions.

According to Maniatis (1971), "No matter how much a bank may pose its reluctance to interfere in a company's business, the need to protect its interest, especially where it is financially heavily committed, makes it impossible for it not to be some how committed.

There is no doubt that the contractual terms mentioned above are reasonable and purposeful. Nevertheless, such prudent and seemingly innocuous banking practices frequently result in the "de facto" surrender of the autonomy of the company and the taking over of the enterpreneural function. Companies are very sensitive to, and sometimes by the officious and inquisitive attitude of bank officials feel insulted and are particularly disturbed, having to get the approval of the custodian banker on major decisions. They dislike the directive activities and prying of state - controlled agencies and sometimes view equity participation as an incipient of Nationalism. Equity participation usually involves the disclosure of details and secrets of operations of the enterprise the owner would rather keep confidential.

Companies cannot take for granted the wisdom, expertise and commercial acumen of the bank staff and being skeptical and assertive by nature, are hesitant to accept their advice in matters of vital importance to their company. Moreover, the lack of business touch on the part of bank officials and often the self - importance and haughty attitude of bank officials are hardly conducive for the meeting of minds.

3.2.2. Sale of Shares.

Another method whereby a company can obtain cash is by the sale of new common stock (Baumol, 1972). The capital is divided into shares. These may be in units of 50k, 70k, N 1, N 5 and so on; but small denominations are usually preferred. There are a number of different kinds of shares and a company may issue two or three different types in order to attract different classes of investors, some of whom may be willing to undertake greater risk than others (Hanson, 1977).

The shares are divided into two major parts :- Ordinary shares and Preference shares.

Ordinary Shares.

Generally these shares carry no fixed rate of dividend and receive a share of the profit only after all other claims have been met. The dividends paid by firms producing goods for which there is a steady demand may not vary much and even the difference between the boom and slump may not be very great. Other firms may be greatly influenced by the general condition of trade and in a boom, dividends on ordinary shares may rise as high as 100 %, while in slump, it may fall as low as 0.5 % or even nothing at all.

Preference Shares.

These types of shares usually have a fixed rate of dividend, and their holders are paid in full before any payment is made to the ordinary share holders. To persuade people to invest in preference shares, higher rate of dividend has to be offered than the yield on government stocks.

There are several varieties of preference shares and hybrid types which combine features of both the ordinary and the preference shares. Two of these preference types of shares are :

1) Cumulative preference shares : which are entitled to receive arrears of dividends owing from previous years before any allocation of profit is made to the ordinary shares.
2) Participative or participating preference shares : where, in addition to their fixed dividend, a bonus depending on the amount of profit is payable.

The selling of shares is not without its problems. The sale of new stocks incur heavy transaction costs. These act as crucial deterrents which give management cause for hesitation. The enormous cost of preparing the information required by law, the severe penalties imposed if incorrect information is provided and the competitive disadvantage resulting from such a disclosure are among the most significant forces discouraging external financing.

Another problem is that of timing of the sale which incidentally, poses tricky diplomatic problem. If new stocks are sold when the market is abnormally high (so that a new stock holder pays a greater deal for a given share of future dividend) this is advantageous to old stock holders because it means that the new stocks have been obtained inexpensively. But if stock prices subsequently fall below their initial high values, the new share holders may be resentful. On the other hand, the sale of new shares when the market is low works to the disadvantage of the current share holders and the benefit of the purchasers of the newly issued stocks.

3.2.3. Debentures.

Another source of capital for investment is debentures. In addition to the various shares, a company may obtain further capital by applying to the public for a loan. This loan capital is obtained by issue of debentures. Debentures are not shares. The holders are creditors. They are entitled to receive interest whether the company makes profit or loss. Debentures carry a fixed rate of interest, usually a little lower than that paid on the preference shares. They are generally redeemable, that is, repayable at "par" at some future date.

Mortgage debentures are those issued on the security of the firm's assets.

3.2.4. Loans from Banks.

The modern financial system includes a variety of institutions at which individuals and groups can place funds and which in turn loan these pooled funds to those who wish to borrow. Many of these institutions go under the general term banks. Thus we speak of Commercial banks, Savings banks, Mortgage banks, Industrial banks and so on. "But when the word "bank" is used without a prefix, it generally refers to a particular type of institution - Commercial bank". Though the commercial bank has many features in common with other financial institutions, it is unique in one respect. "It is the only institution which accepts funds from the public in the form of demand deposit". That is deposit accounts which are subject to withdrawal by the owner on demand and subject to transfer to a third party by means of a cheque. Deposits at these other institutions do not circulate as money.

It is an accepted fact that commercial banks operate advances to customers and because these advances are from deposits from customers and the banks borrowing from the Central banks, they are mostly on short term basis and are expected to be repaid on or before some stipulated dates, unless in the case of special circumstances. The forms of advances include loans and overdrafts.

3.2.4.1. Bank Loans -:

This is another source of capital for investment. A customer, wishing to make an investment and faced with financial constraint approaches his bank for loan. After the bank has satisfied itself that this customer is credit worthy, by his provision of the securities or collateral which the bank has asked for, the loan may then be granted to him by means of loans account. Here the borrower's current account will be credited by the amount of the loan and at the same time a loan account for the sum will be opened. The borrower will pay interest on the full amount borrowed whether or not the whole amount loaned was totally drawn from the current account.

3.2.4.2. Overdraft

The next form of advance from the banks is in the form of overdrafts. Here, a customer of the bank, after arrangement draws a sum more than is in his account.

The banks follow strict instructions handed down by the Central bank; there are limits to the amounts that can be loaned out; there are certain procedures that must be followed before money leaves the bank in the form of loan. The commercial banks also adopt their own individual restrictions. Asking for securities from a borrower is deemed reasonable, but this could constitute a stumbling block to the wheels of investment progress, where the security demanded by a bank from a customer is double in value of the amount the customer wants to borrow.

The red-tapism that also follows an application for a loan from a bank, ending in the loan being granted much later, and possibly when the budgeted cost has suffered inflationary visit, makes the whole purpose of the move and even re - application absurd. These factors scare away the potential investors from approaching banks for loans. They would rather manage with their inadequate reserved or savings capital for the investment instead of suffering bank dribbles.

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CHAPTER FOUR.

4.0 PREMIER BREWERIES CAPITAL BUDGETING AND THE PROBLEMS OF FINANCIAL CONSTRAINTS

4.1 Problems of Financial Constraints

It is very clear that financial decision is an integral part of investment or capital budgeting. Instances are abound of investment decisions that have never seen the light of the day, because of financial constraint. In many cases also, investments or projects are started and never finished; those that eventually get finished have become obsolete long before they are finished. Some point accusing fingers on poor planning and poor budgeting; but most blame financial constraint.

My interview with the Financial Controller of the company revealed that the company had to shelve many projects because of their dogging financial problems, while some are yet to be finished. These problems arise as a result of the problems permeating the sources of capital exposed in chapter three. Personal commitments and that of relatives take heavy tolls on the profit of the companies. The banks have always been a source of problem to every investor. Before you will ever hope to get any attention from the banks on your proposed investment, you will first carry out a feasibility study, which itself takes a huge slice of the money in your pocket. It is only after this that the bank will consider whether to sponsor your project or not; this alone involves a lot of bank dribbling. For they feel happier when you are depositing than when you are borrowing, especially a borrowing that will dig a "big hole in their money". Their very slow procedural pace does not help matters.

Thus there is the question of Central Bank's instructed lending level. This, Igbokwe said has prevented the execution of some of the company's investment bids. Even when the company's bank agree to a syndicated funding, "we sometimes realize that their collective effort can only scotch the investment's expected cost for financial relief" (Onyekwelu, 1994). Under this situation, the company is pushed into making arrangements for the very costly "bankers acceptance" to augment the syndicated loan and group retained profit so as to, at least, make an impression on the investment's capital demands.

Again the trend of things in the country worsens the already bad situation. The ever-galloping rate of inflation in the country can dissuade potential investor. Presently, budgets are rendered absurd overnight. For example, the company recently budgeted for N 300,000 for wheat alone at the rate of N 500 per bag, only to find out that the same bag of wheat, a week after the declaration of the budget sells for N 800 per bag. And of course, as is common in the rise of components, the substitutes also assumed an astronomical rise; so the price of maize also increased.

The Financial Controller also pointed accusing fingers at the unpredictable Nigerian market, which is prone to a very frustrating change with the slightest provocation; leading to a very sharp fall in the budgeted income. This situation eventually inflames the already aggravated financial constraint position of the company.

When I queried him on why they do not avail themselves of the services of the government financial agencies, he was of the opinion that the government financial agencies have a way of trying to take over the operations and control or monitoring of all the activities of a debtor; and this, the company's investors can not tolerate.

The present financial constraint is also delaying the commencement of the production of Premier stout which was instigated by the ever-depreciating stance of the Naira.

There is of course no gain saying the fact that prevailing naira depreciation has a lot of effect on the economy of our nation. This explains why the United States of America does every thing in its power to ensure that the Dollar appreciates against other currencies in the world market. Acute financial constraints has in its wake, chains of effects - the nation faced with this constant battle hardly can be industrially viable especially from the angle of private sector. It is an acknowledged fact that companies absorb an appreciable number of any nation's labor force, hence, helping the government in its responsibility of providing employment for its citizens.

When a good percentage of the employable citizens of a nation are without jobs, the result will be, a fall in the level of standard of living; followed by a fall in the nation's revenue, and consequently a reduction in the income per capita of that nation.

Its extreme effect will be the grounding of that nation's economy. The danger therefore, inherent on the acute financial constraint can never be over emphasized.

In the face of all the intimidating problems heralded by the financial constraints for the company , I questioned on how the company has been able to brace these constraints and their attendant consequences and still seem to be singing success songs. In answer, the financial controller revealed that effective working capital management, portfolio management and capital rationing have rendered a lot of help.

4.2. Working Capital Management.

In the continuing struggle to make maximum use of the limited available resources and ensuring the effective operation of a company's daily business activities, there exists a need for the mapping out of the maximum liquid capital for the daily operations and effective control of such capital. These needs call for working capital management.

Working capital management itself is that part of the capital employed which is used to finance the operating assets of the organization, i.e. working capital include those assets used in the day-to-day operation of an organization as opposed to fixed assets. At any point in time, in any organization, it could be measured in terms of its relationship with current or short - term liabilities. Working capital is the liquidity required for the smooth running of every day operation of an organization. Increasingly, orgsanisations have shown the tendency to be more liquid (keep more money) and as a result, managing of working capital has assumed a very important place in financial management; not only are large gains made by good tactical planning but the consequences of neglecting liquidity factors can be disastrous. Lack of attention to working capital management may lead to technical insolvency. That is when an organization is unable to meet its cash obligations even though it is solvent in the real terms. It is often a prelude to legal insolvency.

However, a balance between liquidity and profitability must be maintained e.g. there may be a higher opportunity cost associated with available cash balance, that is, it may well be invested profitably elsewhere. Striking the right balance between liquidity and profitability involves the most efficient use of the resources open to an organization and this is the role of working capital management.

Judging the Efficiency of Working Capital Management.

The most used yardstick for judging the efficiency of working capital management is the current ratio, and the current ratio $= \dfrac{\text{current assets}}{\text{current liabilities}}$

The satisfactory norm accepted for current ratio is usually 2 : 1 (Anyanwu, 1994). But what may be a satisfactory ratio depends on the peculiar circumstances of the organization.

Another commonly applied ratio is the Acid Test which is:

$$\frac{(\text{Current assets}) - (\text{Stock})}{\text{Current liabilities}}$$

However, after all said and done, the efficient control of working capital depends on the accuracy of budgets, and which will be helped with these questions :

a) How much is to be paid and when ?

b) How much credit is to be allowed to the consumer ?

c) What is the expected level of expenses during the period?

d) Most importantly, what are the future sales or income going to be - credit sales or cash sales ?

Cash budget no doubts seem to be playing an essential part in the efficient working capital management.

4.3. Capital Rationing.

In financial scarcity, a good management or administrator employs the "lock - box plan system" and the capital rationing techniques. Capital rationing is a widely used technique in project selection and financial scarcity. Generally, firms take on investment to the point where, the managerial returns from the investment are just equal to their marginal cost of capital. They take such investments having positive net present value (NPV) and reject those whose net present value are negative. And then choose from those projects with positive NPV, i.e. those with higher net present value.

Under the condition of capital rationing, the net present value criterion may not give that ranking of projects which maximizes the profits of the firms. Capital rationing is a vital instrument and managerial apparatus in financial crises. If there is no financial constraint, capital rationing will not be entertained.

In summary therefore, management will go into such investment which has discounting cash flow higher than the initial capital outlay. That is one whose NPV is greater than zero. This illustration on capital rationing might make the explanation clearer.

Suppose an investor has N 100,000 and seven viable investment opportunities with different capital outlays and when totalled,

Illustration 4.1

Project	A	B	C	D	E	F	G
Cap.outlay	20000	30000	25000	40000	16000	10000	1500
G. profit	25000	35000	28000	48000	20000	13000	0
Net profit	5000	55000	3000	8000	4000	3000	1700
							0
							2000

is more than the capital available to the firm . How will you ration the capital ?

Considering the above, we could come to the conclusion - considering our financial scarcity - that the combination BDAF, having the total net present value of N 21,500 and the capital outlay of N 100,000 is the best combination that will give us the maximum benefit considering the limited capital.

4.4. Portfolio Theory Management.

Portfolio theory management is concerned with the problems of determining the best selection of investment to hold taking into consideration both the expected returns for individual investments and the risk attached to them.

One approach for the reduction of risk associated with any portfolio is diversification. Consider two investors A and B. A invests his total resources in the manufacture of luxury goods and B in the manufacture of substitute goods (a substitute good is one which can replace another good, eg. margarine instead of butter). The returns from A holdings will generally increase when the economy is booming, whereas a lower return will be expected in time of recession. On the other hand, B's investment will be expected to yield a better return when the economy as a whole is in recession, i.e. when the demand for substitute product will be higher.

Incidentally, a prolonged period of either recession or a highly economic activity would result in one investment given a very low or poor return. The exposure to these types of risk can be largely alleviated by diversification of investments. In other words, it would have been better to invest in both luxury goods and substitute goods so as to expect a stable level of return under any economic circumstances. The relationship between the two investments risks can be illustrated as shown below :

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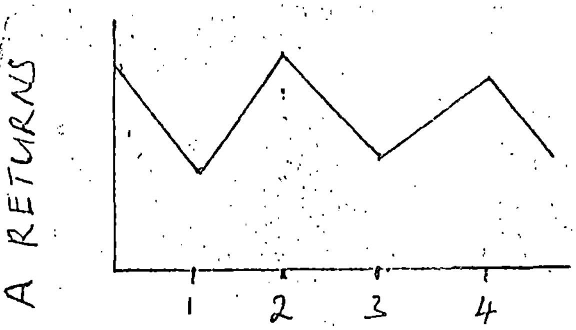
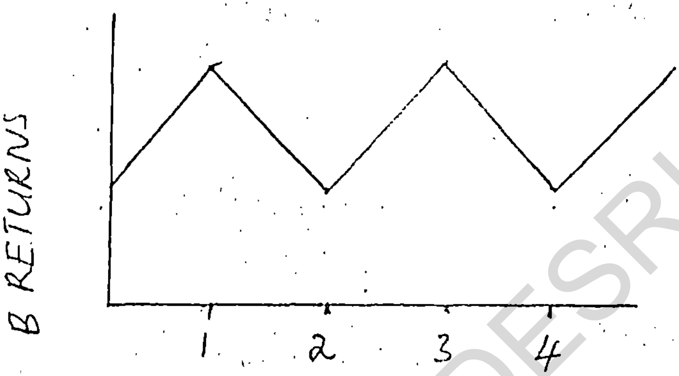
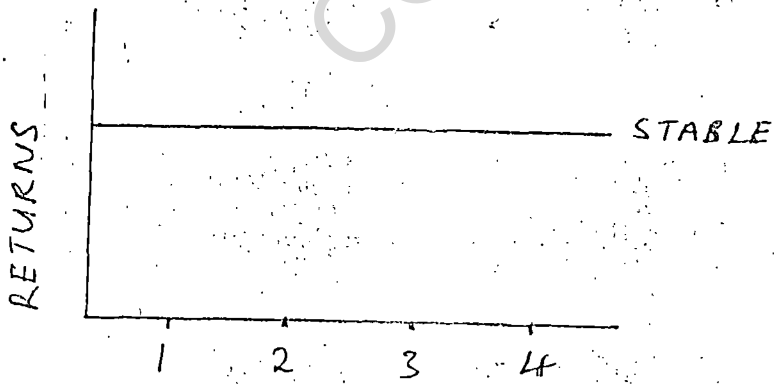


LUXURY GOODS



SUBSTITUTE GOODS



INVESTMENT WAS ON BOTH LUXURY AND SUBSTITUTE GOODS

CHAPTER FIVE

5.0 DATA ANALYSIS AND TESTING OF HYPOTHESIS

As is typical with the study of this nature, certain statements are meant to act as a form guide or parameter upon which one is expected tn one's quest for the exposition and solution of a problem. As a guide in my attempt to get at the root of the effects of financial constraint has on investment decisions, questyionnaire and interview schedule were used to elicit information for the two hypotheses for this study. The questions wee grouped under the two hypotheses for ease of analysis. The tables below contain the responses or frequencies by the respondents as calculated in percentages.

The first hypothsis states that ***"Scarcity of Financial" resources affects investment decisions negatively".*** The question asking for our attention now, is how the above statement is substantiated by my findings.

A total of 250 (Two Hundred and Fifty) copies of the questionnaire were distributed to the Staff and Management of the Company, out of which a total of 63 (Sixty Three) questionnaire were collected back from the Staff and Management of the company. The reason for such low return is the lack of interest showed by the workers who are not happy for the non-payment of their salaries and allowances that accrued to them coupled with politicisation of the organisation which was the order of the day at that particular point in time. Based on number however, the questionnaire that was collected was analysed as follows:

Table 5.1: WHAT FACTORS AFFECTS INVESTMENT DECISIONS IN THE COMPANY MOST?

	Number (N) = 63	Frequency (F)	Percentage %
a	Availability of financial resources	48	76.19
b	Profitability of the business	9	13.29
c	The decision of the Board of Directors	4	6.35
d	Others (specify)	2	3.17
		63	100

Table 5.1 shows that 76.19% of the respondents said availability of financial resources, 14.29% opined profitability of the business, 6.35% were of the view that it is the decision of the Board of Directors while 3.17% specified others based on the data contained in the table above, the majority of the respondents said that it is availability of financial resources that affects investment decisions most. The proportion of the respondents that held this view was 76.19%, which is a significant number.

Table 5.2: WHAT ARE THE MAJOR CONSTRAINTS TO INVESTMENT DECISIONS?

	Number (N) = 63	Frequency (F)	Percentage %
a	Finance	41	65.02
b	Company Policy	8	12.70
c	Decision of Board of Directors	7	11.11
d	Economic situation in the country	7	11.11
		63	100

Based on the above table, thehighest percentage response which is 65.02%were of the view that finance is the major constraint to investment decisions, 12 .70% affirmed company policy while 11.11% said that it is both decision of the board of directors and economic situation in the country. The picture that emmerge from the above table indicates that finance is a major constraints to investment decisions representing 65.02%

Table 5.3: HOW WOULD YOU ASSESS THE FINANCIAL POSITION OF THE COMPANY?

	Number (N) = 63	Frequency	Percentage %
a	Excellent	2	3.17
b	Good	5	7.94
c	Fair	28	44.44
d	Poor	15	23.81
e	Very poor	13	20.64
		63	100

From table 5.3, it is clear that 3.17% were of the view that it is excellent, 7.94% said good, 44.44% affirmed fair, 23.81% stated poor. Based on the information contained in the above table, one can safely conclude that the financial position of the company is not encouraging.

Table 5.4: ARE THERE UNCOMPLETED PROJECTS IN THE COMPANY?

	Number (N) = 63	Frequency (F)	Percentage %
a	Yes	63	100
b	No	0	0
		63	100

The table above shows that 100% of the respondents said Yes while none said No. This means that uncompleted projects existed in the company.

Table 5.5: IF THE ANSWER TO QUESTION NUMBER 4 (FOUR) ABOVE IS YES,IN YOUR OWN OPINION WHAT DO YOU THINK IS THE REASON FOR THE UNCOMLETED PROJECT?

	Numbers (N) = 63	Frequency (F)	Percentage %
a	Finance	27	42.86
b	Economic situation in the country	14	22.22
c	Company policy	14	22.22
d	Decision(s) of Board of Directors	8	12.70

The data contained in the above table shows that 42.86% said finance, 22.22% confirmed Economic situation in the country and company policy while 12.70% indicated decision of the board of directors. This goes to show that finance is the major factor responsible for the non-comlpetion of the projects represented by 42.86%.

The second hypothesis states that "Lack of proper diversification of sources of revenue is a contributory factor to the financial constrained position of the company? Questions relating to the above hypothesis are contained in the questionnaire and interview schedule. They are analysed as follows:

Table 5.6: WHAT ARE THE SOURCES OF REVENUE TO THE COMPANY?

	Number (N) = 63	Frequency (F)	Percentage %
a	Retained profits	13	20.64
b	Depreciation allowance and equity financing	8	12.70
c	Sales of shares	20	31.75
d	Loans from Banks	22	34.92
		63	100

The above table shows that 20.64% said retained profit, 12.70% were of the view that it is depreciation allowance, 31.75% stated sales of shares while 34.92% confirmed loans from banks. The picture from the above table shows that the major sources of revenue to the company is banks loansand through the sales of shares. These bank loans are not easy to get because of the cut-throat lending rates. Also the trend of things in the country worsens the already bad situation. The ever-galloping rate of inflation in the country dissuades potential investors from buying shares which is not to the advantage of the company.

Table 5.7: HOW WOULD YOU ASSESS THESE SOURCES IN TERMS OF DIVERSIFICATION?

	Number (N) = 63	Frequency (F)	Percentage %
a	Well diversified	2	3.17
b	Fairly diversified	13	20.64
c	Poorly diversified	43	68.25
d	Not diversified	5	7.94
		63	100

This table indicates that of the respondents, 43(68.25%) which is the highest were of the opinion that it is poorly diversified, 7.94% said it is not diversified, 20.64% admitted that it is fairly diversified while 3.17% concluded that it is well diversified. Based on the information contained above 48(76.19%) confirmed that the diversification is nothing to write home about which is quite a significant number.

According to the annual report by the Chairman of the company, Prince Engr. Arthur Eze, the economic environment under which the company operated was simply chaotic. The measures put in place by government to check - mate the economy from further drift failed to achieve the desired result. Consequently, this led to the numerous problems that created unfavorable economic environment under which the company operated. A few of these problems were summarized as follows:

a) High cost of capital - exacerbated by inflation and high budget deficit spending;

b) High distribution cost - vehicle maintenance cost was prohibitive; government rebates on commercial vehicles and spare-parts import not withstanding, as bad roads wrecked havoc on haulage trucks;

c) High cost of spare - parts for the aged production machineries due to low exchange value of the Naira to other international currencies;

d) General upward price movement which, as an index of inflation, affected most of the raw material inputs, thereby eroding the additional inputs;

e) Shrinkage of the market due to low income of the consumers contributed to the odds of the period.

All these, according to the 1993 annual report, contributed to the consistent and remarkable shortfall in the revenue that accrued to the company. The shortfall in the revenue that accrued to the company for the past four years (1989 - 1993) is presented in Table 5.1 below.

Before the 1989/90 financial year, when the economy was booming, there were no significant shortfalls in the expected revenue that accrued to the company, because, the company was properly financed. This was evident in the 1986 and 1987 financial years when the company received the sum of N 90,000,000 and N110,000,000 respectively, which was even more than the expected

Table 5.8: **Shortfall in the Expected Revenue that accrued to the Company.**

S/NO	FINANCIAL YEAR	AMOUNT EXPECTED IN NAIRA	AMOUNT RECEIVED IN NAIRA	SHORTFALL IN NAIRA
1	1989 / 90	170,625,000	139,480,000	30,785,000
2	1990 / 91	193,151,000	155,210,000	37,941,000
3	1991 / 92	200,000,000	156,948,737	43,051,263
4	1992 / 93	220,000,000	171,732,544	48,267,456

Sources:

Premier Breweries PLC (1991): Annual Report and Accounts
Premier Breweries PLC (1992): Annual Report and Accounts
Premier Breweries PLC (1993): Annual Report and Accounts
revenue of N 85,000,000 and N 110,000,000 respectively.

Based on these, Premier Breweries PLC, embarked on some projects expansion programmes, which include the production of local raw materials like maize and sorghum which serve as a substitute for barley; the construction of a branch brewery at Enugu; the site development, earthworks and foundation for steel structure which were completed at the cost of over four million naira (Premier Scope Vol.1, 1986). To further widen the company's catchment base on its market share, the management decided to diversify its products range by the introduction of a malt drink and the establishment of a subsidiary company, Premier Breweries Eastern Plastics Limited, Emene. Premier Breweries PLC, has also been at the vanguard of local raw material substitution. In 1983, it brewed the famous "femos" larger beer which was commissioned by the Federal Institute of Industrial Research, (FIIRO), Oshodi. The "Femos" larger beer was produced with 25 % local raw materials (sorghum). In a bid to achieve the objective of using 100 % local raw materials to produce beer, Premier Breweries PLC, in 1987 launched a new brand of beer known as Masters larger beer. The company also exported its products to other African countries, especially ECOWAS countries.

The compny's problems (financial crisis) started in the 1989/90 financial year, when, following the wholehearted acceptance of the beer by the public, the company went ahead to acquire 5,000 hectares of land at Adabaa in Uzo-Uwani Local Government Area of Enugu State for the large-scale cultivation of maize and sorghum which are local substitutes for malted barely. Also to create awareness for the company's products, the management in the same financial year formed Premier Breweries Football Club of Onitsha, which served as a major source of advertising the company.

However, in 1990/91 financial year, following a shortfall of N30,785,000 the previous year, the management decided to transform the structures of the branch brewery into infrastructures for malting of sorghum as the then existing economic climate, coupled with the proliferation of breweries in the country, did not augur well for the establishment of a branch brewery. The management procured Mash filter. This enabled the company to increase the input of local raw materials in production. Proposals were also made for the total overhauling of Line III used for the production of beer. These were estimated to cost N 20 million.

In 1991/92 financial year, the company disbanded the Premier Football Club as a result of a shortfall of N 37,941,000 from the expected revenue the previous year. The management decided to channel the money used for the sponsoring of the club to the installation of the Mash filter and total overhauling of Line III. Unfortunately, due to the continued depreciation of the Naira, the cost of these projects quadrupled. Instead of the N 20 million previously estimated, the revised estimate of the projects jumped to N50 million. Since it was crystal clear that the amount could not be sourced internally and the banks did not provide a better alternative due to high interest rates, as the only way out, the management embarked upon partial reactivation exercise of Line III and some bottling began in the line, pending the total overhauling exercise. This had the overall effect of low capacity utilization and the erosion of the expected gross contribution during the year under review.

Also, as the shift of consumption habit of consumers to the non-alcoholic beverage became more prominent the Board, in anticipation of the likely effect on the market share, put in place plans to expand and sustain the company's grip on the market. Accordingly, proposals were made to convert bottling Line II, then used for bottling beer, to a malt bottling line. It was estimated that the conversion project cost the company N 12 million. Also because of the stiff competition from other breweries, the Premier Brewery introduced a second malt drink into the market. The introduction of this variety of malt drink was only a quality change in the existing malt production to give a different taste and so attract consumers patronage.

However, in the 1992/93 financial year the management decided to phase out the production of the second malt as a result of financial constraint coupled with the shortfalls in the expected revenue which jumped to N 48,267,456. The Premier farm in Uzo - Uwani, which was formerly consolidated was also phased out.

One can safely conclude, based on the findings, that "Scarcity of financial resources affects investment decisions negatively" and that the economic climate under which the company operated was a contributing factor to the consistent and remarkable shortfall in the revenue that accrue to the company. These revenues declined as the company's investment bid increased. For the company to cope with the performance of her duties, the investment bid of the company should be directly proportional to the available fund (expected revenue).

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CHAPTER SIX.

6.0 CONCLUSION AND RECOMMENDATIONS.

6.1 Conclusion

In the course of this study, attempts have been made at exposing the problems that are created by financial constraints, which include poor investment or limited industrial development, which has the cumulative effect of generating unemployment. These ills of financial constraints were proved in the hypothesis. I also took a look at the theoretical framework on which this study was based, which consists of Herbert Simon's "Behavior alternative model" which is a rational comprehensive approach to investment selection or choice, used in both a financially plentiful situation and financially constrained period. There was also the portfolio management theory which ensures a proper investment diversification, and is most welcome in a financially constrained period.

My attention was also focussed on investment appraisal techniques, embodying the payback period method, the return on investment method and the discount cash flow method otherwise known as D.C.F.

I did not loose sight of my special area of concern - financial constraints; so I took a look at the sources of finance open to the company which include plough back, involving personal savings, retained profits, depreciation allowance (allowance backed by tax law to deliberately provide fund for the replacement of an asset when it is "dead" from use). These I called internal sources of capital. The external sources include Bank loans, Overdrafts, Selling of shares, Equity financing, Borrowing from the public in the form of debentures etc.

I also looked at the financial management of the company which consist of working capital management, capital rationing and proper portfolio management.

The hypothesis was then exposed to the facts encountered in the research to attest the claim of the hypothesis or denounce it.

From the above, one can safely conclude, based on the findings of this study, attested to, by the findings exposed in Premier Breweries PLC, that the effects of financial constraints are always present at varying degrees in any investment decision and also that lack of proper diversification of revenue is a contributing factor to the financially constrained position of the company.

6.2 Recommendations.

After testing the hypothesis, the following recommendations were arrived at :

1) In selecting investment, utmost care should be taken, even after a proper analysis or appraisal had been taken care of. This is because in some situations, two viable projects might reveal identical cash flow through a reasonable number of years, but with one promising some cash flow after the maximum of years forecasted. I advise here what is called "Ranking by inspection", in which case the project with more number of years of cash flow is ranked first and chosen first before the other.

2) The company should try as much as possible to, except in certain necessary areas, avoid interfering in the stock exchange market so as to allow the stock a free hand to respond to market demands. The security holders themselves should be educated on the profit of stock speculation instead of their

tenacious holding to the stocks and certificates. Financial investment should be encouraged and more stock markets created at various locations and people educated on the advantages of stock investments.

3) The investors are advised to always examine as background perspective, the dynamic behavior of the security market and subsets of the market over a considerable period of time. This will enable them to establish their investment objectives and strategies in the light of their investment constraints and investment returns that they are willing and able to assume.

4) Furthermore, to keep in full view their goals, policies, strategies and constraints while selecting particular securities based on elaborate and carefully planned security analysis.

5) As a supplement to traditional financing of investment, I suggest a rigorous pursuit of industrial lease. A lease ensures a businessman's command over a much larger amount of capital than would be secured by long - term borrowing. An enterprising individual or company with limited capital can under this arrangement secure the use of industrial facilities and eventually become the owner of an enterprise. It ensures control by management over a greater volume of assets with minimum interference of the lending institutions in the affairs of the enterprise.

6) There should be more conscious and systematic effort in managing the available fund in order to generate more fund. Attempts should be made to include financial management experts within the hierarchy of investment policy-makers. This would ensure that portfolio theory or management and

other financial management techniques will be effectively utilized before investment decisions are taken. This will help to reduce investing the meager resources available into unprogressive and unprofitable ventures.

7) Finally, although the financial control mechanism in the company is good, it could be made better if the quality of staff who supervise the control checks or measures is raised more than what it is now. Conscious efforts should be made to assign men and women of proven integrity to the control positions. Those in the control positions should be made to understand clearly the working of the system by organizing lectures, tutorials and seminars. It could also be improved upon by granting study leaves with or without pay to the serving staff. There is strong evidence, that if all or some of the recommendations above are adopted, the effects of financial constraints on the investment decision of the company can be greatly improved. This is because the recommendations are based purely on empirical findings.

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APPENDIX A

Sub-Departmental of
Public Administration and Local
Government

Universty of Nigeria
Nsukka

23rd September, 1995.

Dear Respondents,

This question is about a research conducted to assess the effcts of scarcity of financial resources on Investment Decisions pf Premier Brewery Plc., Onitsha.

We therefore solicit your maximum cooperation in filling or completing the questionairehonstly and to the best of your ability, to enable us to evaluate the effects of scarcity of financial resources on investment decisions in order to make appropriate recommendations.

Please, be rest assured that all information supplied would be treated as confidential and secret, therefore you need not write your name.

Thanks for your anticipated co-operation.

Yours sincerely,

EMEROLE, O.B.

APPENDIX B

QUESTIONAIRE

(1) What factors affects investment decisions in the company most?

(a) Availability of financial resources [ ]

(b) Prifitability of the business [ ]

(c) The decisions of the Board of Directors [ ]

(d) Others, please specify ....

....

(2) What are the major constriants to investment decisions?

(a) Finance [ ] (b) Company policy [ ]

(c) Decisions of the Board of Directors [ ]

(d) Economic situation in the country. [ ]

(3) How would you assess the financial position of the company?

(a) Excellent [ ] (b) Very Good [ ] (c) Good [ ]

(d) Fair [ ] (e) Very poor [ ] (f) Poor [ ]

(4) Are there uncompleted projects in the company?

(a) Yes [ ] (b) No [ ]

(5) If the answer to question number four (4) above is Yes, in your opinion, what do you
think is the reason for the uncompleted projects?

(a) Finance [ ] (b) Company policy [ ]

(c) Economic situation in the country [ ]

(d) Decisions of Board of Directors [ ]

(6) What are the sources of revenue to the company?

(a) Retained profit [ ]

(b) Depreciation Allowance and Equity Financing [ ]

(c) Sales of shares [ ]

(d) Loans from Banks [ ]

(7) How would you assess these sources in terms of diversification?

(a) Well diversified [_]

(b) Fairly diversified [ ]

(c) Poorly diversified [ ]

(d) Not diversified. [ ]

APPENDIX C

INTERVIEW SCHEDULE

Documentation and Information Centre CODESRIA
CODICE

(1) What are the actual and expected revenues of the company during the period 1989 to 1993 financial years?

(2) What are the investment decisions over this periods?

(3) Mention the raw materials used by the company.

(4) What are the company's sources of raw materials?

(5) What are the possible substitute to these raw materials?