CORPORATE FINANCE AS A TOOL FOR RESCUING DISTRESSED BANK

A CASE STUDY OF TROPICAL COMMER1CAL BANK AND ITS SURVIVAL STRATEGIES.

BY

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DECLARATION

I, Mohammed Kabir Shittu, with registration number G97BAP 7119, hereby declare that this research study is original and a product of my research findings and that I am responsible for any error of commission or omission.

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CERTIFICATION

This project work entitled Corporate Finance as a Tool for Rescuing Distressed Bank: by Mohammed Kabir Shittu meets the regulations governing the award of degree of Masters of Business Administration (MBA) Ahmadu Bello University, Zaria and is approved for its contribution to acknowledge and literacy presentation.

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DEDICATION

This research study is dedicated to my ever loving and affectionate mother - Malama Hauwa'u Shittu whose hardwork and determination has enable me to attain this level in my educational career and to my late Father Shittu Umar.

ACKNOWLEDGMENT

All praise be to Almighty Allah, the cherished and sustainer of the world. He who thought the use of the pen and taught man that which he knows not. He who inspires in me the will, the strength, the desire for knowledge and the vision to write this project.

A tribute goes to my supervisior.

For his effective supervision and endurance throughout my project time. An a warm thanks goes to my course coordinator.

With gratitude to Allah, I wish to extend my sincere appreciation to my mum and the rest members of my family for giving me all the encouragement and support especially during hard times. Also my special thanks goes to my wife for standing before me at a time when I need special care and advises.

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ABSTRACT

In Nigeria, the Banking industry witnessed a phenomenal increase in both size and types of Banks, due to the introduction of Structural Adjustment Programme (SAP) in I90G and the subsequent deregulation of the economy in 1987. This led to a stiff competition and coupled with adverse economic forces, it led to the emergence of distress in the Nigerian banking system.

Considering the prevailing situation in the banking sector made it necessary for banks to look for ways by which they can survive the wind of being distressed. These ways are very many, but for the purpose of this research, we consider corporate financing. Because business today is conducted in an age of economic crisis and highly complex technology. This imposes, on business management the need to make sound financial decisions based on the analysis of financial implications. Effective and efficient use of funds will have more positive impacts not only to the organisation or its employees but also the entire society.

In this research we will see how effective financial management in business organisations have direct impact on distressed banks, an example of which is on Tropical Commercial bank.

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CHAPTER ONE

1.1 INTRODUCTION

Business is a dominant and prevailing aspect of every society regardless of its political or economic ideology. In modern times, nations and societies are measured and rated by the success of their businesses. Economic and industrial development are measured in terms of business success. Thus, the more successful business organisations are in given economy, the more prosperous and affluent that society becomes. Ordinarily, everyone is dependent on business organisation for the supply of goods and services. A good number of people in the society are also dependant upon businesses for employment.

Finance is an essential element for all economic activities. The procurement and use of finance however, have their own limitations. It is an accepted situation that the sources of finance, and the contribution of those sources to the supply of funds are so limited that management is always faced with a situation of scarcity of resources. It is certainly impossible for any organisation to finance all development proposals at the same time.

The financial requirements of an organisation therefore always exceed the amount available to that organisation hence the need for efficient and effective management of finance.

Financial management is the process of utilizing limited resources by making a realistic allocation off priorities thereby effecting carefully calculated choices between urgent 'and less urgent proposals. Effective utilization of resources is vital for an optimal growth of any organisation. This establishes the need to apply maximum economy in the use of resources as an aid to effective management of finance for the development of the organisation.

Business today is conducted in an age of economic crisis and highly complex technology. This imposes, on business management the need to make sound financial decisions based on the analysis of financial consequences of actions taken, or to be taken. Efficient and economic utilization of funds should generate a chain of benefits not only to the organisation for its employees, but also the entire society.

1.2 STATEMENT OF THE PROBLEM:

The scarcity of loanable funds for investments from the banking industry has made the procurement of finance for industry, commerce and agriculture in a developing economy like Nigeria a very herculean task. There is therefore need for identifying and properly articulating investment proposals and in this case facilitating the establishment of institutions like the stock exchange to fill specific gap in the financial system.

The problem of finance of a long-term nature for industry, commerce and agriculture can therefore be greatly alleviated if there exists a financial market, e.g. stock exchange, which will perform two major functions of primary and secondary activities. Firstly to facilitate the distribution of new issues of financial instruments and secondly to facilitate the transfer of ownership of outstanding financial instruments between economic units and different sectors of the economy.

Also in existence is the problem of recognising potential available sources of investible funds in Nigeria and the need to increase the total volume of investible funds.

There is also the problem of making arrangements for receipts and handling of applications within the capital market. Therefore, some existing institutions like Union Bank, United bank for Africa etc play an important role in providing for an

orderly registration of ownership of securities as well as devising methods for transfer of ownership and for selling the securities to the public.

There is also the need to reassess the criteria for corporate finances as it affects business in a recessed economy becomes imperative, especially so when its businesses (big and small) are getting distressed.

1.3 OBJECTIVES OF THE STUDY:

For the purposes of this research or project, the following objectives will be borne in mindq

1. To identify problems of investment management both internal and external;

2. To find out the criteria used by the investment executives in managing investment during the period of depressed economy;

3. To identify areas of minimum risk venture in a depressed economy;

4. To also sort out methods and means by which investors can be guaranteed to invest their money with less risk venture so that the economy can pick up (expansion period) for more business activities;

5. To further analyse other causes of distress in businesses i.e. management or mismanagement and lastly;

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6. To provide solutions and recommendation to the problems identified.

4. HYPOTHESIS:

The following three hypothesis were formulated for testing. They are:

1. Corporate finance inadequacy is the major cause of distress in banks.

2. Investment mismanagement has direct consequencies on distressed banks.

3. Faulty corporate finance sourcing is a major characteristics of failed banks.

1.5 SIGNIFICANCE OF THE STUDY:

The research will be of extreme relevance to the financial institutions and governmental policy makers. It will also contribute immensely to the academic, financial and mass media practitioners due to its depth, content and currency. Corporate finance as a vital tool for resuscitating failed businesses deserves particular attention. Most businesses fail because they patronized the wrong source or source the wrong amount, misapply the right amount etc. This thesis will deliver on this and many more.

It also proffered solutions and recommendation to ameliorate the present and future business crises.

1.6 SCOPE OF THE STUDY:

From all indications, the scope of this thesis is certainly a very large one, how can one aggregate all distressed and crisis ridden businesses and analyse them? Due to this limitation, the Tropical Commercial Bank Plc is analysed. It was hoped that as a sample this would be sufficient since banking constitutes the most distressed business. They are the common most visible case rampant in the economy.

1.7 LIMITATIONS OF THE STUDY:

In undertaking a research project of this nature, one cannot escape some problems which are associated with the task. Such problems are: information collection/collation, limited time and financing of the project. , Sourcing information for this thesis proved to be a very difficult task. The management of most distressed banks proved very uncooperative. Tropical Commercial Bank proved to be the only saving grace. Even at that, its management divulged only through pleas. The economic reality also took its toll, transportation cost was enormous. Combining official work and still make time for this project is another constraint worth mentioning.

Lastly all the impediments not withstanding, care an precision were not discarded.

1.8 A BRIEF HISTORY OF TROPICAL COM ERCIAL BANK PLC

This bank was established in 1974 as a limited, bility company with the name of Kano cooperative Bank Limited by the then vernment of late Alhaji Audu Bako, with active proposal and support of so Kano civil servants. It was modelled after the Kaduna co-operative Bank. T initial idea was to run the two together but decision was taken by Kano Sta to go alone. It commenced business on the 1st April 1976, share holdin at n then was:-

Authorised capital - N3,000,000.00 of ch

paid up capital - N1,497941.00

SHARE HOLDING

Kano State Government	-	31 %
Co-operative Movements (5% each)	-	35%
Local Governments	-	25%
Others	-	9%

Authorised share capital later raise ,0(00.00 with the creation of more local governments. Since 1988 its na va: an, d to Tropical Commercial

Bank Limited to become a full fledged commercial bank. In response to the demand of the Central Bank of Nigeria for Commercial Banks to raise capital base to N50m, the Bank has to source funds as it had only N20,249,922.00 in 1991 as paid up capital.

Private individuals had to be brought in, making it go public, changing its name to Tropical Commercial Bank plc, issuing shares to the public. Now the individual investors had about 75% controlling shares. This mark a shift of ownership, control and focus. Ownership change bring along managerial changes and re-organisation, as old hands could no longer be relied upon to withstand the present competitive atmosphere.

OBJECTIVES:

Initially it was meant to offer financial support and advice to co-operative movements and cooperative societies in the old Kano State. This was the direction from 1976 to 1988; a non-profit making venture with civil service orientation, salary structure, bureaucracy, government subsidization and guarantees of loans advances. Then came a sudden change in the early 1992. A complete orientation of competing with the commercial banks in Kano. Up to now there was no defined policy objectives clearly spelt out and documented for guidance and reference to shareholders of the banks, technically Tropical Commercial Bank should be seen to start real commercial banking from the 1990.

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BRANCH NETWORK:

Initially it started with only one branch at No. 10E Bello Road in 1976. As of May, 1991 it had 2 area offices and 23 branches up 1994. Located mostly in the rural areas of Kano and Jigawa State only Apapa and Abuja branches are out of old Kano State.

SERVICES OFFERED:

a. Current Account Deposits
b. Savings Accounts
c. Short term and fixed deposits
d. Loans and Advances
e. Treasury and Money Market activities
f. Lease financing
g. Documentary letters of credit.

STAFF AND MANPOWER DEVELOPMENT

Staff were initially recruited according to the civil service procedures. It had a staff strength of about 400. But as it changed status reduction or rationalization was started. Similarly new policy defining entry point qualification and with experience for all categories off staff had been released.

The training school has been trying to up-grade the calibre of all staff through various training methods as well as management development programmes.

TROPICAL COMMERCIAL BANK SURVIVAL/TURN AROUND STRATEGY

Tropical Commercial Bank like most State Government owned banks operated with all the associated inherent problems of political interference, but somehow it escaped the big hammed of the CBN - NDIC when most of its peers were going distressed. This thesis also analysis that happened, when and how. Thus it is a comparative study off two periods the past and the present i.e. prior to 1995 and from then to date. It also analyses its survival or turn around strategies to help other distress bank follow their footsteps.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

A major problem facing most developing countries has been identified as that of capital formation. This has been manifested in the form of low national domestic (savings and low domestic investment). The task, therefore, before most less developed countries (LDCs) is that of mobilizing savings for effective utilization. In this regard, they have resorted to raising the level of financial intermediation. This is in recognition of the already established hypothesis by Goldsmith, Gurley and Saw, Patrick, Porter, supported also by a number of recent writings that improvements in the financial intermediation on process are necessary for economic growth and development.

In the savings - investment process, financial intermediaries are seen as a means of raising the savings - investment levels and to allocate more efficiently, scarce savings among alternatives. For instance an economy without financial assets would not match savings and investments, assuming there is no trading in tangible assets. In other words, each spending unit (government or private) would tend towards a balanced budget position. This will lead to inefficient allocation of resources since people cannot over spend for viable projects which ought to yield higher returns. They therefore go for inferior projects.

Financial intermediation provides avenues for people to spend above their earnings inorder to increase production and efficiency of the economic system. While others can save in excess of their real investments through accumulation of money.

The role of capital formation in the development process has been explicitly recognized since the inception of the science of economics. There has, however, been quite a substantial disagreement on the enact nature and magnitude of that role; hence the changes in emphasis given to the importance of capital vis - a vis other ingredients of development through times.

The intent of this write - up is not just to analyse how businesses source their capital butal so how they utilize same rationally to achieved desired objectives especially at atime when business failure is so common place.

2.2 AN OVER VIEW OF CORPORATE FINANCE

Efficient financial management is essential to productive utilization of sources. Productive utilization of resources is mainly an organisation of men, material, machines and money. If the available resources in these forms appear to be inadequate, perhaps management needs to sipplment them through extra effort. Effective management therefore involves the co-ordination and intergration of physical, financial and human resources.

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2.3 FINANCIAL PLANNING

Planning is an organised and methodical procedure by which management can obtain maximum realisation of its objectives with available resoucres or can achieve specific targets at least cost. It is a choice between alternatives and an allocation of available resources among the selected programmes in a manner that the scarce funds receive optimum utilization. This mainly involves responsibilities of estimating costs, determine priorities and allocating resources. While plans guide objectives and policies, the execution is a matter of receiving and using funds. Financial planning therefore, is an arrangement of resources meant to avoid having idle resources or acute shortage of funds. A good financial plan should incorporate the following.

a) Determination of the proper amount of finance required to run the corporation, ie. how large it will be and how fast it will grow,

b) Determination of the form of finance suitable to the programme, ie, the composition of liabilities, and

c) Determination of the techniques of financial administration appropriate to the nature of capitalization.

An ideal financial plan should also incorporate the characteristics of suplicity, fore sight, flexibility, liquidity, economy and utility. The success of a financial plan largely depends upon the amount and types of funds required, and the facility and promptness with which the required funds are obtained.

The demand for capital always exceeds its supply. Both the private and the public sectors therefore have limited access to the procurement of capital. This necessitates a sound capital structure, particularly in commercial concerns combined with adequate employment of capital so as to earn reasonable return on capital employed. The financial requirements have to be judged on the basis of their amount, term (i.e long, medium or short-term) purpose and source. This judgement paves way for efficient utilization of resources as measures of success and growth, and this encourages self-sustained progress (i.e. by plunging back profits or by minimising costs). All these considerations therefore, form part of vital decisions which involve financial planning and control based upon a proper choice of alternatives, which inturn leads to a sound system of priorities.

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2.4 DIMENSIONS OF CONTROL:

Control is the basic of management. But good management does not wait for external control, it includes a system of control which is a built in process for the

corporation. Internal control is an attempt to develop efficiency of operations, safety of assets and reliability of records. The techniques of internal control have assumed such as important role in modern management that financial organizations cannot afford to ignore their application.

As an essential tool of financial management the system of internal control expects that in a corporation, (i) the responsibilities are defined and allocated (ii) duties are delegated and demarcated (iii) access of assets is limited to authorised personnel, (iv) transaction are approved by appropriate authorities, (v) records are supported by documentary evidence (vi) personnel devote their sincerity to their job (vii) operations receive continuous supervision, and (viii) results are revealed as frequently as possible.

For these areas to be successful, there is the need for profer decentralization of authority, clear formulation of policy, occasional transfer of responsibility and adequate encouragement of talents and ability. When combined together as a consistent system, they become so relevant to financial management that modern auditing places greater reliance upon the internal control as a basis of accounting efficiency. Even before a critical review of accounts in a corporation the auditor wants to ascertain the system of internal control, records it, and then carries out further work in the areas that the evaluation has shown to be weak, it is, however, necessary that internal administrative controls are also supplemented by the tools of financial control. One such important tool of financial control is the budgetary system which serves as a method of exercising discipline over limited supply of resources.

2.5 CAPITAL STRUCTURE

The amount of capital a business organisation needs is not the only consideration. Equally important is the capital mix, i.e. the composition of its types of financial structure. The relative proportions of the types of capital employed in the organization is known as gearing ratio.

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Given knowledge of the organization's total funds requirement over time, the financial manager is faced with financing decisions as to how much will be equity money, representing the funds owned by the shareholders and how much will be borrowed. The actually make the decision as to which alternative to choose, it is necessary to examine a number of different areas that will make the decision easier.

2.6 WORKING CAPITAL MANAGEMENT:

Capital requirements may be either for long or short term. Generally, long-term capital requirements constitute the fixed assets of the corporation. However, short-term capital requirements fall into the category of working capital, and its management is a relatively more continuous process. Working capital management involves the administration of current assets of which are normally converted into cash within one year namely cash and marketable securities, receivables and inventories, and the administration of current liabilities.

Working capital management is based on the concept of liquidity i.e. the cash position of a corporation and its ability to meet its current obligation. Liquidity management helps to avoid the possibility of insolvency. It needs proper sources of finance, bearing in mind, costs and benefits. While internal financing will depend on the capacity and policy to retain earnings, external financing is governed by the conditions of the capital market. Sound management of corporate finance, therefore is represented by the effectiveness with which the corporation has been able to build up its own resources and the way it has achieved self reliant growth.

2.7 SOURCES AND COST OF CORPORATE FINANCING:

Various sources of financing are available to the corporation. Each has certain characteristics as to set and other terms imposed by the supplier of capital. On the basis of these factors management must determine not only the right amount

of finance the corporation requires but also the mix of financing which best suits the requirements of the corporation.

The sources of finance are divided into short, medium and long term. It is often difficult in practice however, to distinguish among these. If, for instance, a short term loan is repeatedly renewed when the agreed term expires, it may become effectively a medium or even long term loan, except there is the risk that it will not be renewed when each agreed term expires. To avoid complications therefore, the sources of finance will be considered under short and long term for the purpose of this study.

A. FINANCING: SHORT TERM SOURCES AND COST:

i. Trade Credit

One form of short term financing is simply to take advantage of such credit as suppliers will make available to the extent that goods supplied are not paid for immediately, the buying corporation obtains trade credit because its inventories are financial by the supplying corporation. The corporation using this means of financing will record the debt as 'account payable'.

Trade credit is a 'account payable'. Trade credit is a 'spontaneous' and some time free source of finance to a corporation. It is spontaneous in the sense that it arises from ordinary business transactions. Since trade credit is relatively early to obtain, accounts payable usually represent a larger share of the assets and inventories of smaller corporations.

The cost implication of financing by means of trade credit is that there is free capital during the discount period and tends to be very expensive if the discounts are not taken. A typical example is where the seller offers 55% discount if the invoice is paid within 10 days of receipt, but offers no discount if the payment is delayed for a further 20days. If a corporation receives an invoice of N 10,000:00

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under these terms, and decides to pay after 30days and loose that discount it would in effect have the use of N9,500 (i.e N10,000-N 500) for the additional 20days This expressed as an annual interest would be:

$$\frac{\text{N 500}}{\text{N 9500}} \times \frac{\text{365days}}{\text{20days}} = 96\%$$

(ii) **COMMERCIAL PAPER:**

This is a form of financing available to large corporation having un impeachable credit ratings. If consists of shot term unsecured promissory notes of large corporation and is primarily sold to other business concerns, insurance companies, and banks. Maturities of commercial paper are always less than 270 days, and generally range from 2 to 4 months. The use of commercial paper is attractive to corporations because it provides funds at some what lower rates than do other methods. The use of commercial paper market, however, is refracted to a cooperatively small number of corporations with exception good credit risks.

A basic limitation of commercial paper market is that if largely depends upon the availability of short-term excess liquidity in the non-financial corporate sector at any particular time.

(iii) **Bills of Exchange**

This is an arrangement by which the indebtedness of a buyer is formally recognised. It is drawn on the buying corporation, which 'accepts' the bill signifying its consent to pay the debt plus interest at maturity. This acknowledgement of indebtedness can be negotiated or 'discounted' by the selling corporation to raise immediate funds

The rate of discount is not the same as the rate of interest. If a corporation accepts a bill for N10,000 (including interest) payable at the end of one year, a selling corporation may discount the bill at a rate of say, 15%. It will therefore receive N8,500 so that the effective interest charge is:

$$\frac{\text{N10,000}}{1} \times \frac{15}{100} = \text{N1,500.00}$$

This is the actual interest cost to consider in deciding whether to discount the bill or to hold it to maturity

Factoring:

This financing technique involves the selling of debts to financial institutions (the factors) in return for immediate cash. There sales are generally without recourse, i.e. if the factor accepts the receivables and the customer defaults, the factor suffers the loss. The client is therefore relieved of the risk of bad debts. The major advantage to a corporation in factoring is that it is relieved of the expense of maintaining a credit department and of making collections.

The charge for the factoring service is a turn over commission usually between 1% and 2%. The precise rate however, depends on such factors as the accepted turnover per customer the average invoice value etc.

(v) Bank Credit:

This usually takes two forms – the loan account (one – payment loan) and overdraft (a line of credit).

In one – payment loan, the entire principal plus an agreed interest are due on a specified date. A separate account form the current account is opened for the loan.

A line of credit is whereby the corporation can borrow up to maximum specified amount from its current account at any one time during a specified period. The corporation may borrow in bits until the total credit limit is reaced or borrow the entire amount immediately. Interest is charged on the balance on a day to day basis. The interest is an allowable charge against corporation tax.

The line of credit usually places certain restrictions on the corporation. For instance, the corporation is offen required to pay commitment fees for any unused portion of the loan. The bank may also require the corporation to maintain checking account balances (compensating balances) during the agreed period, i.e. a certain percentage of the loan to be kept in the bank.

vi. Leasing:

A lease is an agreement whereby a corporation may get the use of an asset for a stated period of time in return for regular rentals. The asset becomes the property of the lessee even though the lessor retains title to it. The rentals represent a combination of interest and capital repayments.

A lease may be 'financial' (where there exists non canceled commitment on the part of the lessee), or 'operating' (where the commitment is cancelled by proper arrangement). The lease period generally corresponds to the economic life of the asset. We should note however, that a lease could be for long term e.g. in the case of land and buildings.

The use of lease as a source of finance involve the employment of capital budgeting techniques to evaluate the attractiveness of acquiring the asset.

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Hire Purchase:

This means of financing is similar to lease financing in that the payment for use of the asset is spread over a period of time rather than being made in a lump sum initially. Normally, an initial down payment is required. Hire Purchase facilities enable a corporation to acquire assets such as cars, machineries and equiments immediately without negotiating a loan and without the use of any collateral.

3. Financing Long Term Sources and Cost

. Debentures:

This source of financing involve the issue of a document to te creditor who has lent money to the corporation. Legally, the holder of debenture has a right to fixed sum of money either after a set term or upon the liquidation of the corporation.

Debentures are of two types: Unsecured, which is often described as unsecured loan, stocks and secured, i.e. by a 'fixed' or a 'floating' charge on the assets of the corporation until it is redeemed, or until some act of default by the corporation which will result in bringing down the charge on the assets of the corporation. Documents of title which usually consist of land and building will be in the hands of the debenture holder, who will rank first on the proceeds of sale of the assets before any junior claims from available balance.

There is however a class of debentures called 'covertible' debentures, giving an option to the holders, and on the terms stated at the time of issue, to covert them into ordinary shares of all corporation.

The cost of debentures is represented by:

$$KD = \frac{1\ (I - t)}{D} \text{ where}$$

KD = cost of debentures

L = Annual interest to be paid

D = Net proceeds from issue of debentures

If 3,000 debentures of N10 per value with a coupon rate of 5% where issued, and the cost of issue and the corporation's effective tax rate are N5,000 and 50% respectively, then the cost of debenture financially would be:

$$\frac{1,500\ (1 - 0.50)}{25,000} = 3\%$$

(ii) **Preference Shares:**

Holders of preference shares or preferenced stocks are members of the corporation and rank after debentures holders in their rights to income and capital but before ordinary or preferred ordinary share holders. There are three categories of preference shares: cumulative, non cumulative and participating. With cumulative of dividends (if any) form previous years. This is in contrast with non-cumulative, where dividends do not accumulate. Because of the greater risk therefore, holders of non-cumulative preference shares are usually compensated with more substantial voting rights, possibly combined with a higher dividend rate. The third category, participating preference shares is one which, in addition to the fixed rate entitles holders to participate in the amount of profit)if any) remaing when prior claims have been met.

There are however, two points which we must note, First, the rights of a particular class of shares will depend on what is specified by the corporation articles of association, and may differ from those discussed here. Secondly, each of the three will be either redeemable (i.e. repaid on dates specified for redemption) or irredeemable (in which case shares will be repaid subject to availability of funds, only upon the liquidation of the corporation, or under capital reorganisation scheme).

The cost of preference shares is related to the stated divided (D) and is calculated thus:

$$Kp = \frac{D}{1}, \text{ where}$$

L is the net proceeds of issue

If 30,000 6% N1 preference shares were issued and the proceeds after deducting commission, fees etc were N20,000., then the cost of preference shares would be:

$$\frac{1800}{20000} = 9\%$$

ii. Ordinary Shares:

Ordinary shares, also described as 'common stock' 'equity shares' or 'common equity' constitute the first source of funds of new business and the base of support for borrow by existing firms. Holders of this class of share have no rights to a fixed return, but they have right to equity interest, i.e. any residue profits after all senior claims (as the prefference shares) have been met. Distribution of profits however, will be subject to the discretion of the directors of the corporation. It is therefore usual for some or all of the remaining profit to be retained and reinvested in the corporation. As the common stock holders of a corporate are its residual owners, they assume the ultimate risk associated with the ownership. Their liability however, is limited to the amount of their investment. The rights of common stock holders are usually defined in the corporation's articles of association.

Ordinary shares may be labelled 'deferred ordinary' shares, (also called founder's or 'management' shares) meaning that the shareholders have ultimate equity interest in the corporation, and possibly a disproportionate voting power, thus giving rise to 'preferred ordinary' shares.

Thus cost of ordinary share financing differs from debt or debventure financing because there is no cash outlay involved besides the actual cost of issue. There is no single agreed method of calculating the cost of equity capital.

There are however, several alternative suggestions one of which is given by:

$$Ke = \frac{D(1+g)}{Ve} + g, \text{ where}$$

Ke = cost of equity capital

D = latest dividend per share

G = the expected growth rate and

Ve = the current market price per share is N1.50, and latest annual dividend was 10k per share, and the expected growth rate is 5% per annum, cost of equity capital would be:

$$\frac{0.10\ (1 - 0.05)}{1.5} + 0.05 = 11.33\%$$

iv **Retained Profits**:

Retained Profits are corporation earnings which are retained rather than distributed as dividends, and constitute an important source of finance, possibly accounting for over half of the total finance used by some corporations. Since dividend payments are made at the discretion of the directors, the proportion of profits paid out, and therefore the proportion refained in the corporation is subject to their control.

The singificance of retained profits as a source of finance is the fact that the use does not require the payment in cash of any interest charge, although there is an opportunity cost involved. It is also cheaper than financing by new equity in that no issue costs are involved.

There are two alternative suggestions of measuring the opportunity cost of retained profits: the 'Personal use' measure and the 'external yield' measure. Personal use measure considers the rate at which the earnings could be invested by the share holders if they were distributed to the shareholders rather than reinvesting the funds by the corporation. The external yield measure considers the yield obtainable on investments in other corporations of a

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comparable risk class as the opportunity cost of retaining earnings within the corporation.

v. **Depreciation Provision:**

Depreciation provisions provides an indirect source of finance to corporations because they are deductiable as expenses (although they do not involve an immediate cash outlay) thereby reducing the profits available for distribution. Depreciation provisions have an opportunity cost. The opportunity cost may be regarded as being the same as that enternal yield measure opportunity cost of retained earnings. This is because it is equally permissible for the corporation to distribute such provisions if it so wishes.

2.8 FACTORS INHIBITING CAPITAL FORMATION THROUGH SAVINGS:

The following factors form major stumbling blocks to a solid capital base for a developing economy like Nigeria:

i. Low Income
ii. Interest Rate
iii. Poor Banking Habit
iv. Queue in Banks

i. **Low Income:**

Low income has characterized the economy of most developing countries. This is evidenced from the low capital income in those countries. So the propensity to save is very low. And as earlier stressed, when income is low, the populance are short period of time because of the enormous pressure of consumption on their little income.

ii. **Interest Rate**:

Savers are only willing to save if the interest rate is attractive and in a period of recession as currently experienced in Nigeria, inflation has made savings a very unattractive venture. At high interest rate, savers are willing to save while at low interest rate, they would not save at all. During the period of devegualtion, interest

rates are so flexible that savers find it convenient to lodge their monies with financial interemediaries with the hope of getting attractive income in the end.

Poor Banking Habit:

The Population of most developing countries is predominantly rural. Therefore, the people have a low banking habit. Not many people know or realise the advantage inherent in operating a bank account hence they prefer keeping idle cash at home either under their pillows, in cloth boxes and etc.

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Long Queue in Banks:

Queues in banks constitute a very terrible eye-sore. This singular phenomenon inhibits the interest of prospective savers to develop any banking culture. People feel that Queues they experience in banks constitute a terrible waste of time and the time they would have wasted in banks queuing for either deposit or withdrawal could have been used productively else where making more money. Therefore long queues in banks have greatly discouraged people from savings.

In conclusion, financial intermediation thus assumes a prominenty role as the community seeks to match the capital seeking with the surplus (saving) sectors of the economy. Therefore there are mutual benefits accruable to both sectors.

WHAT IS FINANCIAL / BUSINESS DISTRESS

The term Distress, at a common law, is the process whereby a person without any prior legal process seizes and detains from wrong doer some chatttel or item of personal property as a pledge for the redressing of an injury, the performance of a duty or the satisfaction of a demand. Distress also signifies the property distrained (volume 5 carthusians cock or off ency clopedia Britannica). Thus, the Oxford Dictionary (Junior) asserts that, Distress is the suffering caused by pain, worry illness, or exhaustion. It went on to refer to Distress as the condition of being damaged or in danger and requiring help.

Thus, Distress can be seen and has gone beyond the financial sector but encompasses almost all sectors of the economy and indeed even individuals and group of individuals in Nigeria are in distress situations. Aliyu S. Darma, (Departmental Seminar paper presented at B.U.K. 1995/96)

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A business is simpy defined as a primary social institution in our society. For the purpose of this research, a business is any organization that market a product or service. It is defined as 'the sum total of the organized effort by which the people engage in Commerce/Industry provide the goods and services needed to maintain and improve the standard of living and quality of life to which each of us may aspire' (Lawry and Steade) (1980) in their Book, "Business: Its nature and environment"

A Distressed Business on the other hand, is a business that shows one or all the factors that indicates Distress in an Economy. The factors are:

- Debts when they starts piling up
- Unsettled Bills
- Production below capacity
- Producing low quality products
- Bank ruptcy
- Negative or Neutral (Zero) cash flow
- Frequent changes in strategies
- Too much governmental interference.

Distress in Business can be said to be caused by poor performance and lack of initiative to implement strategies in an organization.

Thus,a Distressed Bussiness is a Business that either operates at the loss or is that achieved set set out goals and objectives of the organization.

EXAMPLES OF SOME DISTRESSED BUSINESS IN THE NIGERIAN ECONOMY:

One of the main culprits in the destruction of the Nigerian Economy are the Banks. More than 70 Banks came into existence in 8 years of Babangida's Administration. The Banks partake in the foreign exchange scramble. Now that the foreign exchange market has been dried up of itslucrative business, the Banks have started to crumble during the tenure of the Abacha Administration because of the government's policy of allocating foreign exchange to the Banks, Distress

started to set in with the Banks since 1993. Many Banks have been found by the Nigerian Deposit Insurance Corporation to be unable to meet their obligations to their customers. In the scramble for foreign exchange, Bank executives put all the ethics, rules and regulations of Banking a way in their drawers and engaged in lending huge sum of money to themselves, their relatives their companies and the companies of their associates and friends. The loans they gave became, of course, non-performing assets and crippled the Banks. Of all the banks, there were about 60 Distressed Banks of which 17 were declared Bankrupt and took over by the NDIC and agent of the CBN.
some of the declared Banks are: The National Bank, African Contenental Bank, Allied Bank, Alpha Merchant Bank, the Republic Bank, United Commercial Bank, Continental Merchant Bank, and Kapital Merchant Bank just to mentioned a few.

With regards to the firms in the food and Drinksindustry, the companies engaged in Breweries and Soft Drinks were not able to adopt to the dynamic environment. Their inability to adopt sent many of them packing out of the Business i.e. (Failed). For example, in Kano companies such as: Danta Cola, Sinako Cola, Pam-Pam, North Brewery and Arewa Bottlers – The makers of Pepsi Mirinda and Team were either closed down or been acquired by bigger firms. This is actually the general trend all over the country. This is really a sign of failure in their business.
Companies like the Nigerian Bottling Company the makers of Coca-Cola and the Seven-up (7up) company were able to survive (remain unaffected) by manipulating the environmental factors. For example, the 7up acquired the Arewa Bottlers company to improve its capital and competitiveness. The two companies have adopted various marketing strategies in order to gain better control of the market. The increase in the content of Coca-Cola from 25cl to 35cl; the introduction of 1.5 litre plastics container of Coca-Cola, Fanta and Sprite; and the introduction of Fanta Chapman and Lemon in 1995 and 1996, and the various lotteries carried out some years back to have consumers into accepting their products will confirm the above mentioned facts. The transportation sector is not left out of the problem enumerated. For example in Kano, The Kano Line Transport Service way established in 1988 with sole aim of alleviating the suffering of commuters as well as to boost socio Economic growth in the state.

Since its establishment, the organization faced numerous tecthing problems which include lack of efficient mechanical workshop, office accommodation and frequently breakdown of vehicles. At a time in point, the situation was so bad that only 2 out of the 100 operational vehicles were serviceable (M.M. Danyero June 1996).

To crown it all, it is very important to note that, distress has gone beyond the sectors mentioned and the financial sector, but it encompasses almost all sectors of the Nigerian Economy and indeed even individuals in Nigeria are in Distress situations (Aliyu S. Darma Departmental Seminar Paper, Presented at B. U. K. 1995/96).

2.10.1 AN OVERVIEW OF BANK DISTRESS IN NIGERIA:

In a post view of the root causes of distress in Nigerian banks, some observers have argued that the manner of expansion of the banking industry to a large extent spawned distress. Their argument has been that, the unprecedented expansion of the sector was not matched with the availability of skilled management personnel. Hence even persons with less than designated competence were allowed to fill up management vacancies in new institutions. As a result, operation standards fell and rot entered the system to herald distress.

For instance, in its 1991 Annual Report the NDIC observed in a "Report on Manpower situation in the "Nigeria Banking Industry" that the ratio of skilled staff toun skilled staff in Nigerian commercial banks are 1:8 and 1:1 for merchant banks"

The CBN also captured this report in its 1991 Annual Report where a routine examination of some banks exposed "cares of weak management, poor internal control and non-compliance with some monetary policy guidelines".

However, many banks at this time claimed that their woes derived from the deeds of commission and omission of the CBN. They cited the fight monetary policy which the apex bank (CBN) was pursing relentlessly, with the hope of controlling inflation by it. Most banks affected by the state of distress cited two major tight monetary initiatives of the government. The first object of grouse was the 1988 order on all government establishments to withdraw their funds from commercial banks and place same with the CBN. With the execution of the plan alone, funds

in excess of N8 million vanished from the vaults of banks ntionwide. With the loss of such huge deposits, most banks were left high and dry. They had to resort to aggressive marketing strategies to mobilise funds from general public, and restode their vaults. Hence this resulted in the industry in the late 1980s and early 1990s; and one of which major features was the promises of astronomical rates of interest payment on deposits.

The second dispensation fingered by the banks as a cause of distress was the introduction of stabilization securities by the CBN. By its mechanism, the apex bank was able to control money supply, but banks which complianced claimed that the stabilization securities were imposed arbitrarily in terms of timing and value of amount debited each bank.

2.11 DEBT CRISIS IN BANKS:

Available evidence in the current debt crisis in the nation's banking sector shows that there are two categories of bank debtors. These are the external debtors (debts owed by customers) and internal debtors (debts owed by employees and owners of the banks).

[illegible]

i. The Dishonest group:- Which includes those debtors who right from the on set, had no intention of repaying their loans partly because of the degree of collusion with the lending officers and/or bank management and partly because of their "connection" with those in the corridors of power.

ii. The honest if group:- Which includes debtors whose disposition to repay their loan can only be assured if they a sufficiently enticed or coerced.

iii. The Honest mistakes groupp:- Those whose defaults on repayment are mainly due to over-optimism, poor profit estimation, poor credit appraisal etc.

iv. The Honest but group:- Which comprises debtors who, inspite of the honest intentions and willingness to repay, fail to do so due to adverse economic conditions and catdysmic factors such as death, protonged illness or disability etc.

The debts of employees and owners of bank constitute quite a substantial proportion of total debts of their banks. For instance, the NDIC, estimated the amount of insider's debt in financial merchant bank plc, Kapital Merchant Bank plc, Alpha Merchant Bank plc and United Commercial Bank plc to be worth N2.143 million or 64.9% as at December, 1994.

There debts have their origin in agreed abuse of office, ineffective internal and external controls and unsound or unprofessional manner with which the loans were granted. Because of the positive correlation between these and the recovery of the loans, it is known that the amount of recoveries has been quite insignificant compared with the volume of non-performing loans.

As at the end of 1994, for instance, non-performing assets of distress banks constituted about 67% of their total loans and advances far above the prudential maximum by 47% that poor quality constitute the most nagging problem in the ultimate recovery of ailing banking sector is underscored by the promulgation of the failed Banks (Recovery of Debts and financial Malpractice in Banks) Decree of 1994 and its subsquent amendment in 1995.

2.12 SHADES AND TYPES OF FINANCIAL MALPRACTICES IN BANKS

FRAUD:

Frauds in Banks vary widely in nature, character and method of perpetration. There are three broad categories of bank fraud perpetration: Internal and mixed internal perpetrators of frauds are members of staff while external perpetrators are persons not connected with the bank. Mixed involvement has outsiders colluding with bank staff.

The most common form of classification employed by banks is on the basis of methods used. Under this approach, the list of fraudulent methods is almost in exhaustive as new methods are devised with time. Let us now discuss the most important and common types of fraud.

Advanced Free Fraud (419)

This may involve an agent approaching a bank, a company or an individual with an offer to access large funds at below market interest rates often for long term. The purported source of such fund is not specifically identified as the only way

to have access to it is through the agent who must receive a free or commission 'in advance'. As soon as the agent collects the fee, he disappears, and the loan never comes through. Any bank desperate for funds, especially the distressed banks and banks needing huge fund to bid for foreign exchange can earily fall victim of this type of fraud.

Cheque Kiting

Kiting is define by us comptroller of the currency's policy guidelines for National Bank Directors as "a method whereby a depositor utilizes the time required for cheques to clear to obtain an authorized loan without any interest charge". Cheque kiting involves the unauthorized use of deposits of uncollected fund in their account. Uncollected fund refers to cheque lodgements accepted by a bank for which it cannot fully guarantee collectability until it is cleared.

The aim of the cheque kiter may be to use the uncollected fund interest free for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use.

Account Opening Fraud:

This involves the deposit and subsequent cashing of fraudulent cheques. It usually starts when a person not known to the Bank asks to open a transaction account with false identification but unknown to the bank. The person opens the account with a small initial deposit of cash or cheque. Generally, within a few days the person will deposit a number of bad cheques and obtain cash in return, either by cashing the fraudulent items outright or by withdrawing cash as soon as fraud is available. The bad cheques may be large over drafts drawn on other banks or drawn on bank accounts that are closed or never existed.

Letters of Credit Fruad

Most letters of credit frauds are perpetrated by beneficiaries to the credits using forged or fraudulent documents. In these cases, forged or fraudulent documents are presented to the confirming or issuing bank and payments is demanded against the credit. Whether the bank pays the beneficiaries or not will depend upon whether the presented documents appear to comply with the

terms of the credit. In most cases, if a credit transaction terms out to be fraudulent, it is the applicant who suffers the loss. In addition to fraudulent transactions, the letter of credit itself may be fraudulent. For example, an account officer or an employee of the documentary unit could create a phoney letter of credit into the system using the name and capacity of an existing bank customer. However to effect payment against a fraudulent letter of credit, the named beneficiary would most likely have to be an accomplice in the scheme.

Money Transfer Fraud:

Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or the alternation of a genuine fund transfer request. A genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer. The fraud typically involves a non repetitive, three – party transaction. The perpetrator will obtain the particulars of the account (especially inactive large balance account) and names of bank personnel. This information is then used to alter legitimate money transfer or initiate a fraudulent trandfer in favour of a third party, usually an accomplice.

Other types of fraud in banks are:

- Loans Fraud
- Counterfeit Securities
- Cheque Fraud
- Money Laudering Fraud
- Clearing Fraud
- Computer Fraud
- Telex Fraud

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 POPULATION STUDY:

The target population of the study comprises all the distressed and distressable businesses in Nigeria, pareticularly those in the Banking Industry. Those bank that were technically adjudged in solvent stood at 51 as at 1995.

3.2 RESEARCH DESIGN:

The design of this study is largely narrative. The survey research method was used to facilitate the objectives of this research. Survey research design was adopted due to the fact that it is capable of gathering data from a large number of people. The instrument of research was personal interview administration on staff and management of Tropical Commercial Bank, which is one of the distressable banks in Nigeria. The respondents were met in their offices and homes where some responded immediately while others at their convenience by rescheduling a convenient time and place.

3.3 SAMPLING:

A sample size of one was selected from the study population. It was hoped that this would be representative enough since all distressed banks operate within the same economy and share almost common characteristies interms of capital, management and organizational structures etc.

Even within the chosen sample, the yardstick for the choice of Tropical Commercial Bank was mainly proximily and ease of data collection.

Thirty eight (38) respondents were interviewed, 2 out of them are executives, 10 management, 14 senior and 12 junior staff.

3.4 INSTRUMENT FOR DATA COLLECTION:

Primary data collection was achieved via the use of the interview administration. The personal interview contain structured questions (both close ended and open ended) and were administered to the respondents included in

the sample. The questions featured in the interview were intended to collect useful responses relevant to the objectives of this study.

3.5 METHOD OF DATA COLLECTION:

3.5.1 INTERVIEW:

Due to the nature of this research or project, where specific professional and expert responses are desired, using the face to face contact of information collection proved the best method. Interview method also helped to clarify responses by use of the follow-up questions.

3.5.2 RECORDS:

Offical magazines, Newspapers, Journals and a good number of Text Books were consulted for extraction and review of related literature.

3.5.3 OTHERS:

Public personal and other expert opimons were also incorporated especially from the Business Management Executives.

CHAPTER FOUR

4. DATA

4.1 HYPOTHESIS ONE

CORPORATE FINANCE INADEQUACY IS THE MAJOR CAUSE OF DISTRESS IN BANKS.

and their other branches. Each respondent was asked a set of questions atleast 5.

4.1.2 HYPOTHESIS ONE SCHEME OF QUESTIONS

1. What is your cadre/position?
2. Did your bank's paid up capital meet the authorised share capital?
3. Was the paid up capital met the CBN requirement of the Statutory minimum of N50 million?
4. Could the distress situation be due to show falls in 2 and 3 above.
5. Any general comments?

4.1.3 QUESTION ANALYSIS

0.1 What is your cadre/position?

This question tries to identify the hierarchical position of a respondent by which conveniently, four classification is been used for the purpose of this research i.e. Executive, Management, Senior and Junior levels.

This classification permits weight and emphasis to be placed on responses depending on how high or low a respondent falls within the hierarchical ladder. Obviously, a manager's response on the workings and management of the organization should have more weight than that of say, a clerk.

Table below shows the spread.

TABLE 4.1 STAFF RESPONDENTS OF TCB AND THEIR CADRE/POSITION

STAFF CATEGORY	NUMBERS OF RESPONDENTS
Executive	2
Management	10
Senior	14
Junior	12
TOTAL	**38**

Source: Field Survey November 1999.

Q.2 Did your bank's capital meet the authorised share capital?

This question tries to ascertain the actual called-up capital as distrinct from the authorised share capital. It is not uncommon especially within the banking industry to see called-up capital by far below the authorised capital, and when such called – up capital cannot match the volume of the banks operations, then trouble sets in.

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TABLE 4.2 Below depicts further

TABLE 2

DID TCB PAID-UP CAPITAL MEET ITS AUTHORISED SHARE CAPITAL?

STAFF CATEGORY	PERIOD TO 1995		AFTER 1995		NO IDEA
	YES	NO	YES	NO	-
Executive		2	2		-
Management		10	10		-
Senior		14	14		-
Junior		-	-		12
Total		26	26		12

Source: Same as Table 4.1

Q3 Was the paid-up capital equal to the statutory minimum of N50 million?

This question tries to reinforce that of 2 above. The regulating agencies have pegged N50 million as the base line for the capitalization of any bank. It tries to ascertain how strong or otherwise the banks are toward complying with the minimum statutory regulation.

TABLE 3 below shades more light

TABLE 3

WAS THE PAID UP CAPITAL EQUAL TO THE STATUTORY MINIMUM OF N50M?

STAFF CATEGORY	PERIOD TO 1995		AFTER 1995		NO IDEA
	YES	NO	YES	NO	-
Executive		2	2		-
Management		10	10		-
Senior		14	14		-
Junior		2	2		10
Total		28	28		10

SOURCE: Same as Table 4.1

Q4 Could the distress situation be due to short falls in 2 and 3 above?

This question tries to ascertain the degree to which inadequate finance among others (if any) contributes to distress in banks.

The emphasis here is to try to weigh how significant shortfalls in a banks capital structure causes distress from a respondents view point vis-a-vis other causes like malpractice, inefficiency, etc.

Three positions were used: very significant, significant and insignificant. Very significant denotes that inadequate capital structure is the major cause of distress in banks, above all others. Significant means it contributes but it is not the major cause i.e. there are other causes that might share equal placement. While insignificnant denotes that other factors are more formidable as causes of bank distress than inadequate capital.

The table 4 below surmises:

TABLE 4

STAFF RESPONDENTS TO TCB ON HOW SIGNIFICANT INADEQUATE CAPITAL CAUSES DISTRESS IN BANKS

STAFF CATEGORY	NUMBER OF RESPONDENTS	VERY SIGNIFICANT	SIGNIFICANT	INSIGNIFICANT
Executive	2	2	-	-
Management	10	5	3	2
Senior	14	7	4	3
Junior	12	7	2	3
Total	38	21	9	8
Percentage	100%	55%	24%	21%

SOURCE: Same as Table 4.1

Q5 Any General Comments?

By these questions, respondents are encouraged to talk freely on the subject matter. Their comment generally clarifies the other questions above and also form parts of the recommendations of the next chapter.

4.1.4. INTERPRETATION OF HYPOTHESIS ONE:

A perusal at the published accounts of TCB will corroborate this findings over the years. 38 respondents agree that prior to 1995 like most other government owned banks, TCB was on the verge of failure due to below optimum capital base as tables 2 and 3 suggest. The bank was short on paid up capital and also short on the statutory minimum. The regula agency gave all banks 2 years within which to recapitalize to a minimum of ₦ million. Respondents agree that it was the upward review of its capital base at constitute about the sole major rescue strategy. That, the TCB would hav rtainly failed.

Table 4 also lends credence to the importance of adequate capital base. 55% respondents accepted that the life and blood of any bank revolves round adequate capital. It is the most significant consideration for a viable business, bank especially. Thus hypothesis one was upheld.

4.2 HYPOTHESIS TWO

Investment Mismanagement has direct consequences on Distress Banks

4.2.1 HYPOTHESIS TWO SCHEME OF QUESTIONS

1. Was TCB being Mismanaged?
2. Where (if 1 above was true) will you apportion blame Management or Staff?
3. Other than inadequate capital, can you comment on management efficiency

4.2.2 QUESTION ANALYSIS

Was TCB being Mismanaged?

This Question tries to extract a definite answer of either a YES or a NO. It will determine how respondent will be disposed to answer the other questions below. Supprisingly, all respondents said "YES" but means they agree but not completely i.e. they agree technically but with reservations or clarifications.

Q2 Where (if one above is true) will you apportion blame management or staff?

Here too, respondents don't want to be implicative, all agreed through that since examples are set from the top, it is difficult to apportion blame even to those below. In a nut shell, it is a general problem (if at all).

Q3 Other than inadequate capital, can you comment on the general management efficiency or lack of it at TCB?

The responses here are hybrid and forms part of the suggestions/recommendations at in the next chapter.

Table Summarises Findings

TABLE 5

STAFF RESPONDENT OF TCB ACQUIESCING TO INVESTMENT MISMANAGEMENT

STAFF CATEGORY	NUMBERS OF RESPONDENTS	PERIOD TO 1995 YES	NO	AFTER 1995 YES	NO
Executive	2	2	-		2
Management	10	8	2		10
Senior	14	10	4		14
Junior	12	10	2		12
TOTAL	38	30	8		38
Percentage	100%	79%	21%		100%

SOURCE: Same as Table 4.1

4.2.3 INTERPRETATION OF HYPOTHESIS TWO

To test/analyse this hypothesis was rather difficult as respondents were too careful not to implicate themselves or anybody. But they preferred to talk on a general level. Most respondents agreed that with the new dispensation i.e. beginning from 1995 to date that there were fresh appointments to senior executive and management positions, retirement were also effected and reshuffling of both executive and management personnel through postings. Debt collection was stepped upon. Government loans and credits were returned, trimming of unprofitable sections, etc. were made.

The agreed that prior to 1995 the situation was different, cases of frauds were common and series of political, government and high-level interference especially as regards appointments to sensitive positions. But the situation is completely different with this new dispensation. Professionals and seasoned bankers now manned the executive positions and throughout 1997 example there was no major cause of severe fraud unlike the almost weekly phenomenon of the past years prior 1997

The second hypothesis also holds true as respondents agree that prior to 1995, before the bank's re-organization, there were consensus of mismanagement within the TCB (79% of responses). But that after 1995 all conceded that there was none but of course it is too soon to pass any meaningful judgment.

4.3. HYPOTHESIS THREE SCHEME OF QUESTIONS

FAULTY CORPORATE FINANCE SOURCING IS A MAJOR CHARACTERISTICS OF FAILED BANKS

The research/public relations section of the TCB were particularly helpful for supplying the necessary information below.

4.3.2 HYPOTHESIS 3 SCHEME

1. What is TCB shareholding past and present?
2. What is the nature of shareholding presently?

4.3.2 QUESTION ANALYSIS

Q1 What is TCB shareholding past and present?

TCB has always been commonly referred to as a Kano State Bank. The question tries to ascertain which other groups hold shares in the bank and how strong are the share prior and after 1995.

TABLE 6 Supplies the facts

TABLE 6 TCB SHAREHOLDING

SHARE HOLDERS	PRIOR TO 1995	AFTER 1995
Government, State and Local	56%	20%
Various Co-operative Movement (5% each)	35%	5%
Private Individuals/Companies	9%	75%

SOURCE: TCB Same as Table 4.1

Q2 What are the nature of shareholdings past and present?

The TCB is known to have satisfied the optimum N50m statutory demand presently. This question tries to ascertain the category and nature of the shareholding.

Table seven below shows findings.

TABLE 7 TCB NATURE OF HAREHOLDING

Ordinary Common Shares	75%
Debentures	10%
Others	15%

SOURCE: TCB Research/Public Relations Section

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INTERPRETATION OF HYPOTHESIS FOUR

In Chapter Two (Literature Review), we have seen the various options by which businesses can source finance for both short and long term uses.

Statistics are bound to show that over reliance on government funds by most businesses is at their (business) own peril. NDIC and CBN reports have shown that state government owned banks are the worst hit by distress in the industry. Government and their policies do not always tell towards profit maximization as the paramount objective thus, this divergence of objectives between government and private view of profit is the source of conflict at the very onset. Thus making most government business uncompetitive in most industries. At TCB Prior to 1995 the picture was the same.

75% of the capital base of TCB is based on ordinary common stock also 75% of the same is on private individuals and companies.

This suggests that the present TCB will absolve itself from the strangulating government interference.

It also suggests that to be competitive within the banking industry, Banks must of necessity divest themselves from government ownership.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

SUMMARY

This research on corporate finance as a tool for rescuing distressed banks finds it thrust from the premise which holds that the so much avowed and sought after development by any nation or society is seriously dependent and measured by the rate of its business success. The problem by recognising potential available sources, characteristic and volume of investible funds in Nigeria therefore becomes imperative.

The objective was to highlight among other things the problems associated with investment management in a depressed economy and to analyze other possible causes of distress in banks in Nigeria.

Three Hypothesis were formulated to ascertain firstly, the effect of inadequate finance, secondly the effect of mismanagement and thirdly the effect of faulty sourcing of finance as they affect banks. The scope of the study as expected, is very large as it comprises all distress and distressable banks. TCB was used as sample with the belief that it would be fit for generalization, as the banking industry constitutes a major and most visible area of distress in Nigerian economy.

Chapter two generally focuses among other things, on the general over-view of what business distress is and the factors, which inhibit capital formulation, the issue of debt crisis in banks, etc. It also elaborates pointedly on types of financial malpractices in banks. Finally, it extensively dissects what corporate finance is, and the various methods used for sourcing and applying finance effectively and efficiently.

Chapter three outlines the research methodology. It deals with the population of the study and reasons for the choice of TCB as a sample. It also highlights on the method used in data collection, which was mainly by the face to face (personal) interview method.

The Fourth Chapter, the presentation, analysis and interpretation of data subjects the three developed hypothesis to test by the aid of tables and percentages. The three hypotheses were upheld. Capital inadequacy, investment mismanagement and faulty finance sourcing constitute the major causes of distress in banks.

5.2 CONCLUSIONS (FINDINGS)

The research findings support that inadequate capital structure in banks contributes about the major cause of distress.

capital, but the little at their disposal are not efficiently managed. Most businesses especially banks, may be due to their nature of handling naked money, are most susceptible to staff mismanagement. Banks are all fraught not just with incompetent workforce but also high financial malpractice, high level interference and high unperforming debts. Etc.

Another, equally formidable avenue leading to distress amongst banks has been found to include the way and manner they source their capital. Statistics show that over-reliance by banks on government as their major source of capital is to the bank's own disadvantage. This is because the government cannot be relied upon to completely lay off its hands in the internal workings of the banks. It is also proved that the type of involvement is equally important. All sources of funds have their costs and expected benefits. Banks that wade off distress are those that can effectively and efficiently source their funds cheaply, while ensuring full control.

5.3 RECOMMENDAITONS

In the light of the findings and conclusions enumerated in this research, the following recommendations are considered necessary to restore health and sanity to the ailing banking system.

i. As owners of the banks, the boards and indeed the shareholders should be at the forefront in finding solutions to distress problems. Here, we shall recommend two things that they can do amongst others. One is for the directors to repay loans and advances they hade taken from their banks either for themselves or their companies, such repayment should be a good recourse in resuscitationg the banks. Another area is recapitalization of the banks. This can be done through the issue of shares. Unfortunately, shareholders are often reluctant to allow new issues for the fear of equity dilution.

ii. Management of banks should find ways to address measures that should prevent distress to their banks. They should draw up credible turn around plans for the boards approval. Such plans should include aggressive debt recovery drives especially in respect of directors loans, rationalization of staff, offices and expenses. Here the idea is for the managements to embark on self restructuring of their banks so as to reverse the banks declining fortune.

iii. Another way for banks to overcome distress is the getting up of profitable subsidiaries such as investment companies and investment development funds. These constitute valuable assets and income sources on which banks can fall back in times of trouble. The subsidiaries will provide cover

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for the banks' depreciating assets as well as complement and ease pressure of the bank's investible funds.

iv. Banks should establish internal control departments which should be recognised as essential checks to damaging vices a fraud, improper accounting and managerial inefficiencies. The units should provide proper audit, evaluation and control of jobs and these should be continual whether the bank is healthy or not. The units should be equally responsible for evaluating the adequacy, effectiveness and efficiency of the systems if internal control in the banks as well as the quality of on-going operations.

v. Given the already built-up customer skepticism about their (the bank) honesty in handling their money and the perceived insolvency of banks, they should increase depositors' awareness through strong public relations campaign. For those banks that are perceived to be in trouble, they can recreate their image through some crisis management strategies such as use of Logos and change of names.

vi. A good resourse for those banks which cannot raise enough capital and those that lack infrastructure and working capital in merger and aquisition. A merger should enable the fusing partners to utilise the concentrated technology, data base and greater financial resources. A merger should also provide opportunity for the fusing banks to deliver interactive banking services and also aim for a large market share.

APPENDIX

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