PROBLEMS AND PROSPECTS OF FINANCING SMALL BUSINESS FIRMS IN NIGERIA: A STUDY OF APC LIMITED

BY

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DECLARATION

I hereby declare that this project has been written by me and that no other similar work has been done before, or was being carried out as at the time this research was conducted.

That all information not original to this research have been duly acknowledged in my list of references.

NAME OF STUDENT Kasali Taofeek

SIGNATURE

CERTIFICATION

This project entitled "PROBLEMS AND PROSPECTS OF FINANCING SMALL BUSINESS FIRMS IN NIGERIA: A CASE STUDY OF APC LIMITED" by Taofeek A. Kasali meets the regulations governing the award of the degree of Master of Business Administration of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

SUPERVISOR	August 10, 1997 DATE
EXTERNAL EXAMINER	DATE
HEAD OF DEPARTMENT	29/10/98 DATE
DEAN, POST GRADUATE SCHOOL	13/11/98 DATE

DEDICATION

This study work is dedicated to my children - Ibrahim, Yusuf and the little twins, Mohammed and Aishat.

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Taofeek A. Kasali

June, 1996.

ABSTRACT

Small Business firms play a crucial role in the economic development of a nation-state. Financing these firms has been the major canker-worm that serves as a cog in the wheel of progress of the Establishments. It is against this background that this study is set to probe the remote and immediate cause of finance problems in Small and Medium Scale Enterprises in Nigeria with a view of making useful suggestions and recommendations that would solve the identified problems.

To do justice to this topic, Government's Policies and Programmes for the development of SMEs were critically reviewed. In addition, an in-depth study was conducted on a contemporary Company. Furthermore, elaborate interpretations and analyses of the Company's financial statements were carried out with the aid of Financial Ratios and graphical representations.

Three hypotheses were tested and it was confirmed that finance serves as the live-wire of a business enterprise which can make or mar the progress of such establishment. Future researchers on the topic were advised to increase the population samples.

Finally, Government's pragmatic fiscal and monetary policies were sought for adequate finance of SMEs. It is hoped that with prudent use of available funds at SMEs, Nigerian Government would be able to achieve its policy thrusts of self reliance and economic development.

CHAPTER ONE

INTRODUCTION

1.1 GENERAL INTRODUCTION

Small Business Firms can be described as the "live wire" of a developing economy like that of Nigeria. Their role in the economic development can be appreciated by the fact that they make substantial contributions to the Gross Domestic Product [GDP], they play dominant role in employment generation, serve as a reliable revenue source for the Government and encourage enhancement of inventions,, adaptations and general technological development. They require low level of capital in their establishment and have a tendency to become feeders of large scale industries.

Moreover, the importance of financing these business organisations cannot be overemphasised. The `finance' serves as the pivot upon which other activities like production and marketing revolve. Almost all kinds of business activities directly or indirectly involve the acquisition and use of money. All facets of the production, marketing, personnel and other departments in an organisation rely on finance for carrying out their functions. Therefore, it is no gain-saying the fact that appropriate and effective financial decisions will enhance growth, profitability and value of the firm.

Taking cognisance of the importance of finance and the role of small Business firms in a developing country like Nigeria, this study is carried out to critically analyse the problems that are militating against the progress and development of these firms. The prospects and opportunities are mainly considered from the 'finance' perspective.

1.2 STATEMENT OF THE PROBLEM

From a cursory look of the Nigerian economy, it will be observed that the governments at all levels - Federal, state and local - have attached much importance to the development of small business firms through their fiscal and financial policies. For instance, the import substitution programmes; the Central Bank of Nigeria's [CBN] guidelines to Commercial Banks and Development banks on the percentage of their loanable funds that must be disbursed to small business firms, the establishment of second-tier securities market on the Nigerian stock Exchange on 27th December 1984 - to mention few, are all avenue for small and medium indigenous firms to have formal access to investible funds with less stringent conditions.

Despite all these policies and established institutions, most of these small business firms still die prematurely due to some internal and external factors. It is against this background that this study probes the remote and immediate cause of the failure of the enterprises from the 'financial' point of view.

1.3 PURPOSE OF THE STUDY

The main purpose of the study is to critically examine the importance of finance in operating small business firms in Nigeria.

Other purposes include:-

[i] to analyse the effect of adequate financing of business firms on the profitability and wealth maximisation of such organisation,

[ii] to stress the important roles that small business firms play in the economic development of the Country,

[iii] to pinpoint the sources of financing small business firms in Nigeria with adequate analysis of the merits and demerits of each source,

[iv] to give recommendations and possible solutions necessary for the viability of the small business firms, and

[v] to evaluate the programmes and procedures for financing small business firms in Nigeria.

1.4 SCOPE OF THE STUDY

The study will be devoted to the importance of finance in a business enterprise. In addition, it will attempt to identify the causes and effect of financial problems in small business firm and suggests necessary panacea for solving the identified problems.

Furthermore, the prospects of adequate liquidity of small business firms as an instrument of economic development will be analysed. The study in no way takes into cognisance the behavioural and other factors that can contribute to the failure or success of the business firms. Instead, it analyses the financial aspect of the small business firms in Nigeria.

1.5 HYPOTHESES

The following hypotheses are tested in the study:

Hypothesis I

Availability of adequate finance is essential for the operation, development and growth of an organisation.

Hypothesis II

Prudent financing determines the viability and achievement of a business enterprise.

Hypothesis III

Finance determines the success or failure of a business.

1.6 SIGNIFICANCE OF THE STUDY

This study hopes to contribute to the addition of knowledge in the finance study area as it relates to the small business firms. The study is expected to highlight the real effect of finance in small business enterprises.

Also, it is hoped that the study would provide a clear picture of a contemporary small Business firm's opportunities and constraints in sourcing and utilizing funds to achieve it's corporate objectives and goals.

In addition, the study is expected to broaden the horizon of practicing managers, business men, as well as researchers to enable them appreciate and assess the strengths and weaknesses of a contemporary small business firm in Nigerian environment.

1.7 PLAN OF THE STUDY

The information provided in this project is arranged in five chapters. Chapter one is an introductory chapter in which the `problem' is stated and also purpose, scope and significance. Three hypotheses have also been developed. Chapter two reviews the works already contributed by various scholars on the traditional and new roles of financing small business firms. Appropriate theories are analysed on the scope of finance vis-a-vis economic development. The nature and characteristics of small business firms are also enumerated in this chapter together with their sources of financing. The chapter is closed with the general appraisal of problems and prospects of small business firms as agents of economic development.

Chapter three examines the research methodology of the study.

Data presentation and analysis are treated in chapter four. Specific presentations are made of information collected with graphical representations of the selected Accounting ratios.

Finally, the summary, conclusion, limitations of the study and recommendations are expressed in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 DEVELOPMENT OF FINANCE

Finance can be generally defined as the process of sourcing and using of funds to achieve the organisational goals and objectives.

In view of the challenges and technological development in the emerging world, finance, earlier considered as a part of economics, developed as a separate subject of study in the early 1900's.

In his contribution to the development of finance, Van Horne [1980] opines that "Finance has changed from a field that was concerned primarily with the procurement of funds to one that includes the management of Assets, the allocation of capital, and the valuation of the firm in the overall market; and from a field that emphasized external analysis of the firm to one that stresses decision making within the firm. Finance today is best characterized as ever changing with new ideas and techniques."[1] This quotation stresses the importance of Finance in an organisation in particular and society in general. It relates the traditional view of the subject matter to the dynamic challenges facing the subject.

In his own contribution to the importance of finance, Brigham [1980] describes finance thus: "Finance is, in a real sense, the cornerstone of the enterprise system, so good financial management is vitally important to the economic health of business firms and hence to the nation and the world."[2] This author emphasises the importance of finance in an enterprise and its multiplier effect in an economy and world in general.

Treating finance as a subject Silverstein [1949] says: "The subject of Finance is both intriguing and complex. It deals with all the aspects of raising, managing, and disbursing funds by individuals, business organisations, and governmental bodies. The financial activities and problems of individuals are generally referred to under the heading of personal finance, those of business enterprises under business finance and banking, and those of governmental agencies under public finance."[3] Finance, therefore, involves the study of financial markets and institutional government activities that affect the financial decisions of individual and business firms.

Finance serves as the bedrock for the achievement of aims and objectives of an organisation. Right from the formation, through the growth, maturity and other developments of a firm, finance plays an invaluable role. This can further be analysed through the functions of finance.

Routine finance functions are the record keeping, clerical works, documentation of financial operations; and other paper works carried out by the junior officers in the finance department. Routine finance functions are incidental to the effective handling of the managerial finance functions.

Managerial finance functions on the other hand are carried out by the Chief finance executive called Finance Manager. The functions include "Investment" [or asset mix] decision; "Financing" [or Capital Mix] decision and "Dividend" [or profit allocation] decision.

Commenting on the Managerial finance functions, Ezra Solomon says: "... the function of financial management is to review and control decisions to commit or recommit funds to new or ongoing uses. Thus, in addition to raising funds, financial management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or distribution of assets."[6]

The Routine finance functions, as described above were initially performed by the financial manager until recently when he has to engage in more responsible functions since the scope of his functions has to be widened.

Having examined the numerous functions of finance, it will be imperative to state that these functions are to be performed by the staff of finance department in an organisation. In view of the importance attached to the finance in a business firm, the finance department is usually headed by a top management staff called Finance Director/Finance Executive or Financial Manager as the case may be.

The incumbent should have the required skill, experience, ability and capability to carry out the following role as demanded by the recent development in Finance.

2.3 THE ROLE OF FINANCIAL MANAGER IN A BUSINESS FIRM

The above enumerated functions have, of recent, widened the scope of a financial manager from passive role of score keeping, maintaining records, preparing reports and raising funds when needed. He must now have a broader and far-sighted outlook to ensure that the firm's funds are utilized in the most efficient manner. In essence, the financial manager's new role should influence the size, profitability growth, risk and survival of the firm which will affect the overall value of the firm. With this new role therefore the financial manager has now become an important management staff who must have a "clear understanding and a strong grasp of the nature and scope of finance functions"[7].

The role of the financial Manager can be grouped into two major kinds - Traditional Role and New Role.

Traditional Role is emphasised in most of the Finance Text books up till mid-1950's. During this period, the financial Manager's role was restricted to "raising of funds". The subject of finance was then treated from the investors point of view. Thus, the traditional approach is the outsider - looking - in approach that places over emphasis on topics of securities and its markets; promotion; incorporation and merger and gave the financial decision maker no adequate importance.

In addition, the traditional approach to finance places great emphasis on the long-term problems and ignores the importance of the working capital manager. Solomon [1963] affirms that this approach "gives insignificant attention to the financing problems of non-corporate enterprises".

2.3.1 NEW ROLE

After mid-1950', the traditional approach was taken over by new dimensions and it's weaknesses further invalidated its utility. Furthermore, a more dynamic economic and environmental factors: such as the increasing pace of industrialization, technological innovations and inventions, intense competition, increasing intervention of government on account of management inefficiency and failure, population growth and widened markets; gave birth to the new approach. In essence, "the emphasis shifted from episodic financing to the managerial financial problems from raising of funds to efficient and effective use of funds."[8]

Short term financing are either secured or unsecured obligations that are payable within one year. They consist of trade credit from suppliers, accruals, commercial paper and short-term loans from financial institutions. Each of these instruments has its definite costs to the firm. For instance, the cost of trade credit is usually the cash discount foregone; while accruals usually attract penalty when overdue if it is government charges. Salaries, as a form of accruals can also serve as dis-incentive to workers and increase the labour turnover if not properly managed. The cost of commercial paper and other short term loans are discount and interest rates.

Long term financing and obligations with more than one year maturity. These can be obtained from both money and capital markets.

Money market comprises banks, Insurance and other financial institutions. Money obtained through money market always attract interest and some conditions specified by the lender.

Capital market is the security and stocks market where Ordinary shares, preference shares, bonds, debenture stocks and other development funds can be obtained and sold. The market is perfectly organised and cost less than money market.

It is therefore the duty of the financial manager, to decide on the type of financing he would embark upon and to carefully appraise the costs and benefits of each source to avoid expensive mistakes. For instance, short term fund should not be sourced for long term project.

2.5 NATURE AND CHARACTERISTICS OF SMALL BUSINESS FIRMS IN NIGERIA

SMALL BUSINESS FIRMS: AN OVERVIEW

Definitions

Small Business Firms have been defined by various people; different associations government parastatal and government agencies. The definitions have been based on costs of Investment outlay, number of employees, output, turnover and the purchasing power of the countries' currencies at a particular point in time. While some sources consider any enterprise carrying fewer than 100 persons on its pay roll small, others opine that a business is small if it is privately owned and operated and not diverse in its field of production or services. Particularly, small business firms are characterised by localised market, low capital requirements and relatively simple technology.

According to Lassort J. and Clovier J. L. [1989], "SMEs in the broadest meaning to term, include modern industrial firms of up to 50 employees, family units of three or four people, village industries, associations, companies, co-operatives, owner-operators, mini-firms and the self-employed in the non-structured sector of the economy"

In the United Kingdom, the Economists Advisory Group classifies small business according to industry in terms of net assets and turnover ranging between £20,000 to £25,000 in net assets and £50,000 to £500,000 in business turnover.

United States of America's Small Business Association defines Small Scale Business as any business which has less that 250 employees and whose annual turnover is not more than $10 million.

Also, India, which first developed the concept of Small Scale business evolution, regards as small scale businesses all manufacturing enterprises with an investment in capital of not more than 750,000 Rupees.

In Nigeria, Small Business Firms are always grouped under small and Medium Scale Enterprises [SMEs]. According to a World Bank sponsored study on the development of Small and Medium Scale Enterprises in Nigeria, SMEs are defined as:-

[i] Micro Enterprises: This refers to the fairly small enterprises whose total investment does not exceed approximately ₦100,000 and ₦2m post SFEM. And

[ii] Medium Scale Enterprises is defined as an enterprise whose total investment including working capital but excluding land is between ₦2m and ₦6, post SFEM.

2.6 IMPORTANCE AND ROLE OF SMALL BUSINESS ENTERPRISES

Small and Medium Scale Enterprises [SMEs] play vital role in the economic development of both developed, developing and under developed Countries. They are the blood stream of economic growth and serve as the major spring board for economic emancipation.

In an article on "The European Community and SMEs" published in May/June 1989 edition of the Courier [ACP-European Community Journal] it was stated that .... "The importance of SME's account for more than 95% of Companies within the Community and provide more than two thirds of total employment: approximately 60% in Industry and in excess of 75% in services. As a result of their size, SMEs are further shown as enjoying important advantages in today's economy: dynamism, flexibility and a readiness to innovate, which enables them to adopt more easily to new market conditions. They are thus seen as constituting an important industrial fabric ...."[10] Such is the case of SMEs in advanced industrialised countries.

In developing countries, also, SMEs play crucial roles in the industrialisation process. Prominent among these roles and importance can be enumerated thus:-

Agent for economic self reliance and rural development: SMEs serve as the major baron to the economic development. Because of their size, they can easily be

Development of indigenous entrepreneurship: SMEs serve as the breading ground for self actualisation and reliant entrepreneur. With this advantage the unemployed or aspiring self employed can achieve his aims and be more innovative towards the self and economic development.

Economic integration is another function that SMEs perform in an economy. They mainly serve the large scale industries with their goods and services produced. This integration encourages proper industrial diversification and development.

SMEs make efficient and effective use of available resources. Both financial, human and raw material resources are adequately mobilised and utilized for economic development. This function also enhance a more equitable redistribution of income and even development.

Realising the above enumerated role and importance of SMEs in the growth and development of economy, developing countries have been promoting the establishment of these business firms.

In India, the Government pays considerable attention to and takes pains to promote and support small scale industrial Units as an essential part of the Country's Industrial Development Policy. Lending institutions like commercial and merchant banks in India have on their own initiative thought it fit to establish special cells within their organisations to look after the interest of such small and medium scale industries and to provide advisory services from time to time for their operations. This effort would enhance the diversification of their investments on a wider base and of course, minimise their risk in Industrial lending.

Nigeria is no exception in this laudable efforts to promote SMEs. Several policies and programmes have been pronounced through the annual budgets, Rolling plans, Development plans and Industrial Policy. We shall discuss some of these programmes in the next paragraph.

2.7 GOVERNMENT POLICIES AND INCENTIVES FOR PROMOTING SMALL AND MEDIUM BUSINESSES IN NIGERIA

Recognising the dynamic role of small business firms in Economic Development, the Nigerian Government set up various measures and agencies as follows:-

* Initiating and providing the much needed financial backing for numerous schemes such as the work for yourself Programme [WFYP];
* Initiating, funding and setting up of industrial Areas/Estates, Export Free Zones and Industrial Incubators to reduce overhead costs of Small Business Firms.
* Providing Local and Foreign Finance through its Agencies.
* Facilitating and guaranteeing external Finance through the World Bank, ADB, et cetera.

Another Financial Agency of the Government is the Nigeria Industrial Development Bank [NIDB] which was set up in 1964 to provide Credit and other facilities to Industrial Enterprises especially Medium and large Industries. NIDB's Loans range from a minimum of ₦50,000.00 to a maximum of ₦15 million.

The National Directorate of Employment [NDE] was also established in 1986 to promote the development of small and medium scale Enterprises. As a result of its activities in 1987, over 148,000 new jobs were directly created through the funding and setting up of small scale enterprises.[13]

The Federal Government in collaboration with foreign bodies continues to make foreign capital available to small medium scale enterprises. For Instance, some International Organisations, [since mid 1980s] have continued to play vital role in providing foreign capital to some small and medium scale enterprises in Nigeria. Such organisations include World Bank, African Development Bank [ADB] and the International Finance Corporation.

The State Governments also established Industrial Fund and Finance and Investment Companies to assist Small and Medium Scale Industrialists.

2.8 SOURCES OF FINANCING SMALL BUSINESS FIRMS

Small business firms can be financed through the following means:-

Owners Equity: The major source of financing SMEs is the owners contribution to firm through savings or borrowing from friends and relations. This has been the case because of the difficulties that these enterprises always face from more organised financial Institutions.

Organised Financial Institutions: These are Commercial, Merchant, Development and specialised Banks; Insurance Companies, Trust Funds, Pension Schemes, Finance Houses, Venture Capital Companies and Government Agencies established to give both short and long term loans to Business Firms.

Trade Credit This is the credit facility that firms always enjoy from their suppliers of inputs at the expense of cash discounts. SMEs usually enjoy this facility because most of the suppliers, particularly in competitive market, have the policy of ensuring constant patronage and developing new and small business. This has ranked trade credit as one of the major sources of short term funds for SMEs.

Equity Financing is another source of financial assistant to SMEs. It is a capital market where shares, stocks, development bonds can be traded to improve the financial position of the firm. Through this market, the business organisation can raise funds to finance its working capital at cheap rate, finance expansion or other new investment projects in the Company. A quoted Company also has advantage

Other Sources of finance for SMEs are accruals, leasing, Commercial paper, Retained earnings diversifications and mergers.

2.9 PROBLEMS OF FINANCING SMALL BUSINESS FIRMS

Although the problem of small business firms are dimensional-ranging from management, political, social, legal, Economic, technology and finance. Nevertheless, it is difficult in practice to separate "incompetence in the financial area from incompetence in other area of managerial responsibility, since most important decisions have their financial implications".[15]

Finance problems constitute the major obstacle to the growth of business enterprise. Shortage of fund can lead to inadequate working capital, problems of liquidity and technical insolvency. No wonder that James Bates (1971) describes financial problem as "that of finding funds for expansion at the right time, of the right type, and in the right quantities at various stages of development".[16]

Financing problem of small business firms in Nigeria can be analysed as follows:-

Impediments of the Financial Institutions: Commercial and merchant banks that are supposed to spear-head the finance of SMEs always feel discouraged and demand for collateral and conditions that cannot be met by these firms. Their argument is

2.10 PROSPECTS

Nigeria is blessed with abundant men, materials, technology and financial resources required for the development. The establishment and adequate funding of SMEs will therefore enhance the achievement of this self reliant strategy of industrialisation.

With the available resources, it is hoped that adequate funding for SMEs through more efficient and effective operations of government developmental agencies will reduce the level of unemployment, reduce inflationary rate and ensure favourable balance of payments.

2.11 GENERAL APPRAISAL

In this chapter, we have analysed in detail, the role and importance of small business firms towards the development of the economy. Furthermore, the relevance of financing these business enterprises have been highlighted and we adequately state the efforts and incentives given by Government towards the promotion of SMEs and realisation of self reliant strategy of industrialisation.

However, much as laudable as these government policies and programmes are towards the financing of SMEs it is still discovered that the mortality rate of these establishments is still high. This can be attributed to:

13. Phillips T. "Government Financial Policies in Respect of Small and Medium Scale Enterprises" being a paper delivered at the seminar on Nigerian Banks and Small Scale Business "Organised by the Nigerian Institute of Bankers, Lagos 13th - 14th March, 1989.

14. Harvard Business Review Reprint series No. 21213 March-April 1956.

15. Pearson Hunt DCS, Charles M. Williams and Gordon Donaldson, Basic Business Finance: Text and Cases Revised Ed. (Illinois: Richard D. Irwin, Inc. Home wood, 1961) Pg. 518.

16. James Bates, The Financing of Small Business, 2nd Ed. (London: Sweet and Maxwell, 1971) Pg. 14-15.

3.2 METHODS USED IN DATA COLLECTION

The following methods were used in collecting the required data.

3.2.1 PERSONAL INTERVIEW

Personal interview is the conversation between the interviewer and the interviewee. The interview is mainly conducted to obtain useful information from the interviewee. The information obtained is usually used as input for research work or to accomplish other purposes.

Personal interview can be grouped into two:

[i] Structured Interview - In this situation, questions are prepared before hand and sent to the interviewee. The interviewer is therefore guided by these questions during the conversation and the answers are usually focussed on the prepared questions. Both the interviewer and the interviewee are hereby restricted from unnecessary diversions.

[ii] Unstructured interview - Under this condition, the interviewer is allowed to make necessary enquiries to obtain required information. Also the interviewee is given adequate freedom to express his opinion and make useful contribution. Although this method consumes more time than structured interview, it keeps the interviewee at ease without much discomfort. Generally, personal interview gives the interviewer much

In this research project, the primary data were collected from APC Limited. Although it was an "herculean task" for the researcher as some information are strictly confidential; but with much appeal, they were made available for the project.

The secondary data used in this research work comprised Reports, publications like Dailies, Journals and other periodicals. Relevant information found useful in the project were extracted from the documents.

3.2.3 LIBRARY RESEARCH

Library research entails the study of Books, Journals, Research works and other write-ups on the subject of the research. It involves the reading and collation of ideas, previous contributions and intellectual knowledge about the research project.

Library research broadens the horizon of the researcher and serves as a proper guide towards the enhancement of the new project. However, it has been criticized as time consuming and at times causes confusion for the inexperienced researcher. The prominent critic of Library research is that it usually takes care of past events and makes the research work less original and obsolete.

An indepth library research was conducted for this study but the old concepts are clearly demarcated from the new concepts to make the research more useful for the contemporary events.

3.3 CONCLUSION

In this chapter, efforts have been made to highlight the Research Method and Methods of Data Collection for this research project. The characteristics of case study project are analyzed with their pros and cons. And it was discovered that to have a critical appraisal of a problem, case study analysis is very useful. In addition different methods of data collection are properly assessed. The merits and demerits of personal interview, primary and secondary data collection and library research method are briefly pin-pointed. Using these methods are found to be useful in research project.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 HISTORICAL DATA OF APC LIMITED

APC Limited is a private limited liability Company incorporated in October 1976. The major objectives are:-

* To carry on the business of manufacturing of drugs, acids, salts, pharmaceutical, medical and chemical preparations,
* To carry on the business of manufacturers, promoters, and wholesale dealers in all kinds of surgical, scientific, electrical, chemical, photographic and other apparatus, and
* To carry on the business of wholesale pharmaceutical chemists and druggist and of the dispensing of medicines.

APC commenced operations with the importation and packaging of product lines patented by its parent company in Sweden. It started the manufacture of its product - ORESAL for [ORAL REHYDRATION THERAPY [ORT] in 1986.

The Company became fully Nigerian owned in 1985 when its technical partner divested its shareholding. The initial Authorised share capital was ₦600,000 divided into 600,000 ordinary shares of ₦1 each. It was later increased to ₦2m. Issued fully paid is ₦1.3m.

The Organisation of the Company is headed by the Board of Directors, The Board takes policy and vital decisions for the management team. The Management team includes the General Manager who co-ordinates the activities of other departmental managers of the Administration, Finance and Accounts, Production and Maintenance and Commercial Departments.

In 1987, the Company proposed a comprehensive expansion programme to enable it increase its production lines and diversify its products. Arrangements were made with an Indian Technical Partner to facilitate the execution of the programme and a proposal was made to increase the Authorised and paid up capital to ₦10m. However, this programme could not be executed due to "lack of funds". This has left the Company in its present status of mono-products with its consequences.

4.2 FINANCIAL SUMMARY

The table 1 below shows the financial summary of APC Limited for 8 years that is 1985 to 1992.

TABLE 1 APC LIMITED

EIGHT YEAR FINANCIAL SUMMARY FOR THE YEAR ENDED 31ST DECEMBER

	1992	1991	1990	1989	1988	1987	1986	1985
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
FUNDS EMPLOYED								
Share Capital	1,330	1,330	1,330	1,330	1,330	1,100	1,100	1,100
Deposit for Shares	1,780	40	40	-	-	230	-	-
Revaluation Reserve	4,420	4,420	4,420	4,420	4,420	4,420	-	-
Revenue Reserve	[8,816]	[7,327]	[5,857]	[4,301]	[2,920]	[1,699]	[1,118]	[865]
Loan	-	-	-	-	67	146	466	686
	[1,286]	[1,537]	[67]	1,449	2,897	4,197	448	921

Assets employed:

Fixed assets	2,830	3,344	3,875	4,504	5,143	5,194	1,279	1,320
Deffered expenditure	-	-	-	-	-	-	-	-
Net Current Assets	(4,116)	(4,881)	(3,942)	(3,055)	(2,246)	(514)	(865)	(399)
	(1,286)	(1,537)	(67)	1,449	2,897	4,197	448	921

Turnover and Profits:

Turnover	179	406	607	689	1,218	1,332	1,290	1,823
Loss/Profit before Taxation	(1,470)	(1,539)	(1,498)	(1,381)	(1,221)	(581)	(252)	280
Preliminary Expenses	-	-	-	-	-	-	-	(14)
Loss/Profit after Taxation	(1,470)	(1,539)	(1,498)	(1,381)	(1,221)	(581)	(252)	266

Source: APC Limited, Financial Statements 1985 - 1992

4.3 FINANCIAL ANALYSIS

In order to clearly demonstrate the financial performance of APC Limited the operations of the Company are analysed with the aid of Financial ratios.

4.3.1 Financial Ratios

Financial Ratios serve as powerful tools used in financial analysis and interpretation of accounting statements. The Ratios give the necessary and required information to the interested parties inside and outside the Company. These information and data, if properly analysed, would aid decision taking and measurement of Company's performance and efficiency over time. For instance, the short term creditors or potential trade creditors would like to know how the Company would be able to meet its short term financial obligations. Also, the long term creditors would be interested in the extent to which the firm has used its long term solvency and its ability to pay interests on bonds and repayment of principal.

In the same vein, the stock holders of a firm would be interested in the Company's efficiency and profitability which would determine returns on their investment. The Management also need these ratios to gauge the overall operating efficiency and performance of the firm and how to devise means of increasing the shareholders wealth.

Financial ratios therefore show the proportionate relationship between two accounting figures in order to give qualitative judgement about the firm's financial position and performance. For meaningful judgements and conclusion, Ratios are usually compared with preceding years and future [expected] ratios, accepted standard, ratio of another firm in a similar line of business or industry average.

Generally, financial ratios can be broadly grouped into four main categories according to their functions namely. Liquidity Ratios, Leverage ratios, Activity ratios and profitability ratios.

a. Liquidity Ratios

Liquidity ratios are used to measure the ability of the firm to meet its current liabilities and other urgent financial obligations that are due within one year. They can be subdivided into:-

I. Current ratio

This measures the firm's short term solvency and it is calculated by dividing current assets by current liabilities. That is,

$$\frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

Ratio 2:1 is always accepted as standard to prove that the firm can easily fulfil its financial obligations when due. But care should be taken here as most of the current assets may be difficult to be converted to cash quickly. This leads us to the issue of

II. Quick or Acid Test ratio

This is calculated as $\frac{\textbf{Current Assets Less Stock}}{\textbf{Current Liabilities}}$

A quick ratio of 1 to 1 is always considered as healthy financial position of a firm. This ratio excludes stock and prepayments and considers only current assets that can be 'quickly' turned into Cash in order to pay debts.

B. Leverage Ratios

Leverage ratio or Gearing is a measure of the relationship between long-term debt and equity in a firm's total capital financing. The ratios are used to judge the indebtedness of a Company vis-a-vis its shareholders equity. They can be calculated as:-

I. **Debt-equity ratio**

This is expressed as $\frac{\text{Long term debt}}{\text{Shareholders' Equity}}$

This shows the extent to which debt financing has been used in the business. It indicates the extent of financial risk borne by long-term creditors and equity shareholders. The higher the Debt-Equity ratio, the large the shareholders' earnings, when the cost of debt is less than the firm's overall rate of return on investment. But if the cost of debt is higher than the rate of return, the shareholders, bear the burden and risk. Thus, it is necessary for a firm to make proper balance between the use of debt and equity.

II. **Debt to total capital ratio**

This is another aspect of Gearing ratio calculated as:

$$\frac{\text{Long term debt}}{\text{Permanent Capital}}$$

The permanent Capital here includes the common shareholders' equity, preference shareholders equity and others.

III. **Coverage ratio**

This measures the firm's debt-servicing capacity, but it has a limitation of not considering fixed obligations like preference dividend and repayment of principal. It is expressed as:

$$\frac{\text{Net Profit before interest and taxes}}{\text{Interest charges.}}$$

c. Activity Ratios

These ratios measure the efficiency with which the firm manages and utilises its assets. In essence, they analyse the relationship between sales and the various assets. They can be described under the following terms:-

I. Inventory [Stock] Turnover

This ratio measures the speed at which merchandise is sold and indicates the efficiency of the firm's inventory management. It is stated as:-

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

II. Debtors Turnover and Collection period ratios

These are used to judge the quality or financial liquidity of debtors. They are:-

$$\text{Debtors Turnover} = \frac{\text{Credit Sales}}{\text{Average Debtors}}$$

$$\text{OR} \quad \frac{\text{Total Sales}}{\text{Debtors}}$$

The debtors turnover indicate the number of times on the average that debtors [receivables] turnover each year; the higher the value of the debtors turnover, the more efficient is the management of assets.

Average collection period is calculated as $\frac{\textbf{Debtors x Days in year}}{\textbf{Sales}}$

The shorter the average collection period, the better the quality of debtors and vice versa.

iii. Fixed Assets Turnover

This indicates the relationship between sales and investment in fixed assets. It measures the efficiency with which the firm utilises its investment in fixed assets; and always expressed as

$$\frac{\textbf{Sales}}{\textbf{Net Fixed Assets}}$$

The limitation of this ratio is that the Assets figures are used after depreciation. This may give wrong impression when comparing the fixed assets turnover for two firms whose assets were purchased at different times.

iv. Total Assets Turnover

This is expressed as $\frac{\textbf{Sales}}{\textbf{Total Assets}}$

and

v. Capital employed [non-current liabilities plus owners' equity] turnover

This can be stated as $\frac{\textbf{Sales}}{\textbf{Capital Employed}}$

D. Profitability Ratios

Profitability ratios indicate the operating efficiency of the Company. They measure the relationship between sales and profit; and analyse investment with profit. Prominent among them are:-

(i) Gross Profit Margin $= \dfrac{\text{Sales - Cost of goods sold}}{\text{Sales}} = \dfrac{\text{Gross Profit}}{\text{Sales}}$

(ii) Net Profit Margin $= \dfrac{\text{Net Profit after taxes}}{\text{Sales}}$

(iii) Operating Ratios $= \dfrac{\text{Cost of goods sold + Operating Expenses}}{\text{Sales}}$

This also explains the changes in the net profit margin ratio.

(iv) Return on Investment:-

Return on assets $= \dfrac{\text{Net Profit after taxes}}{\text{Total assets}}$

OR $= \dfrac{\text{Net Profit after taxes + Interest}}{\text{Total Assets}}$

Return on Capital employed $= \dfrac{\text{Net Profit after taxes}}{\text{Capital employed}}$

OR $= \dfrac{\text{Net Profit after taxes + Interest}}{\text{Capital employed}}$

OR $= \dfrac{\text{Net Profit after taxes + Interest}}{\text{Capital employed - Intangible Assets}}$

Return on shareholders' equity $= \dfrac{\text{Net Profit after taxes}}{\text{Shareholders' equity (Net worth)}}$

Return on Common equity $= \dfrac{\text{Net Profit after taxes - Preference Dividend}}{\text{Common Shareholders' equity}}$

Earning per share $= \dfrac{\text{Net profit after taxes - Preference Dividend}}{\text{Number of Common shares outstanding}}$

4.3.2 <u>WEAKNESS OF FINANCIAL RATIOS</u>

Financial ratios, as highlighted above have various weaknesses that always pose as problems to the financial analysis. Some of these weaknesses are stated below as:-

(i) **Comparison difficulty:** It is always difficult to compare the ratios of one firm with the other mainly because their level of operations, assets condition and management efficiency would not be exactly the same. Also, the industry averages are difficult to establish and getting standard ratio that would be applicable to all the firms in the same industry is another major task.

(ii) **Changes in prices overtime** This is another problem that weakens the efficiency of financial ratios. The accounting figures extracted from Balance Sheet are always static and calculated on historical costs, whereas in practice, the monetary value always fluctuates. This makes the projection of past financial result, very difficult, as good indicator of future performamnce.

(iii) **Definition problems:** These always occur among the scholars. For example, while some agree that preference stock should be added to the Company's equity, other maintain that they should be treated as long-term liability. The absence of generally acceptable definitions for most of the ratios always serve as impediments for their reliability.

The above enumerated weaknesses notwithstanding, financial ratios are still regarded as the powerful tools for measuring the profitability, short term and long term financial position, the overall operating efficiency and performance of the firms.

Tables II and III below show the APC Ltd's computed Accounting Ratios and Analysis for eight consecutive years (1985 - 1992)

APC LIMITED: ACCOUNTING RATIOS AND ANALYSIS FOR EIGHT YEARS (1985 - 1992)

TABLE II

Accounting Ratio	1992	1991	1990	1989	1988	1987	1986	1985
	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{966}{5081} = .19$	$\frac{908}{5841} = .16$	$\frac{532}{4457} = .12$	$\frac{606}{3661} = .17$	$\frac{817}{3063} = .27$			
Quick Ratio = $\frac{\text{Current Assets Less Stocks}}{\text{Current Liabilities}}$	$\frac{202}{5081} = .04$	$\frac{760}{5841} = .13$	$\frac{377}{4457} = .10$	$\frac{431}{3661} = .12$	$\frac{577}{3063} = .19$			
Debt Equity Ratio = $\frac{\text{Long Term Debt}}{\text{Shareholders Equity}}$					$\frac{67}{1330} = .05$	$\frac{146}{1100} = .13$	$\frac{466}{1100} = .42$	$\frac{686}{1100} = .62$
Inventory Stock Turnover: $\frac{\text{Cost of Goods sold}}{\text{Average Inventory}}$	$\frac{179}{764} = .23$	$\frac{406}{148} = 2.74$	$\frac{607}{155} = 3.92$	$\frac{689}{175} = 3.94$	$\frac{1218}{240} = 5.08$			
Debtors Turnover = $\frac{\text{Total Sales}}{\text{Debtors}}$	$\frac{179}{22} = 8.14$	$\frac{406}{672} = .60$	$\frac{607}{186} = 3.26$	$\frac{689}{398} = 1.73$	$\frac{1218}{536} = 2.30$			
Assets Turnover = $\frac{\text{Sales}}{\text{Net Fixed Assets}}$	$\frac{179}{2830} = 0.06$	$\frac{406}{3344} = .12$	$\frac{607}{3875} = 0.16$	$\frac{689}{4504} = 0.15$	$\frac{1218}{5143} = 0.24$	$\frac{1332}{5794} = 0.23$	$\frac{1290}{1279} = 1.01$	$\frac{1823}{1320} = 1.38$
Total Assets Turnover: $\frac{\text{Sales}}{\text{Total Assets}}$	$\frac{179}{3795} = 0.05$	$\frac{406}{4252} = .10$	$\frac{607}{4407} = 0.14$	$\frac{689}{5110} = 0.14$	$\frac{1218}{5960} = 0.20$			
Net Profit Margin = $\frac{\text{Net Profit after taxes}}{\text{Sales}}$	$\frac{(1470)}{179} = -8.2$	$\frac{(1539)}{406} = -3.8$	$\frac{(1498)}{607} = -2.47$	$\frac{(1381)}{689} = -2.0$	$\frac{(1221)}{1218} = -1.0$	$\frac{(581)}{1332} = -0.44$	$\frac{(252)}{1290} = -0.20$	$\frac{266}{1823} = 0.15$
Return on Assets = $\frac{\text{Net Profit after taxes}}{\text{Total Assets}}$	$\frac{(1470)}{3795} = -0.39$	$\frac{(1539)}{4252} = -0.36$	$\frac{(1498)}{4407} = -0.34$	$\frac{(1381)}{5110} = -0.27$	$\frac{(1221)}{5960} = -0.20$			
Return on Shareholders equity $\frac{\text{Π after. taxes}}{\text{Shareholders Equity}}$	$\frac{(1470)}{133} = -1.11$	$\frac{(1539)}{1330} = -1.16$	$\frac{(1498)}{1330} = -1.13$	$\frac{(1381)}{1330} = -1.04$	$\frac{(1221)}{1330} = -0.92$	$\frac{(581)}{1100} = -0.53$	$\frac{(252)}{1100} = -0.53$	$\frac{266}{1100} = -0.24$

Source : APC Limited, financial Statements 1985 – 1992

TABLE III

APC LIMITED

ABRIDGED ACCOUNTING RATIOS AND ANALYSIS FOR EIGHT YEARS [1985-1992]

ACCOUNTING RATIOS	1992	1991	1990	1989	1988	1987	1986	1985
CURRENT RATIO	0.19	0.16	0.12	0.17	0.27			
QUICK RATIO	0.04	0.13	0.10	0.12	0.19			
DEBT-EQUITY RATIO					0.05	0.133	0.42	0.62
INVENTORY [STOCK] TURNOVER	0.23	2.74	3.9	3.94	5.1			
DEBTORS TURNOVER	8.14	0.60	3.3	1.7	2.30			
ASSETS TURNOVER	0.06	0.12	0.16	0.153	0.24	0.23	1.01	1.38
TOTAL ASSETS TURNOVER	0.05	0.10	0.14	0.135	0.20			
NET PROFIT MARGIN	[8.2]	[3.8]	[2.47]	[2.0]	[1.0]	[0.44]	[0.195]	[0.15]
RETURN ON ASSETS	[3.9]	[.36]	[.34]	[.27]	[.20]			
RETURN ON SHARE-HOLDER EQUITY	[1.11]	[1.16]	[1.13]	[1.04]	[.92]	[.53]	[.23]	[0.24]

Source: APC Limited, Financial Statements 1985 - 1992

4.4 GRAPHICAL REPRESENTATIONS AND INTERPRETATIONS OF THE PROCESSED DATA

For better clarification, the above tables are hereby analysed and interpreted with figures I to X as follows:-

a. Current Ratio

As depicted in figure I below, this ratio fell from 27% in 1988 to 17% in 1989. In 1990 the Current Ratio dropped further to 12% from where it rose to 16% and 19% in 1991 and 1992 respectively.

This analysis confirmed that the Company was not able to meet its current financial obligations during the period under consideration. Consequently, its short term creditors were wary of extending further credit facilities because of the liquidity problems. Considering the conventional rule of current ratio 2 to 1, it may be assumed that the Company was not solvent.

b. Quick Ratio

Figure II shows that from 1988 to 1992, the highest quick ratio that the Company could attain was 19% and the condition was deplorable in 1992 with the lowest figure of 4%. When compared with the current ratios above, it can be confirmed that stock took some considerable aspect of the current Assets.

It can therefore be interpreted that the firm was unable to meet half of its urgent current liabilities throughout the period under review. Although it may be improper to stick to the recommended quick ratio of 1 to 1; the industry which this firm belongs demands for higher quick ratio than what was obtained.

c. **Debt-Equity Ratio**

The debt-equity Ratios were as high as 62% and 42% in 1985 and 1986 respectively. But only to fall to 13% in 1987 and 5% in 1988.

This shows that the Company was initially highly geared but later in the subsequent years, it was unable to source required Finance capital. This scenario can be ascribed to the lost of confidence in the Company, by the Creditors, due to its poor performance.

d. **Inventory [Stock] Turnover**

Figure IV below shows the persistent fall in the inventory turnover of the Company from 5.1 in 1988, the turnover fell to 3.94 in 1989, 3.9 in 1990 and drastically dropped to .23 in 1992.

This result can be interpreted to mean that the Company's inventory Management was unfavourable. The stock is being kept unnecessarily due to poor sales. This situation is inimical to the Company's profitability as obsolete stock are being kept at the expense of the Company. The costs of the Company would therefore increase and the profit would reduce.

e. Debtors Turnover

Debtors Turnover records for the Company fluctuates from 2.3 in 1988, 1.7 in 1989, 3.3 in 1990 .6 in 1991 to 8.14 in 1992. This indicates that apart from 1992 which the Company was able to reduce its debtors, the collection pattern had been adversely affecting the liquidity of the Company. The debtors had not been settling their obligations as and when due.

f. Assets Turnover

The Assets Turnover figures decrease from 1.38 in 1985 to .06 in 1992. This trend portrays that the fixed assets of the Company are not efficiently used. The capacity utilization was far below satisfaction. In essence, under utilization of Assets always increase the costs and reduce profits.

g. Total Assets Turnover

As shown in figure VII below, there was downward trend in the use of total Assets. The total Assets Turnover was .20 in 1988, .135 in 1989, .14 in 1990, .10 in 1991 and dropped to .05 in 1992. These figures further prove to the fact that the activities of the Company was too low, hence the poor performance and increase cost of production.

APC, LIMITED: FINANCIAL RATIO ANALYSIS.

CURRENT RATIO

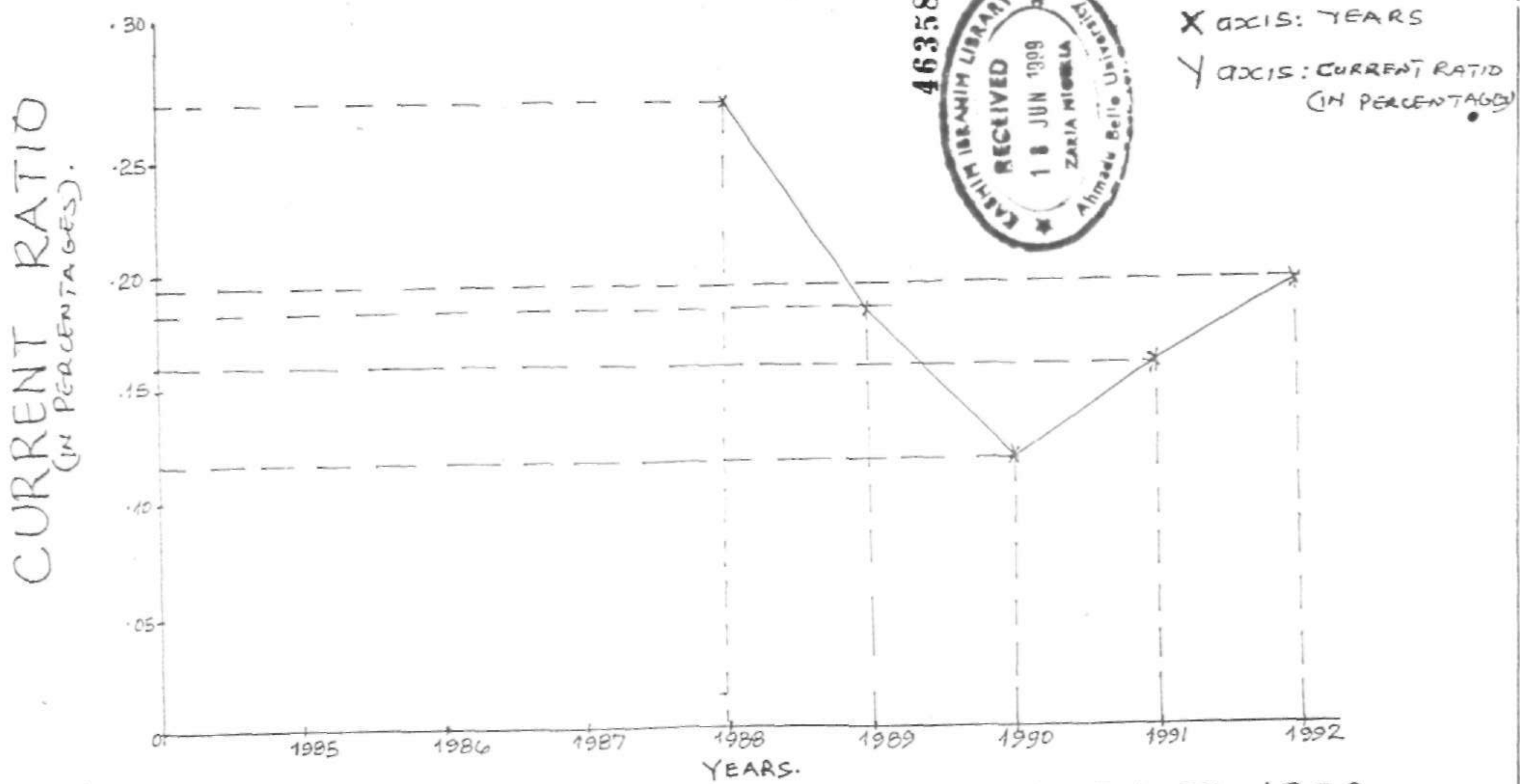

FIGURE 1

SOURCE: APC LIMITED: FINANCIAL STATEMENTS 1985–1992.

APC LIMITED; FINANCIAL RATIO ANALYSIS.

QUICK RATIO

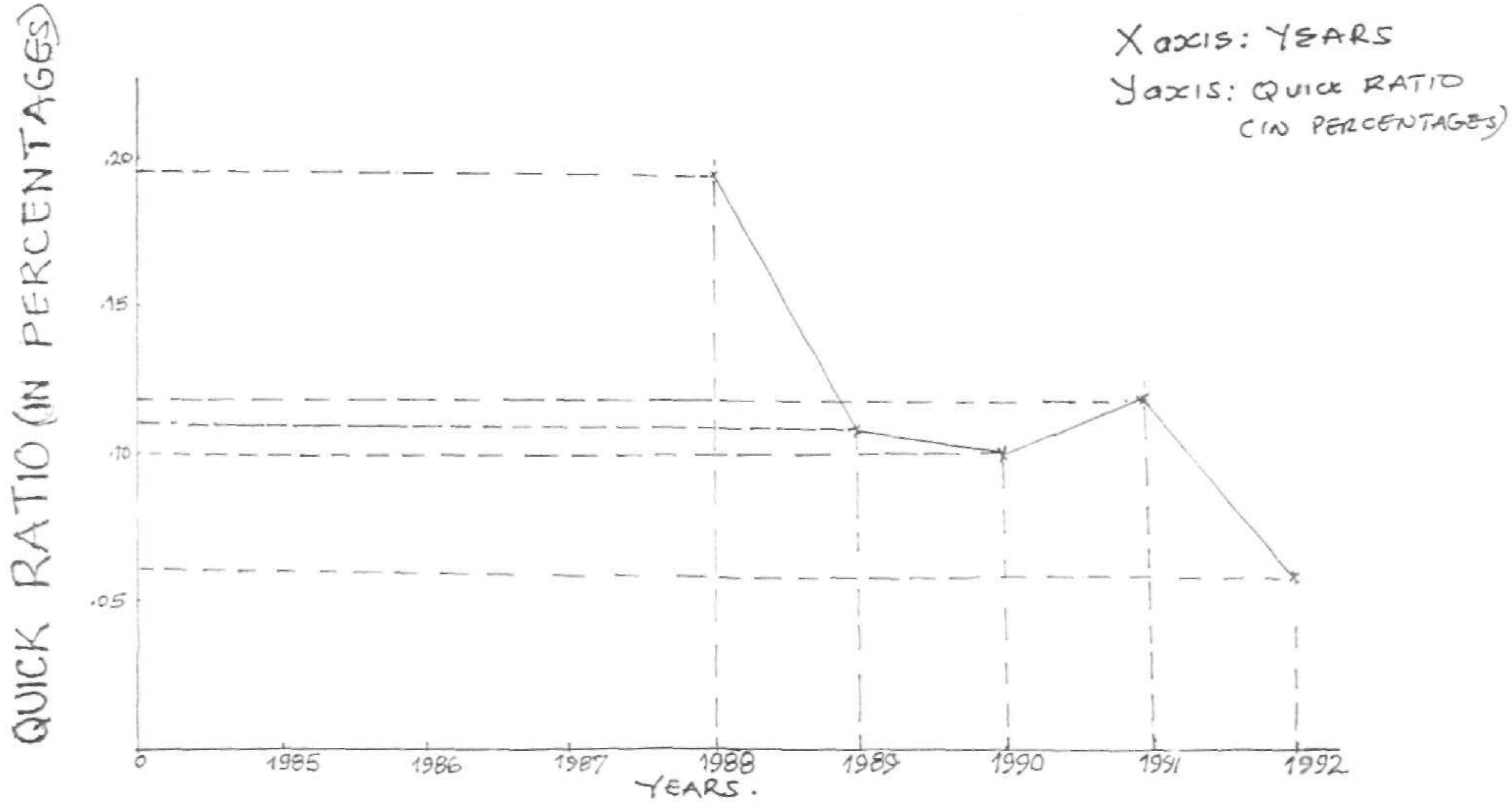

FIGURE II SOURCE: APC LIMITED; FINANCIAL STATEMENTS 1985-1992.

APC. LIMITED; FINANCIAL RATIO ANALYSIS.

DEBT-EQUITY RATIO

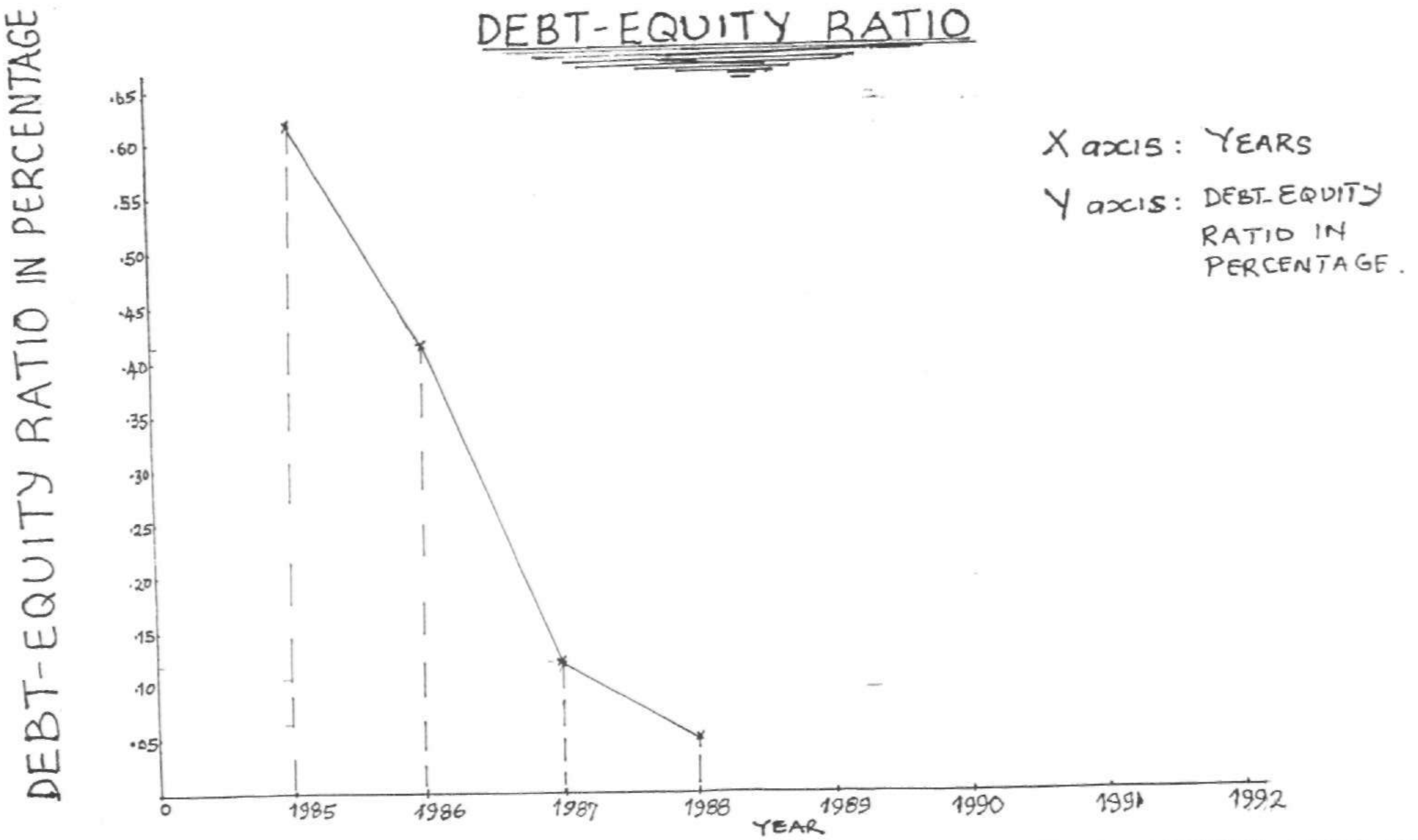

FIGURE III SOURCE; A·P C LIMITED FINANCIAL STATEMENTS 1985-1992

APC LIMITED; FINANCIAL RATIO ANALYSIS.

INVENTORY (STOCK) TURNOVER.

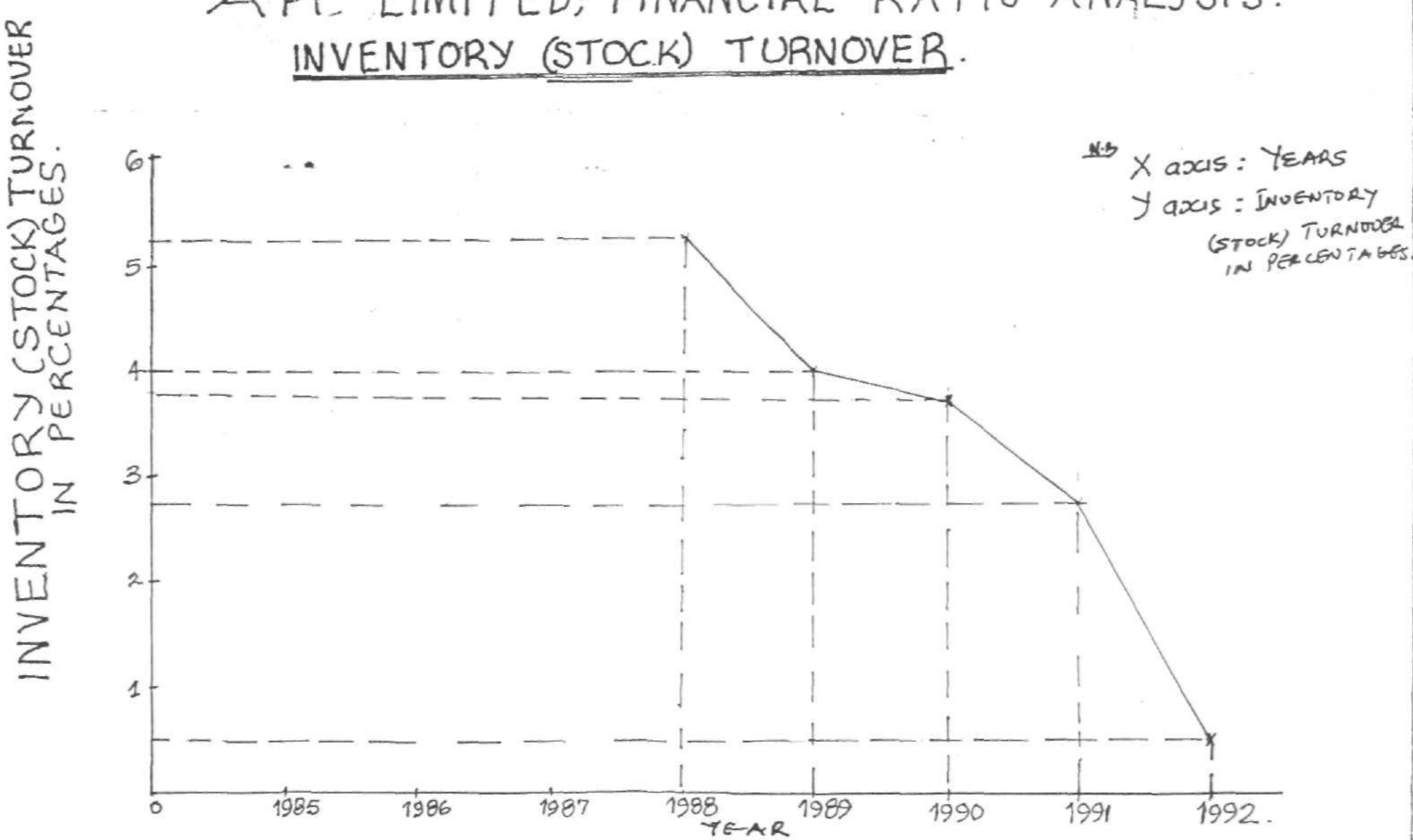

FIGURE IV SOURCE; APC LIMITED FINANCIAL STATEMENTS 1985-1992.

APC LIMITED; FINANCIAL RATIO ANALYSIS

DEBTORS TURNOVER

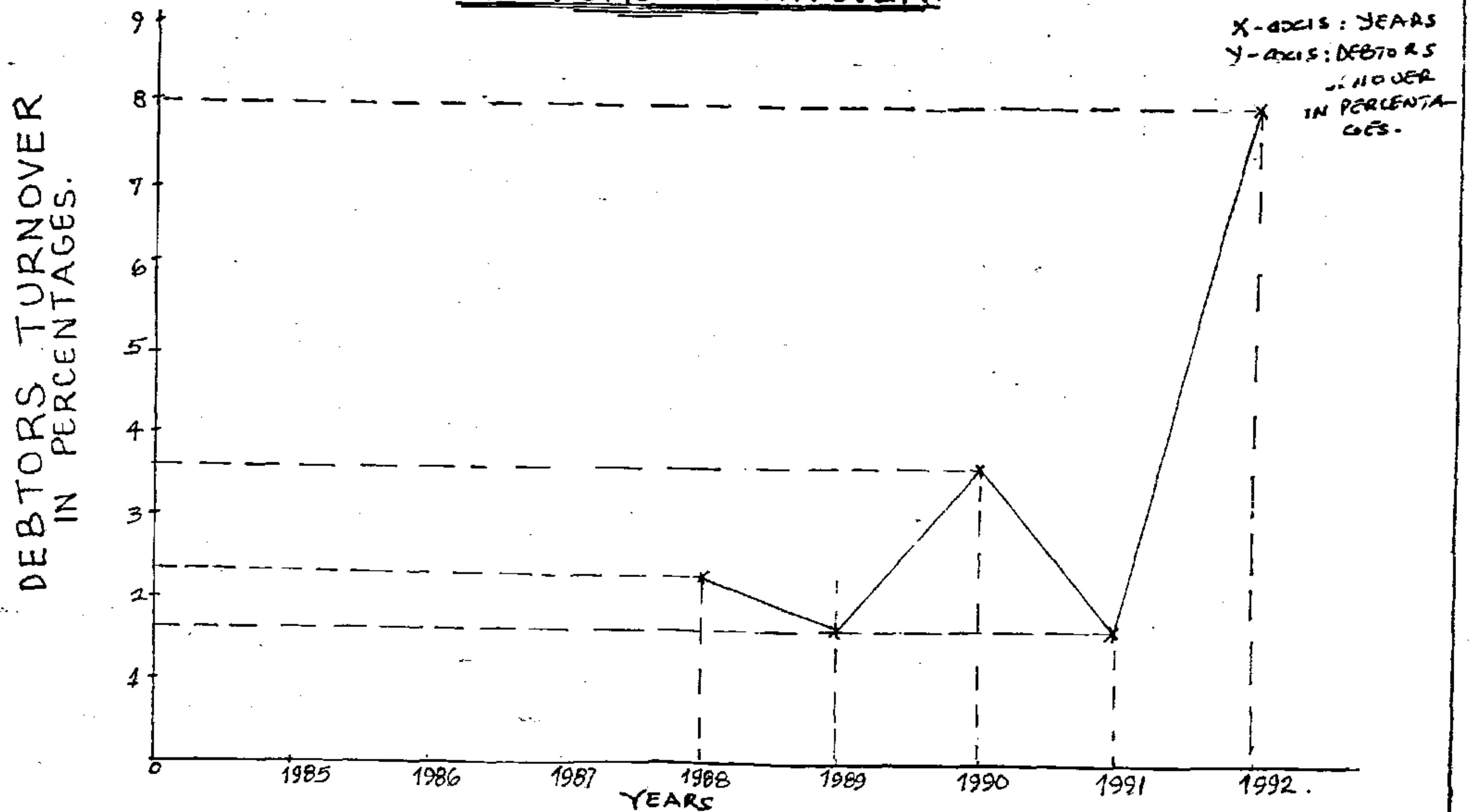

FIGURE V SOURCE; APC LIMITED FINANCIAL STATEMENTS 1985-1992.

APC LIMITED; FINANCIAL RATIO ANALYSIS.

ASSETS TURN-OVER

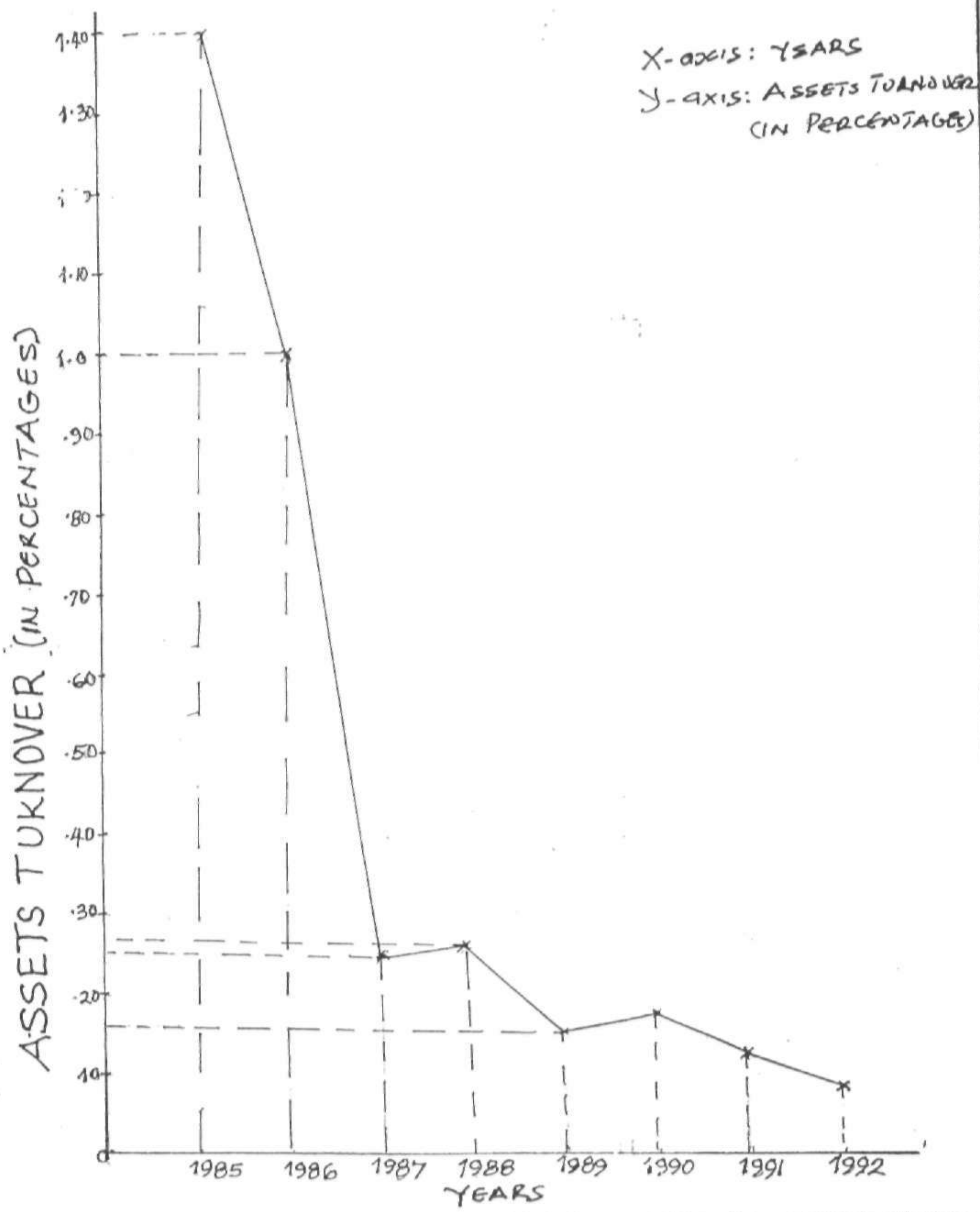

FIGURE VI SOURCE: APC LIMITED FINANCIAL STATEMENTS 1985—1992.

APC LIMITED: FINANCIAL RATIO ANALYSIS.

TOTAL ASSETS TURNOVER.

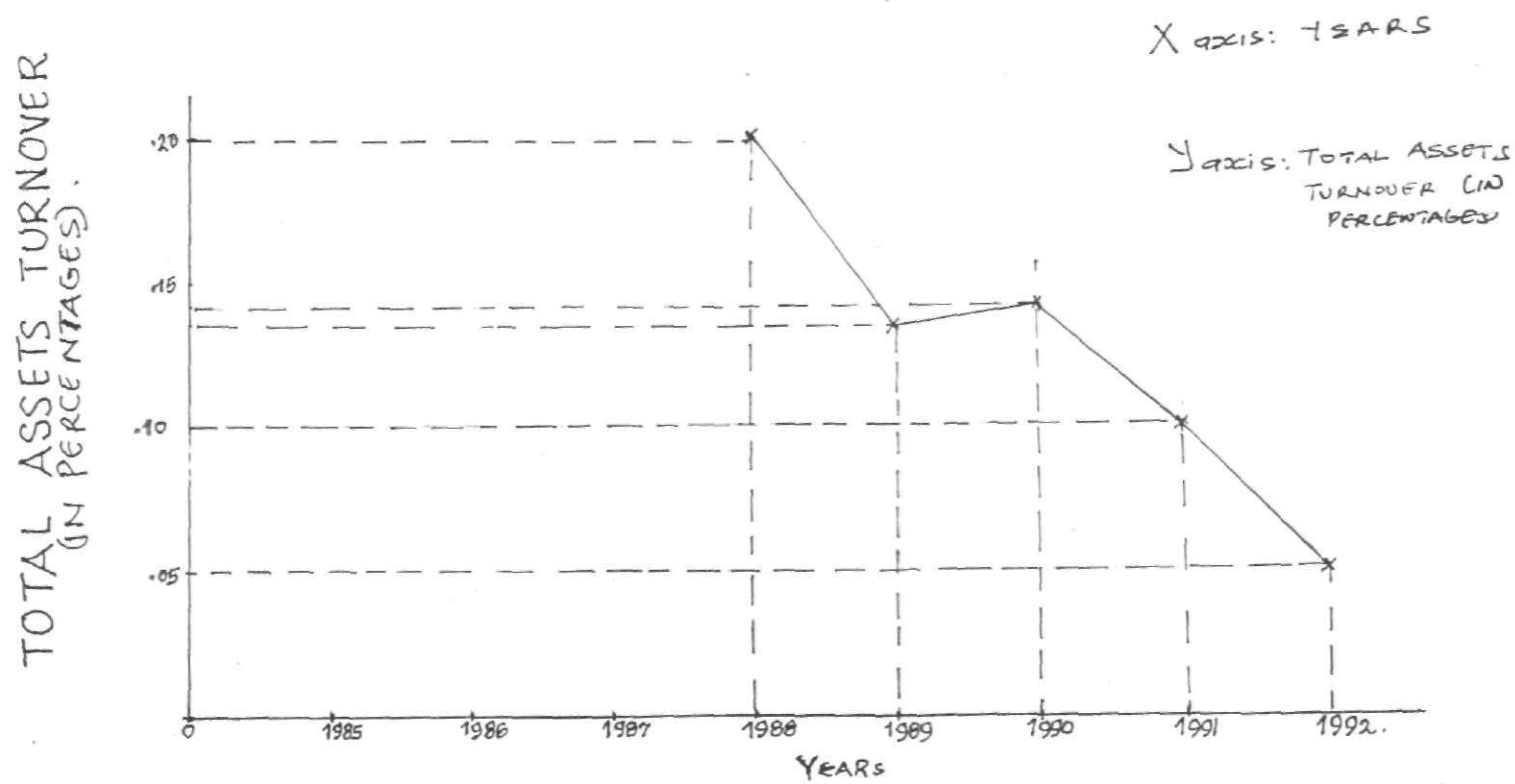

FIGURE VII SOURCE: APC LIMITED: FINANCIAL STATEMENTS 1985-1992.

APC LIMITED FINANCIAL RATIO ANALYSIS.

NET PROFIT MARGIN.

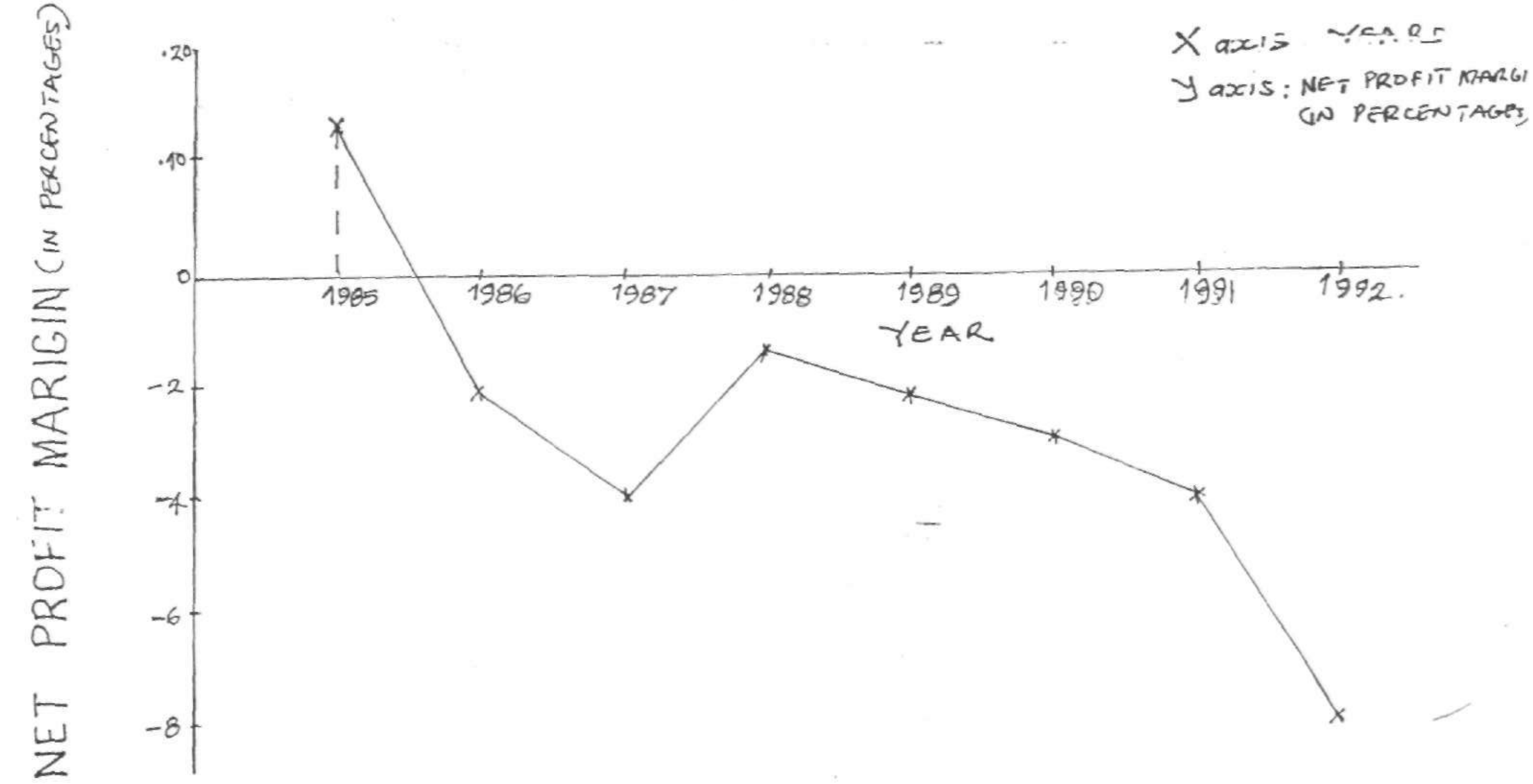

FIGURE VIII SOURCE: APC LIMITED FINANCIAL STATEMENTS 1985-1992.

APC LIMITED FINANCIAL RATIO ANALYSIS

RETURN ON ASSETS

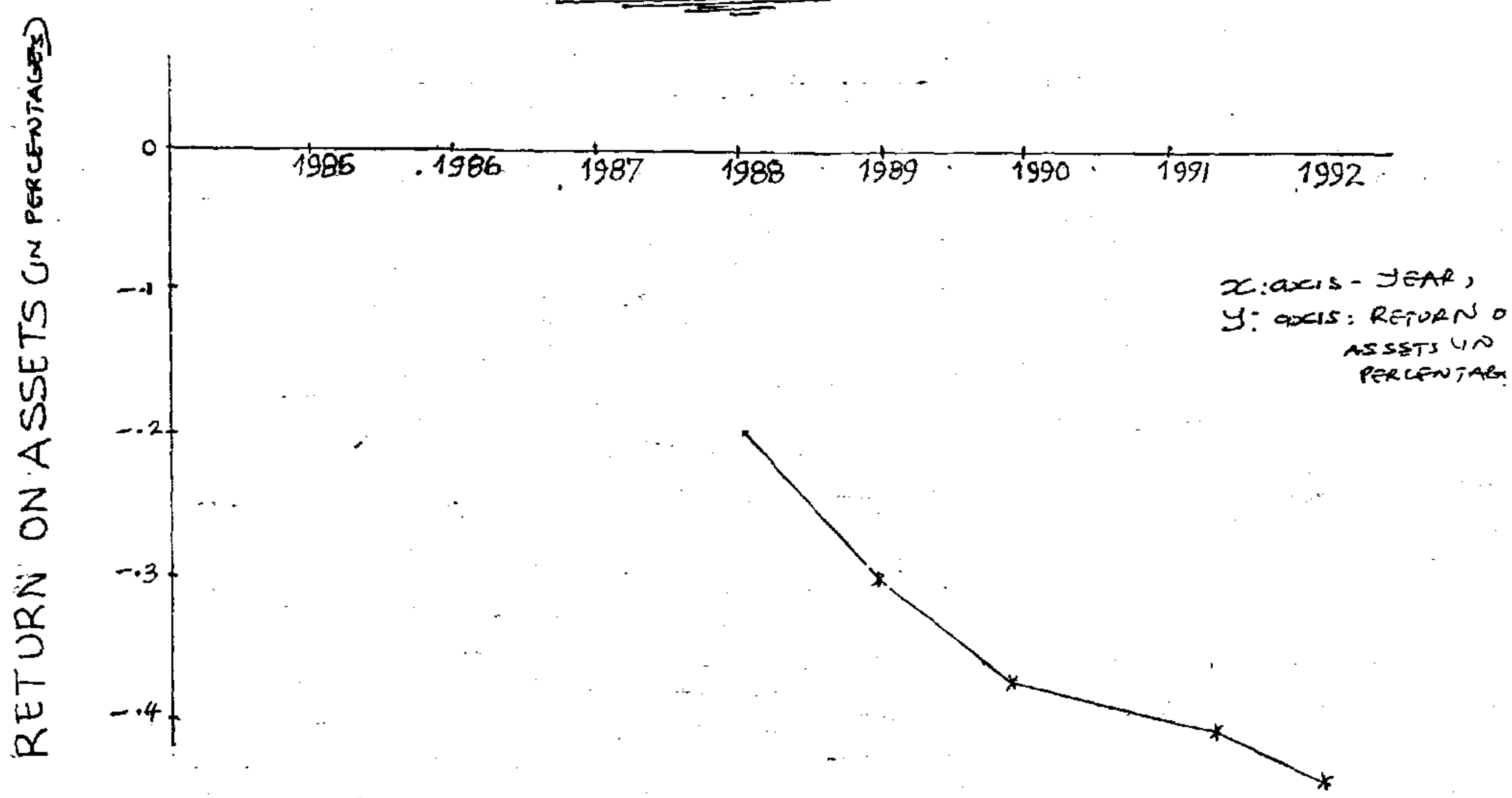

FIGURE IX SOURCE: APC LIMITED; FINANCIAL STATEMENTS 1985-1992.

APC LIMITED FINANCIAL RATIO ANALYSIS. RETURN ON SHARE HOLDERS EQUITY.

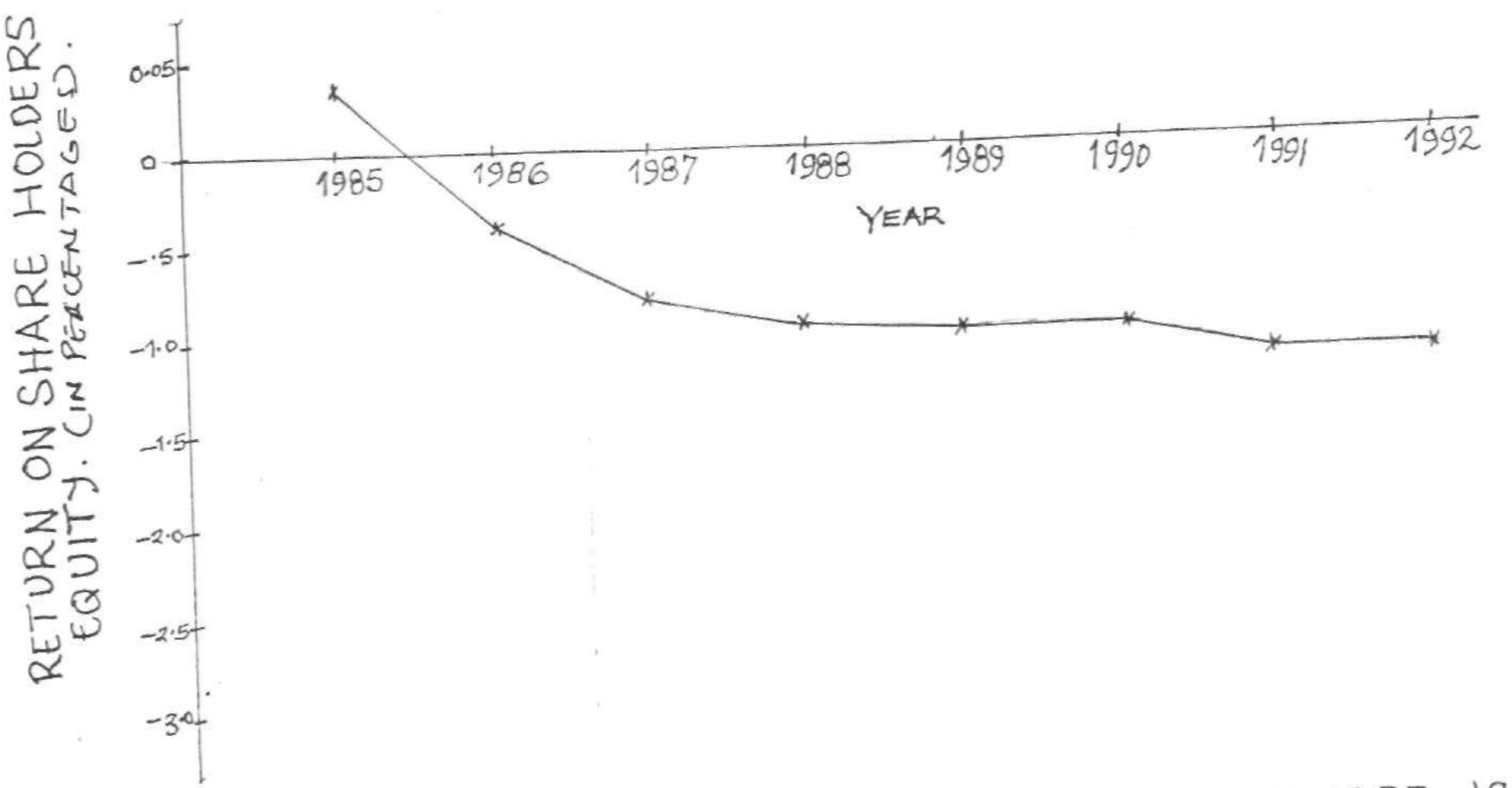

FIGURE X SOURCE: APC LIMITED FINANCIAL STATEMENTS 1985–1992.

4.5 OTHER INVESTIGATIONS

From the personal interviews conducted with the key staff of the Company, it was revealed that the major problem causing the poor performance of the firm was finance. It was confirmed that the Company was initially starved of fund by its shareholders. This early undercapitalisation compelled the Company to operate on one line of production.

Subsequently, the Company 'shopped' for loanable capital to beef up its financial base but only one Commercial Bank granted a meagre loan at "cut-throat" cost. This has made the Company to be worse - of as the little amount generated was used to service the debts.

With the advent of Structural Adjustment Programme in 1986, the Government introduced policies and Programmes that deregulated the vital sectors of the economy. The second Tier Foreign Exchange Market [SFEM] was then introduced to serve as the market where the foreign currencies would be purchased at a 'realistic rate'. This later metamorphosised into AFEM [Autonomous Foreign Exchange Market]. The policy further aggravated the liquidity problem of APC Limited, more working capital is required to procure enough foreign exchange for its inputs. The working capital finance problem thereby emerged. Even, Companies that got loan in hard currencies at the old rate are now compelled to repay the loan at the current Foreign Exchange rate which is unbearable.

To save the firm [APC Limited] from total collapse, proposals were made, as earlier mentioned in paragraph 4.1 page 39.

[i] To procure additonal plants for effective diversification,

[ii] Increase the Authorised and paid up share capital, and

[iii] Source Finance capital from Development Banks and Working Capital from Merchant and Commercial Banks at moderate charges.

These laudable plans could not be executed due to problem of Finance. According to information gathered, most of the shareholders did not subscribe to the shares allotted to them up to date. The potential creditors [Development, commercial and Merchant Banks] while approached, did not show any interest to finance the Company. It was therefore confirmed that only adequate finance would turn the Company around to achieve its corporate aims and objectives.

4.6 FINDINGS OF THE STUDY

This research work has discovered some fundamental issues in financing small and medium scale enterprises. Prominent among which are:

I. Definition

Proper attention was not paid to the actual definition of capital outlay and characteristics of SMEs. This has caused a lot of misconceptions that has relegated SMEs to mere cottage industries. Constant review of the definitions of SMEs will go along way to reflect the true impact of these business firms to the economy and aid the Government to formulate realistic monetary and fiscal policies.

ii. **Importance**

It has been shown that the real importance of SMEs has not been discovered in Nigeria, thus, the Government pays lip service towards its development.

iii. Also, the study has demonstrated that the performance of specialised/development banks, commercial and merchant banks; towards the development of SMEs is below expectation.

iv. In addition, adequate monitoring and control of these institutions by the monetary Authorities would further aid the development of Nigerian economy.

v. Furthermore, this project has shown that some proprietors/share-holders of SMEs lack adequate skill to get their firms out of the wood.

vi. It was also discovered that Government policies and programmes towards the development of SMEs lack necessary machinery to make them effective.

vii. Finally, the case treated, properly demonstrates that finance serves as the 'live wire' of any business enterprise. It can always make or mar any establishment.

4.7 TEST OF HYPOTHESES

The three hypotheses earlier mentioned in chapter one paragraph 1.5 are hereby tested as follows:-

Hypothesis I

Availability of adequate finance is essential for the operation, development and growth of an organisation.

Test of Hypothesis I

This hypothesis has been fully proved to be positive in the case analysis - APC Limited. As shown in Table I on page 39, the Company was underfunded from the inception of its operation. From 1985 to 1992, its share capital marginally increased from ₦1.1m to ₦1.3m despite the high inflationary rate. Consequently, the loss increased from ₦252,000 in 1986 to ₦1.5m in 1992. The insolvency of APC Limited was further demonstrated in Table III on page 50 and figure I on page 55 where the current Ratio fell drastically from 27% in 1988 to 12% in 1990. This situation is unhealthy when compared with the conventional rule of current ratio 2 to 1. It can therefore be concluded that after nearly two decades of operation, the Company is still crawling without any development or growth due to inadequate finance.

Hypothesis II

Prudent financing determines the viability and achievement of a business enterprise.

Test of Hypothesis II

The truth of this hypotheses has been demonstrated in the study. For instance Table III on page 50 shows that Returns on Assets have always been negative. From -.20 in 1988 to -3.9 in 1992 confirmed that the Company's Assets were grossly under utilized. Suffice to say that the performance of the Company could have been improved if less fixed assets capacity have been installed.

Hypothesis III

Finance determines the success or failure of a business.

Test of Hypothesis III

The importance of finance can be appreciated from the results obtained in data presentation and analysis of APC Limited. As shown in Table III on page 50 and the Graph in figure VII, the Assets turnover dwindled from 0.20 in 1988 to 0.05 in 1992. While the return on Assets and return on shareholders' equity are persistently negative due to the finance constraints. In fact, the lack of adequate finance has crippled the Company.

4.8 CONCLUSION

This Chapter has been treated as the core of the study. Extensive case analysis was made to show the performance of a business enterprise that was underfunded. This has clearly demonstrated the ineffectiveness of Governments policies and programmes towards the development of SMEs in particular and the economy in general.

Financial ratios and graphical presentation and interpretations were made for clarity purpose. This further shows the effect of finance in a contemporary business organisation. Moreover, the three hypotheses, which this study is based upon, were tested positive. It has therefore been proved that finance plays a dominant role in the life cycle of a business enterprise. That is, for efficient, effective, development and success of an organisation, adequate and prudent finance is the answer.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

In the course of this project, frantic efforts have been made to analyse the importance of finance in small business organisations.

The significance of 'finance' was also traced ot its traditional and new role. It was pin-pointed that finance has changed from its narrow function of sourcing and using of funds to more elaborate functions that influence major decisions in an enterprise.

Furthermore, small business firms' developmental role was enumerated. The impact of these firms as agents of growth for the industrialised countries in general and developing countries in particular was shown. Governments' policies and programmes towards the promotion of these firms were highlighted together with the impediments in militating against the realisation of these laudable objectives.

Moreover, financial ratios were also treated as useful tools for the evaluation of the performance and solvency of business firms. It was discovered that, their limitations not withstanding, the ratios can aid the creditors, the owners [both present and potential] of a firm and management towards taking vital decisions.

To demonstrate the important role of 'finance' in a business firm, an in-depth analysis was made of a contemporary firm and the analysis revealed that the importance of finance cannot be over emphasised. It was clearly shown through the case study that inadequate finance is inimical to the existence and growth of business organisations.

5.2 CONCLUSION

In all its ramifications, this study has shown the opportunities embedded in small business firms; both to the investors and the entire economy. The strengths and weaknesses of these organisations as presented in this study have confirmed that the Governments still have a lot to do in order to realise their objectives of self reliance and economic development.

Examining the financial aspect of small business firms, it can be safely concluded that pragmatic protection and incentives have not been provided for the survival of these firms. One can therefore assert that the Governments' policies and programmes for the provision of finance for Small and Medium scale Enterprises [SMEs] are the major barriers retarding the progress of these firms. As earlier mentioned in Chapter Two paragraph 2.7 page 23, the Government established the National Economic Reconstruction Fund [NERFUND] through Central Bank of Nigeria [CBN] for on lending to the Commercial Banks [intermediaries] to finance and promote the development of small and medium scale enterprises [SMEs].

Today, a lot of SMEs that took the loan are facing "firing squad" and most of them are already, dead! As discussed in paragraph 4.5 page 65, these indebted firms are being compelled to service the debts or draw the balance of unutilised portion of such loans at the current autonomous rate of $1 to ₦85, whereas these loans were contracted at the exchange rate of $1 to ₦22 or less.

5.3 LIMITATIONS OF THE STUDY

The limitations of this study commenced from the problems of collecting "confidential data" from the company used as a case study [APC Limited]. As can be observed from the data presentation and analysis section of Chapter Four, some needed information was not made available for release to any outsider as they are 'classified' documents. Moreover, the genuineness and authenticity of the data and documents collected from the primary source are assumed to be true and a fair representation of APC Limited's records. Although this did not allow the researcher to generalise the outcome of the study it has served as a fairly deep study of a firm whose characteristcs are assumed to be a replica of what can be obtained in similar firms.

These limitations did not affect the outcome and lessons to be derived from the study. It is the researcher's hope that future researchers in this field would find the observations made from this study beneficial.

5.4 RECOMMENDATIONS

From the lessons learnt in this research work, the following recommendations are made for the enhancement of healthy operations of smal business firms in Nigeria and the achievement of the Government objectives of economic growth and development:-

[i] The Government should ensure the setting up of adequate machinery for the implementation of its fiscal and monetary policies established for the finance and promotion of these SMEs. It is not adequate for CBN to give guidelines to the financial institutions on the percentage of their loanable funds to be disbursed to these organisations but effective monitoring and control can ensure adequate compliance.

[ii] The issue of collateral securities needed from these SMEs should also be re-addressed. Instead of emphasising on mortgage instruments like landed property, guarantee or surety by the Local Government Authority in which the project is sited or an undertaking from a well reputable personality should be adequate as security required by the Banks before they can disburse loan to SMEs.

[iii] Development financial institutions like NIDB, NERFUND, NBCI and other merchant and commercial banks should be compelled to open a separate

consultancy and advisory services department for small business firms. This department should organise lectures, workshops and other training programmes for the operators of the SMEs in their locality. With this development, it is envisaged that the mortality rate of these organisations would be drastically reduced.

[iv] Community Banks and The People's Bank should be given more significant roles in the financing of small business firms. The Government should give these banks more autonomy and responsiblity to disburse most of their loanable funds to the SMEs in their area of operation.

[v] The definition of SMEs particularly in relation to its Capital Structure should be properly reviewed from time to time to reflect the fast changing economic situation.

[vi] It is also recommended that more enabling environment should be provided for the smooth operation of small business firms. Government should provide the basic infrastructural facilities like electricity, pipe-borne water, good roads, warehouses and industrial layouts. These would go a long way towards reducing the operating costs of the SMEs and this would provide them with enough working capital for their operational needs.

[vii] Special protection should also be provided for the SMEs to reduce their vulnerability to foreign exchange fluctuations. As most of them require foreign input for production, Government subsidy on their exchange rate would reduce the financial hardship that is presently 'killing' the small business firms in Nigeria.

[viii] Taxes, Rates and Rents charged by the Government are other barriers to the growth of SMEs. Adequate tax relief and reduction of some rates/rents can assist these firms to overcome their teething problems.

[ix] Furthermore, there should be adequate development of subcontracting and other institutional links between large and small enterprises; as recommended by the United Nations Industrial Development Organisation [UNIDO], in its measurers towards the Industrial restructuring in Nigeria.

[x] SMEs should produce inputs for the giant companies. Some developing countries like Brazil, India and Egypt have benefitted from this arrangement. Nigeria should borrow a leaf.

Finally, it is hoped that the glory of small business firms can still be revived in Nigeria if adequate measures are taken by the Government to reduce the rate of inflation, and other economic, political and social problems that usually contribute to the increase in the production costs of SMEs.

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