PORTFOLIO MANAGEMENT IN PUBLIC ENTERPRISES: A STUDY OF KANO STATE INVESTMENT AND PROPERTIES LIMITED

BY

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DEDICATION

This work is Dedicated to:

LATE ALIYU GALADIMA (FATHER)

C E R T I F I C A T I O N

This research work Entitled PORTFOLIO MANAGEMENT IN PUBLIC ENTERPRISES: A STUDY OF KANO STATE INVESTMENT AND PROPERTIES LIMITED

B Y

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Meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

NAME AND SIGNATURE OF CHAIRPERSON, SUPERVISORY COMMITTEE.	DATE
MEMBER	DATE
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DEAN, POST GRADUATE SCHOOL.	6-6-90 DATE.

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CHAPTER I

I N T R O D U C T I O N

Every investment opportunity involves some degree of risk, and the major factor that determines whether a particular investment is suitable for an individual hinges largely on the matching of his preferences for risk and expected return with those of the security in question. Investments, therefore, whether by equity or direct participation have some elements of risk associated with them. The profits of these type of investments are in most cases not known in advance with absolute certainty, only the array of their alternatives with probabilities are known. In otherwords, an investment that involves risk, is one for which the distribution of profits is not known.

The choice of an investment, therefore, as said earlier, depends on individual investors preference for risk and return, as investors have different attitudes to risk and return. The attitudes towards risk may be classified in to three categories of behaviour, referred to as risk aversion, risk seeking and risk neutral i.e. indifference to risk. The risk averter dislikes risk and consequently must be compensated for risk by what is referred to as a risk premium. The risk bearer or lover, on the otherhand finds risky situations so much to his liking that he will actually pay a premium to take part in them. The risk neutral investor is unconcerned about risk and is more interested in the expected return of a particular investment.

Most institutional investors including the Government owned institutions fall into the first category. They as much as possible avoid risk, and prefer more returns. This is due to the fact that they are expected to

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operate at a profit so as to generate revenue for the Government. This is the main reason for these types of institutions striving to obtain a combination of efficient investments. They thus evaluate the securities of different organisations, Government securities, and other projects, all in an effort to invest in the most efficient securities.

However, most of these types of organisations find it difficult to achieve this goal. In most cases they find themselves investing in inefficient securities and unviable projects. This problem arises as a result of lack of proper evaluation and appraisal techniques, inadeauate funding, and too much Government control (and interference) among others. How to solve these problems in investment is the main concern of this research.

OBJECTIVE OF THE STUDY

The objective of this research is to find an efficient system of managing investments. It will be concerned with the factors for the selection and efficient management of investments. This is to minimise risk which can only be possible when there is a systematic selection and constant evaluation and re-evaluation of investments with a view to having the best set of these investments.

Risk, which is the most important problem faced by any investor, individual or institutional is divided into systematic and unsystematic. The systematic risk, which is also called the undiverrsifiable risk is that portion of asset's variability of returns which is attributable to a common source. It is the minimum level of risk that may be achieved by means of diversification across a large group of randomly selected assets. The unsystematic or diversifiable risk is on the other hand caused by events that are unique to the firm, such as strikes, inventions

and management errors. These are industry related factors and they could be minimised by means of diversification, unlike the systematic risk which is caused by economic related factors and which could not be diversified.

The primary objective of any sound portfolio management is therefore to reduce this risk so as to get the maximum returns possible.

SCOPE AND LIMITATIONS OF THE STUDY

The study will focus on the selection and efficient administration of investments. This will involve studying the procedure for selection of investments and their evaluation to get the best set.

The study will be limited to the operations of the Kano State Investment and Properties Limited. Its quoted and unquoted investments will be studied so as to make recommendations on how best these type of investments could be selected and managed. As it is believed that a lot of factors should be taken into consideration before selecting a given investment, these factors will be analysed and appropriate recommendations given. The period to be covered is 1980 to 1987.

PUBLIC ENTERPRISES.

Public enterprises or parastatals may be viewed as the Government controlled enterprises which are supposed to "earn most of their revenue from the sale of goods and or services, are self accounting, and have a separate legal entity"[1]. They are entities wholly owned by Government, and created by a special statute which gives them authority to engage in designated activities under special conditions.

There are so many reasons for the setting up of a public enterprise. Some of these reasons include the need to raise the aggregate levels of

savings and investment, and aid the composition of investment as Government has the power to direct investments to priority areas. They are also created to avoid the consequences of or prevent private business failures, to promote national security considerations or off-set the power and market share of multinational corporations e.t.c. The major objective for establishing these types of organizations is therefore to enhance social and economic development through the provision of goods and services.

These type of parastatals may be owned by the central or Federal Government or State Governments. They are established to provide different type of services like Transportation, Broadcasting, Power, Water, Postal and Telephone services, education, banking e.t.c.

It is one of these type of parastatals or enterprises, the Kano State Investment and Properties Limited, that is studied in this research.

HISTORY OF THE COMPANY

The Kano State Investment and Properties Limited, which started as the Kano State Investment Company, is a development finance institution (incorporated under the Companies Decree 1968) wholly owned by the Kano State Government. It was established in 1972, and started business three years later. Soon thereafter, the Company was re-organised in 1976, following the adoption, by the state Government, of the report of Al-Hakim Commission of Inquiry into the state's owned companies and organisations. Accordingly, together with the appointment of a new board of directors, the government raised the capital of the company from ₦10 million. With the effective transfer of shares inherited from the Government and the purchase of new shares, the Kano State Investment Company had (in 1978) investments in 34 different organisations.

As at March, 1978 the Company earned a pre-tax profit of ₦0.75 million on a gross income of ₦1.089 million. Its total assets also rose from ₦8.3 million in 1972 to ₦13.6 million mostly from the increase in quoted and unquoted investments and treasury bills.

In 1978, the state and Federal housing estates were transfered to the company. A new properties division was therefore created and the name of the company was changed in the same year to Kano State Investment and Properties Limited, to reflect the new responsibilities. As at the end of the 1980 financial year, the initial capital of the company had risen to over ₦26 million. It receives funds from the State Government annually to invest in projects in addition to its financial strength. For example, a total sum of ₦25 million allocated for 1980/85 development plan was received as additional shareholders funds during the period, and a total sum of ₦13.7 million allocated for the 5th National Development Plan 1988/92 will also be received for the period.

The Kano State Investment and Properties Limitdd had, as at the end of 1987, total assets worth over ₦54 million, pre-tax profits of about ₦1 million fromthe gross earnings of over ₦3 million.

The company also, being an active member of the Nigerian Stock Exchange (registered in 1978), has a portfolio holdings of about 50 subsidiary and associated companies. Its total investments that were at ₦20 million in 1980, have as at the end of 1986, risen to over ₦31 million made up of quoted investments ₦14.4 million, unquoted investments ₦14.5 and loans of ₦2.2 million.

OBJECTIVES OF THE COMPANY

The major objective of the Kano State Investment and Properties Limited is the further stimulation and promotion of the industrial and commercial growth of Kano State in particular and the country in general by way of direct equity investment, provision of loans for suitable projects and the provision of Technical assistance to indigenous local enterpreneurs. The company was therefore established to among others:

- Carry on the business of assisting enterprises engaged in industry, commerce, agriculture and the exploitation of natural resources in the state;

- Investigate and advice or procure advice upon, and to aid in the formulation and carrying into effect of all manner of proposition and schemes connected with finance, industry, commerce, agriculture, and the exploitation of natural resources;

- Undertake, assist or participate in, the management or control of any partnership, company, syndicate, business or undertaking or any groups or associations, and to become a member or be represented on any board, committee, council or body exercising or participating or assisting in any such management or control;

- Carry on a general financial business and general financial operations of all kinds and undertake or aid in any enterprise;

- Invest and deal with moneys of the company not immediately required, upon such securities, and in such manner as may be determined by the shareholders;

- Support or subscribe to or otherwise aid patriotic, charitable, national or other institutions or objects of public character.

OPERATIONS

As the industrial development finance arm of the government, Kano State Investment and Properties Limited plays a role in fulfilling the development objectives of the state development plans wherever equity and direct investment by the government is required. The company is active and innovative in all aspects of project conception and implementation. It undertakes direct equity participation, grants medium and long term loans for the establishment of new and or expansion of existing industrial and commercial enterprises.

The company evaluates investment proposals, determines their risk and returns, and makes its investment decision on that line. The viability of a project therefore determines KSIP's participation.

The viable proposals are after proper analysis, evaluation and appraisal, presented to the board of directors - the final decision making body - for approval. This will then be followed by execution under close supervision. However as the company is wholly owned by the government, most of the projects it undertakes are initiated by the government, on the basis of its development objectives, as such most investment evaluation techniques are not followed.

This hinders the company's efforts to generate efficient investment composition.

The company also liases and associates with other development finance institutions and the banking community in the promotion of projects.

THE SET - UP OF THE COMPANY

An organisation structure may be defined as the regularities of the enterprise which can be analysed without reference to the predispositions of each individual member of the organisation. For the realization of the goals of an organisation, functions have to be defined together with the laid down rules and procedures that will ensure its smooth operation. In otherwords, organisations must specify relationships among individuals, positions and tasks that must be assigned to each of the members of the organisation.

The organisational structure of a business therefore, consists of rules, procedures, charts, and established practices, all operating within a business for the achievement of the company's objectives. It involves desining responsibilities within devisions, departments, and other appropriate sectors, establishing relationships between individuals, giving necessary authority to some individuals so that they can carry out their duties without having to refer all matters to a higher level, setting standards and targets in a broad fashion, designing company objectives and, more specifically by breaking down the functions into manageable tasks, and keeping the costs of operating the organisation and its systems within reasonable limits.

Organisation structures range from the formal, which is the intended or planned structure which is always arrived at through conscious choice, to the organic type which changes with the environment. There is also the differentiated structure, the type of structure that group its activities along highly specialized lines like departments, units or sub-units. However, whatever structure adopted, for the effective and efficient operation of the organisation, there should be some elements of delegation

of authority. "Because the single individual at the top of a pyramidal structure cannot do all the work of the organisation himself, he delegated work to his immediate subordinates, they inturn re-delegate part or all of this work to their subordinates and so on down to the non supervisory employees"[2].

Although a manager is expected to be a generalist rather than a specialist, he may not perform either due to lack of time or inadequate knowledge of some of the activities in the organisation. In other-words, due to time and other constraints, a manager may not be able to carry out all the important functions in the organisation.

Moreover delegation of authority, which consist of assignment of duties and functions, giving of enough authority to the subordinate and holding him accountable or responsible for his actions, has three very important advantages: It unburdens the executive or supervisor from the details of his subordinates job; subordinates generate greater commitment, enthusiasm, and pride in their work; and it trains subordinates to take on varied and larger projects and responsibilities. Therefore more could be achieved when authority is delegated to those that are competent enough to carry out some important functions.

The Kano State Investment and Properties Limited has a vertical authority structure which defines superior - subordinate relationships from the top to the bottom in the organisation. The Board of Directors, which is the policy making body and or the ultimate source of power, is at the top of the structure.

Directly under, and answerable to, the Board of Directors, is the Managing Director and Chief Executive who is appointed by the board.

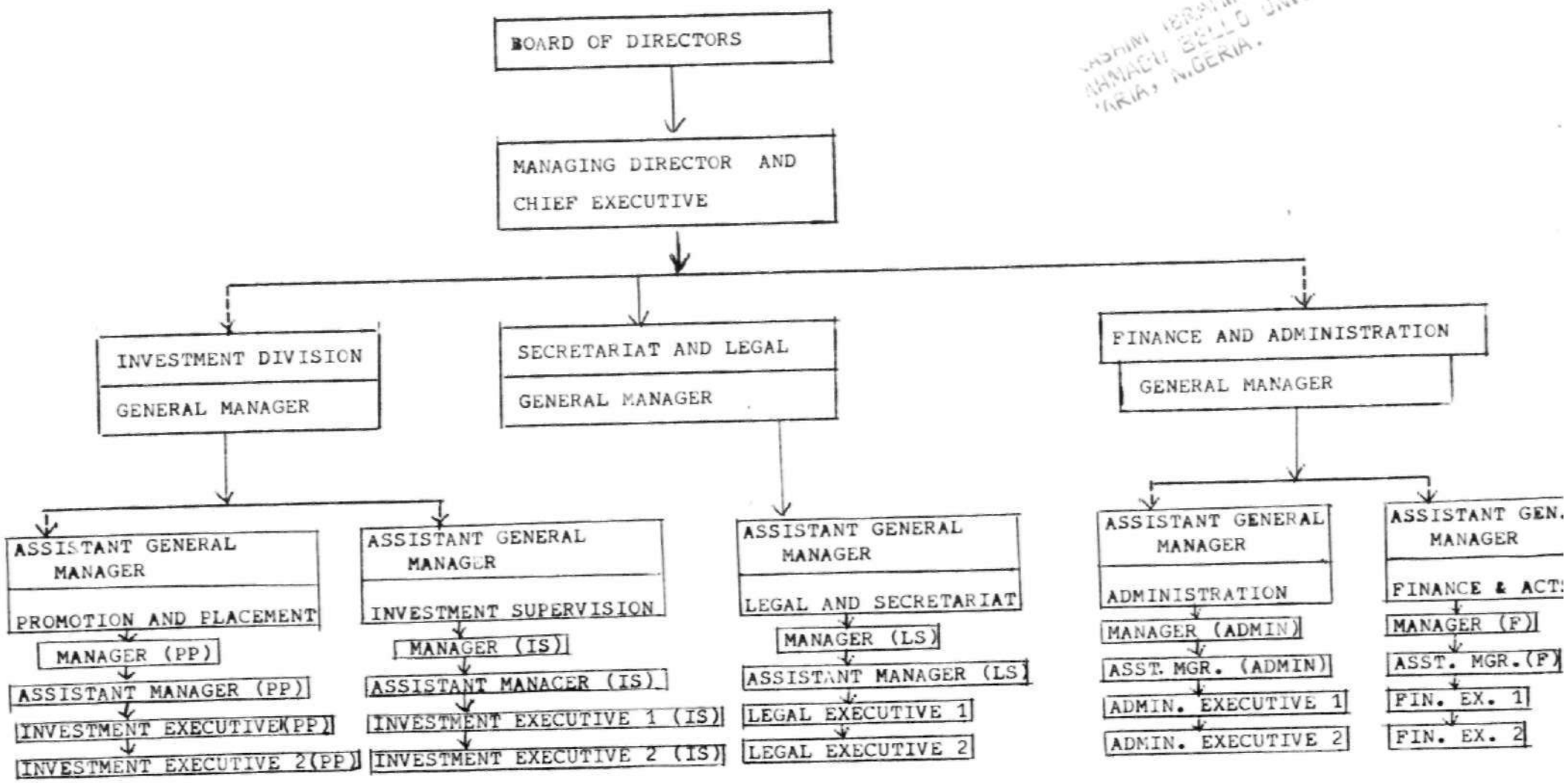
Hierarchically below the Managing Director are the General Managers of the three major divisions of the company: The Investment Division, Secretariat and Legal, and the Administration and Finance Division. The General Managers are assisted by the Assistant General Managers. Directly under these Assistant General Managers are Managers of some units who are also assisted by Assistant Managers.

There are also Executives I and 2 in each sub-unit who are answerable to the Assistant Managers of the units. The entire structure is represented by the following chart.

KANO STATE INVESTMENT AND PROPERTIES LIMITED

ORGANISATION STRUCTURE

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It could be observed that, as said earlier, the Board of Directors is at the top of the structure. The board is responsible for directing the affairs of the company towards achieving the state's development objectives. This involves determining the operations of the company in terms of capital structure i.e. debt - equity financing, allotment, transfer and disposition of shares. It therefore raises more funds for the company by way of borrowing or share issue.

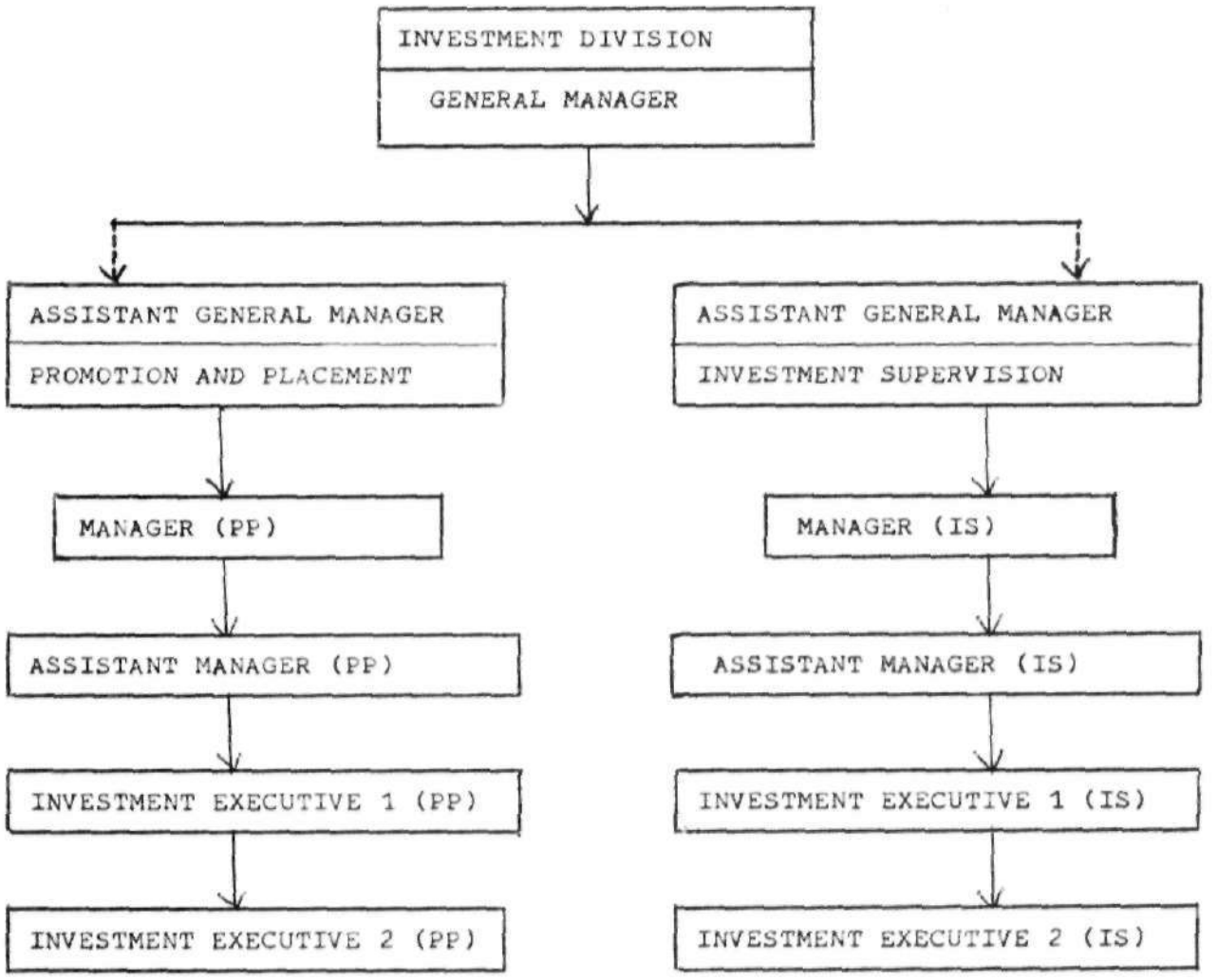
The board of directors also, being the policy making body of the company, approves investment proposals, appoints senior officers and approves standing orders and conditions of service. It also approves the budgetary proposals and general policies of the company all of which must be in line with Government's Investment objectives.

The Managing Director and Chief Executive, appointed by the Board of Directors, is responsible for the day to day operations of the company i.e. he is charged with the responsibility of the administration of the company. He is a liaison officer between the company and the Board as he reports to the Board all the activities of the company and its decisions. He approves appointments, promotions, and displinary action among others.

Under the Chief Executive are the three divisions each of which is headed by a General Manager. The major divisions are the Investment Division, the Administration and Finance Division, and the Secretariat and Legal Department.

The Investment division is headed by a General Manager who is assisted by Assistant General Managers. The division is divided into two departments i.e. the Project promotion and Placement department and the Investment Supervision department. Each of these departments is

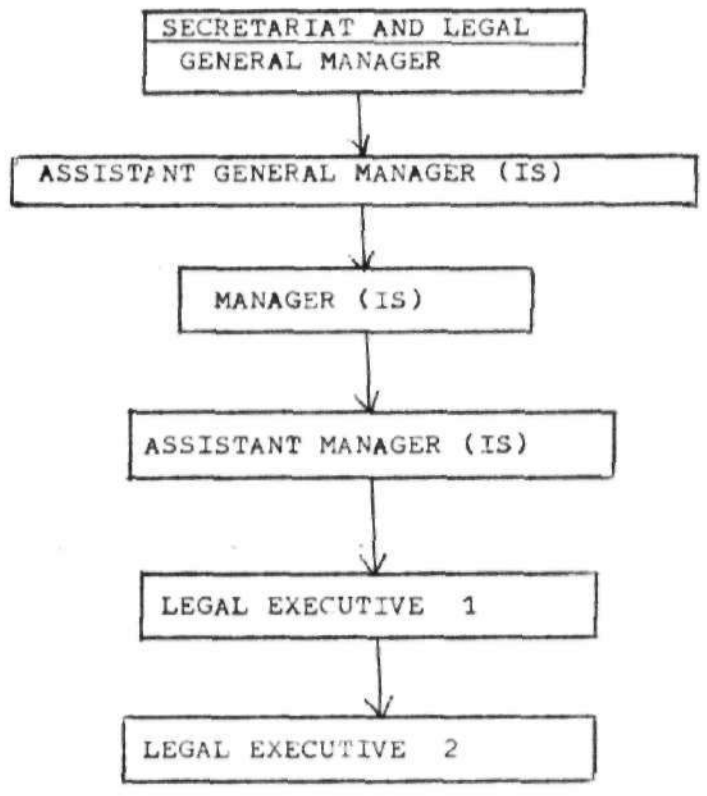
headed by an Assistant General Manager.



The Project promotion and placement unit, is responsible for initiating projects, and makes proposals to management on viable projects i.e. it undertakes a survey and feasibility study, and advises the company on projects. It thus initiates the implementation of these projects. It also procures machinery and secures foreign financing. In general, this unit is responsible for project identification, appraisal and Execution.

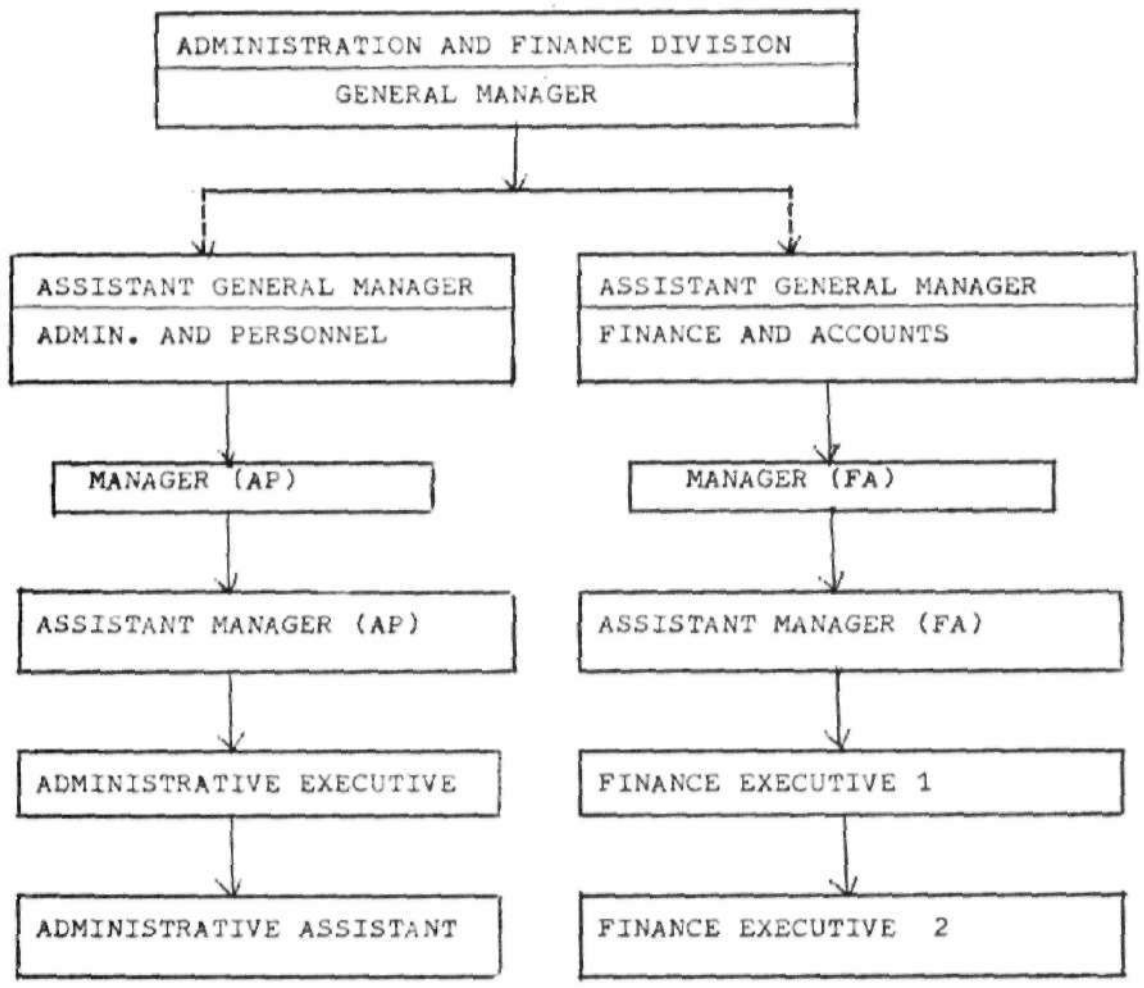
The Investment supervision unit on the other hand monitors existing projects and keeps close contact with the projects to ensure performance. It supervises the operations of the subsidiary companies of the company.

The Secretariat and Legal Department is responsible for the administration of the Secretariat of the company. It coordinates the activities of the other departments and takes care of all legal matters as they affect the company.



This division is also headed by a General Manager, assisted by the Assistant General Manager. It has only one unit.

The Administration and Finance Division is headed by a General Manager like the other divisions. Directly under the General Manager are two Assistant General Managers heading the two units - Administration and Personal, and Finance and Accounts.



The Administration and personnel department is responsible for employment, personnel relations, incentive schemes, fringe benefits and the general administration of the company. It undertakes the performance Appraisal of each of the staff of the company, and this determines promotion, transfer or dismissal.

The Finance and Accounts unit obtains funds, manages these funds and thus determines the financial performance of the company. It also prepares the annual capital budgets of the company. The Accounts department is responsible for calculating wages and salaries, preparation of payrolls, records and returns. It is responsible for the general accounting activities in the company.

These are the various divisions of the Kano State Investment and Properties Limited which carry out the most important functions for the smooth operation of the company.

SUMMARY

Portfolio management involves the administration of efficient investments. These investments have some elements of risk associated with them. This risk could be avoided by efficient diversification.

It is undertaken by individuals or organisations to generate income. These institutional investors may be private or public that is owned by private individuals or the government.

Like any other public enterprise, the investment companies established by public authorities are to help achieve development objectives and generate income to the government.

The Kano State Investment and Properties Limited which is one of the state owned enterprises, is established to provide finance for development projects, and as such participates in all types of ventures by direct or equity participation.

It has three major divisions viz: the investment division responsible for initiating and executing investments, the administration and finance division responsible for the day to day activities of the company, and the secretariat and legal division. The Board of Directors is at the top of the structure followed by the Managing Director. Each division is headed by a General Manager.

F O O T N O T E S.

1. Nellis, J., Public Enterprises in sub-Saharan Africa, the World Bank, 1986.

2. Dale S. B., Personnel - The Management of people at work.

CHAPTER II

L I T E R A T U R E R E V I E W

This chapter discusses the various studies undertaken on portfolio management. Its historical development, meaning and theory are analysed. What constitutes a portfolio and how investment opportunities are analysed in order to select the best composition of efficient portfolios. Judgements concerning individual securities, and how their price changes relate to each other over time are also discussed. In general the chapter is concerned with the procedure of portfolio selection to minimise risk in investment as given by various theorists. A summary of the chapter is also given in the end.

PORTFOLIO MANAGEMENT

The study of portfolio management could be traced back to the 1950s, when various authors started an extensive research on efficient portfolio selection. The most important of the studies was the one undertaken by Harry M. Markowitz in 1952. Before Markowitz's thesis, the believe on portfolio was that one can take the advantage of diversification by investing in securities across the industries (Stocks of different industries), so that where there is some industry linkage it should be avoided. In this situation the relationship between securities risk and returns is not very much taken into consideration i.e. the expected return and variability of return of the securities are not the determinants of an investment decision.

Markowitz attacked this view, and suggested how one can select different stocks by taking into account the relationship of the returns on stocks. According to this theory, an investor that holds the stocks that are perfectly possitively related is not diversifying risk. The relationship between securities is divided into three i.e. the securities that are perfectly positively correlated, those that have no relationship, and those that are perfectly negatively correlated. If the relationship of stocks is positive whatever change that takes place in stock A, will also take place in stock B. If stocks A and B have no relationship, whatever happens to stock A will not affect stock B i.e. the degree of correlation between these two variables is zero. If on the otherhand, the securities are perfectly negatively correlated, whatever proportionate change that takes place in security A, the opposite will take place in B.

The focus of this theory is therefore diversification in investment i.e. combining investments with less than perfect positive correlation in order to reduce risk in portfolio without sacrificing any of the portfolios returns. In otherwords, investing in different securities taking into consideration the expected returns and variability of returns i.e. the risk of the securities.

According to Markowitz "Not only does expected return - variability of return (portfolio Analysis) imply diversification, it implies the right kind of diversification for the "right reason". The adequacy of diversification is not thought by investors to depend solely on the number of different securities held. A portfolio with 60 different railway securities, for example, would not be as well diversified as the same size portfolio with some railroad, some public utility, mining, various sort of manufacturing, e.t.c. The

reason is that it is generally more likely for firms within the same industry to do poorly at the same time than for firms in dissimilar industries.

Similarly in trying to make variance small it is not enough to invest in many securities. It is necessary to avoid investing in securities with high covariances among themselves, We should diversify across industries because firms in different industries, especially industries with different economic characteristics, have lower covariances than firms within an industry".[1]

This model therefore provides a theoretical framework for the systematic selection of optimum portfolios, once the level of "risk" willing to be assumed by the investor was established. For example as Markowitz advocated that not only the expected return of a portfolio should be considered in the selection, but also the variability i.e. the possible deviation of these returns should be considered. To achieve this therefore, the correlation of the different securities should be taken into consideration. However for an efficient portfolio selection, there should be a free flow of information in the securities market. This is necessary in assessing the performance of each industry and its stocks.

As this model is concerned with risk averse investors, it views them as rational, the behaviour that reflects their inherent aversion to absorbing increased risk without compensation by an adequate increase in expected return. This risk according to the author is the uncertainty, or variability of expected returns, marking a major effort to qualify investment risk for portfolio planning process.

Most investors will therefore prefer a portfolio containing minimum expected deviation of returns, and this deviation of returns could be minimised by diversifying portfolio holdings.

Other studies undertaken on portfolio include that of William F. Sharpe who advanced the single index model in which he divided the total risk in investment into systematic and unsystematic. These theories will be analysed in detail when discussing the theory of portfolio management.

MEANING OF PORTFOLIO MANAGEMENT.

A security may be defined as "any financial asset or document evidencing either ownership or creditorship interest in a company".[2] Holders of ownership securities enjoy some rights over other investors, like the right to ownership and control of the business, right to dividends when profits are made, and the right to the assets in the event of liquidation after all other charges are settled. These type of securities include the common stocks and some types of preference shares. Creditorship securities on the other hand evidence a fixed charge on the issuing company. The holders of these type of securities are creditors to the issuer, and are only entitled to their fixed returns which are inform of interest, and the repayment of their principal investments. They include bonds and debentutes, government stocks like the treasury bills e.t.c.

Investment in securities, commonly called financial assets, therefore means holding variable income securities like common stocks and preference shares, and or fixed income securities like bonds, treasury bills, e.t.c. The nature of these types of securities, stocks and

Bonds will now be explained.

STOCKS

"Stock issues are basically a method of raising funds to be used in acquiring current and fixed assets of the issuing company".[3] To the investor, they represent a means of income inform of dividends that are paid at the end of each operating year when profits are made.

Principally, stocks cater for two types of investors. The first cartegory are the stocks designed to appeal to investors who are willing to take much risk because of the hope of an unlimited return. The other types are drafted to appeal to relatively conservative investors. The former represent common stocks while the latter are called preference shares.

COMMON STOCKS

These are ordinary shares or equities which represent an ownership interest in the issuing company. Holders of these types of securities are part owners of the company, and they are residual claimants of the profits of the company. This is one of the most important features of common stocks, as investors prefer higher returns and therefore buy the securities of companies that perform well. There is no upper limit to what a common stock holder can receive as dividends so long as the profits are made and all other obligations are settled.

Common Stocks are perpetual i.e. they cease with the life of the issuing company. In otherwords, common stocks exist so long as the organisation exists. The control of the corporation also rests

with the holders of these types of securities. Holders also enjoy voting rights, they appoint directors who determine major policies in the organisation. They also have the right to subscribe to the further issues of the company before any other investor. The returns to these shares depend on the availability of profits. And in the event of liquidation all claims to outsiders have to be settled before any common stock holder receives his own share of the assets. It therefore means that where there are no surplus of both profits or assets, holders may not get anything. This is why investment in these securities is considered risky i.e. subscribers provide the risky capital in the organisation.

PREFERENCE SHARES.

Preferred stockholders enjoy two most important preferential rights over common stock holders. These are the rights to dividends and repayment of capital in the event of liquidation. Although there is a limit to the amount of dividends received by the preference shareholders, they have a priority over the common stockholders in the receipt of these dividends, that is to say that no dividends will be paid to any stockholder unless and until all the claims to preferred stock holders are settled. Similarly in the event of liquidation, preferred share capital has to be settled before any common stock holder receives his share of the assets.

Other most important features of these types of securities are cummulative feature and convertibility. Cummulative preference share holders receive arrears of their dividends for the periods that dividends have not been paid, in good business years. In otherwords, the returns to cummulative preferred stockholders accumulate over the periods that profits have not been made, and are settled when profits are declared before any common stockholder receives his.

However there is no claim when dividends are not paid for non cummulative preference shareholders. This cummulative feature is very important and strengthens the preference feature of these securities.

The convertibility feature is also very important especially for investors that may wish to become part owners of the issuing company. In this case the issuing company will exchange other securities for convertible preference stocks at the option of the holder under conditions of the charter. They are therefore always exchangeable into common stocks at the option of the holder. Moreover, this conversion feature is, from the point of view of the issuing company, expected to act as an added inducement for the purchase of the preference shares and thus make them more salable. And from the point of view of the holders, the feature permits them to share in any future growth of the company.

Preference shares may be participative or non participative, callable or non callable. The participative holders have the right to share in any additional or surplus profits after their normal or stated share of dividends and the common stock holders have been paid. The non participative shareholders on the otherhand only receive their rate of dividends. They do not participate in sharing any surplus profits with the common stockholders. A corporation can call back its preferred stocks from holders and pay back their funds.

These types of securities have one main disadvantage. They enjoy limited voting rights, the ones they are given are not sufficient to give them control of the company.

BONDS

A bond is a promise to pay a stated rate of interest for a defined period and then repay the principal at the specified date of maturity. The terms and conditions for the contract are contained in what is called indenture. They are creditorship securities as they evidence issuers obligation to pay interest, for the use of the funds supplied by the holder, at a stated interval, and the repayment of the principal amount at the end of the contract i.e. date of maturity. Therefore bondholders are creditors to the issuing company, and they receive interest which must be paid whether or not profits are made, and before shareholders receive their share of dividends. Bonds are considered as senior securities, because holders have a priority over owners, both preferred and common in the distribution of cash proceeds and or assets in the event of liquidation caused by failure.

Bondholders have no voting rights, as such do not have any influence on the policy making decisions. Moreover, as holders are only creditors and not owners, they are not entitled to the detailed information about the annual operations of the issuing company.

There are three parties to a bond - the issuing company, the trustee and the bondholder. The company issues out the promise and borrows money from those investors that have surplus to lend. The investors who supplied funds for the promise are called Bondholders and are entitled to periodic interest payment and the repayment of their principal (investments) amount at the date of maturity.

A trustee is normally appointed by the bondholder to draw up the bond contract which specifies all the terms and conditions of the bond issue. These terms and conditions are contained in what is called "Indenture". The trustee may be an individual or a bank whose duties include signing the bonds issued, checking the issue and collection of interest and principal amount on behalf of the holder. The trustee also ensures that all the terms and conditions as specified in the indenture are followed, and also submits an annual report to the bond holder on the performance of the issuer.

Bonds may be secured or unsecured, convertible or non convertible. A secured bond is the type that is pledged with a security e.g. buildings or any real asset. Convertible bonds are the types that are exchangeable into other securities at the option of the bondholder. Holders convert their bonds into common and or preferred stocks, when they see a large chance of increasing their economic worth by making the switch. This feature is normally added in the indenture.

Governments also issue out treasury bills to raise funds from the investing public. These are most promising securities as the Government guarantees payment of both interest and principal. They are less risky than any other types of securities and are hence called Gilt-Edged securities.

REAL ASSETS INVESTMENT.

This involves the commitment of funds in productive tangible assets over which an investor exercises direct control. The investment could be in a single asset or in a whole project i.e. a group of real investmen activities which together can complete a service or production cycle. This is called direct investment or participation

e.g. setting up of a subsidiary, building of a new office or factory block, and the purchase of machinery or equipment. This investment may be undertaken by a single investor (wholly owned venture or project), or by a group of investors or organisations (partnership with local or foreign partners).

An investor may participate in either of these investments or decide to combine them, that is he may decide to purchase financial assets (securities) or real assets (direct participation) or combine the two. It is the combination of these investments to minimise risk and maximise returns that is refered to as investment portfolio. Portfolio holding therefore involves investing in financial assets or real assets or a combination of both.

Thus according to the conscise Oxford Dictionary, "Portfolio" means a "List of Investments held by a company, et cetera". It is also defined as "the securities held by an investor or the commercial paper held by a bank or other financial house". Portfolio Management therefore involves the commitment of funds to the purchase of the securities of other organisations, directly or from the securities market, and or investing directly in viable projects, all in anticipation of periodic(income) returns. In otherwords it involves the purchase of financial and real assets to generate income. For an efficient portfolio composition, therefore, securities should be available, and all the facts and figures on these securities should be gathered, collated, analysed, digested and assimilated as a basis for sound investment decision.

The most important factors, therefore, to consider in portfolio management are risk and return. To avoid this risk i.e. the possible deviation of returns and maximise returns, investments should be diversified. The investor should buy the securities of different industries that have different economic backgrounds, managerial efficiencies e.t.c. i.e. "not putting ones eggs in one basket".

THE THEORY OF PORTFOLIO MANAGEMENT.

The determination of an efficient portfolio composition depends on a proper portfolio Analysis. This is concerned with analysing the expected returns and the risk on a portfolio rather than on individual security. Efficient Portfolio selection according to Markowitz requires that the expected return and the risk of the portfolio be defined.

The expected returns of a portfolio E(P), is the weighted average of the expected returns of the individual securities in the portfolio. The weights are the proportion of money invested in the different securities.

$$E(P) = \sum_{i=1}^{n} WiRi \qquad i = 1,2,3, \text{ --- } n$$

where Wi = proportion of security i in the portfolio.

Ri = the expected return of security i.

The variance on the otherhand measures the dispersion of returns from the expected. It provides information on the extent of the possible deviation of the actual return from the expected i.e. the variability of returns.

$$\sigma_p^2 = w_i^2\sigma_i^2 + w_j^2\sigma_j^2 + 2w_iw_j\sigma_{ij}$$

$$= w_i^2\sigma_i^2 + w_j^2\sigma_j^2 + 2w_iw_j \cdot r_{ij} \cdot \sigma_i \cdot \sigma_j$$

$$\sigma_{ij} = r_{ij} \cdot \sigma_i \cdot \sigma_j$$

where Wi and Wj are the proportions of security i and security j in the portfolio. σ_i and σ_j are the standard deviations of security i and security j.

σ_i^2 is the variance of security i

σ^2_j is the variance of security j

σ_{ij} is the coveriance between security i and security j.

$$\therefore V(P) = \sum_{i=1}^{n} w_i^2\sigma_i^2 + 2\sum_{i=1}^{n}\sum_{j>1}^{n} w_iw_j\sigma_{ij}$$

$$= \sum_{i=1}^{n}\sum_{j=1}^{n} w_i w_j \sigma_{ij}$$

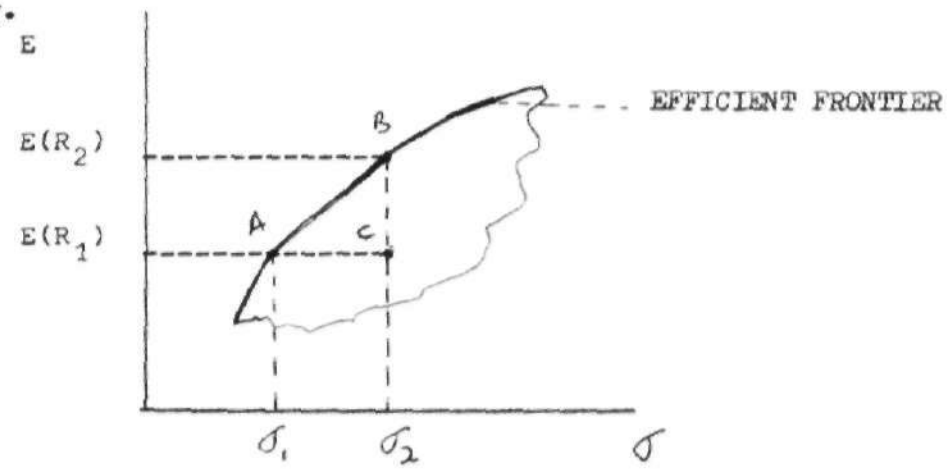
where $i \neq j$

The factors for portfolio variance are the weights i.e. the proportion of money invested in dirrerent securities, the individual security's standard deviation and the covariance between their returns. The expected returns - variance of returns (E,V) rule therefore states that an investor should want to select one of those portfolios which give rise to the efficient ((E,V) combination i.e. the portfolios with a minimum variance (V) for a given expected return (E) or more, and a maximum expected return (E) for a given variance (V) or less. Put differently, project A will be preferred to project B if one of the following two combinations hold:

Expected return of A exceeds (or is equal to) the expected return of B and the variance of A is less than the variance of B, or Expected return of A exceeds that of B and the variance

of A is less than (or equal to) that of B. Thus the expected return is taken as an indicator of a project's profitability and the variance serves as the index of its risk.

The Markowitz efficient portfolio combination could be represented graphically.



It could be seen that the expected return of portfolio A (E(R1)) is less than that of portfolio B ($E(R_2)$), and also the risk represented by (σ_1). On the otherhand the risk of portfolio C(σ_2) is higher than that of A even though they have same level of returns $E(R_1)$. This means that portfolio A is more efficient than portfolio C which is considered risky than the portfolio A. Portfolio B is also more efficient than portfolio C because its expected return $E(R_2)$ is greater than that of C $E(R_1)$ while they have the same degree of risk. Therefore portfolio A and B, which lie on the efficient frontier are more efficient than any other portfolios within the curve. They give the highest (maximum) returns at the lowest risk. Investors therefore make a rational investment decision on the set of securities that lie on the efficient frontier. This measures the investor's behaviour towards portfolio selection.

The selection process of a portfolio is "Personal" and it depends on the needs and circumstances of an investor which may vary. This include the investors level of income, and other preferences.

However this model is subject to some criticisms. First of all the data input needed or required for this model is too excessive. This creates a calculation problem. The inputs to the portfolio Analysis of a set of N securities are:

N - estimates of expected returns of an individual security.

N - variance of returns or estimates of the standard deviation on individual security $\frac{N^2 - N}{2}$ or $\frac{N(N-1)}{2}$ covariances.

i.e. the relationship between all possible securities.

Thus Markowitz calculation requires a total of $\frac{N(N+3)}{2}$ or $\frac{3N+N^2}{2}$ separate pieces of information before efficient portfolios can be calculated and or identified. Considering 100 securities, the data input required in this model would be $\frac{100\ (100 + 3)}{2} = 5150$.

The cost and time involved in this model is also excessive, as such its practical utility is considered to be very little. As a result of this problem of data input requirement, another model called the Sharpe's or Single Index model was developed.

SINGLE INDEX MODEL

William F. Sharpe developed the "Single Index Model" which simplified the data input and tabulation for reaching a solution. According to Sharpe, "the relationships between securities occur only through their

individual relationships with some market index"[4]. Thus the assumptions raised by the model are:

-The returns for all securities are related only as a result of common relationships with some market index.

-Investors are rational as such want efficient portfolios.

Therefore to achieve the objective of the model i.e. to reduce the data input as par Markowitz, it is necessary to consider the above relationship. That is to say that the relationships between security returns and the market index have to be properly analysed. The linear relationship is represented by the following formula.

$$R = \alpha + \beta R_1 + e$$

where R = Return on some securities

α = the intercept term

β = Response co-efficient or Regression co-efficient.

R_1 = Return on some market index

e = Random term.

This gives the returns on some securities which are considered to be unique. When the value of independent variable is zero, dependent variable will be equal to alpha which measures the unique return in a particular security. Beta measures the rate of change in dependent variables as a result of a unit change in the independent variable i.e. the response co-efficient which measures how the dependent variable is responding to the change in independent variable. It is also a measure of systematic risk.

Sharpe divided the total risk (variability in returns) in investment into systematic and unsystematic.

Var (γi) = b^2i var r1 + δ^2 (ri/r1) where b_i^2 var r_1 represent systematic risk and δ^2 (r_i/r_1) represent unsystematic risk. Systematic risk is that portion of variability in returns from the firms elasticity with respect to changes in the index. The unsystematic risk on the other hand, is that portion of variability in the returns which are owing to the firms' unique or related factors i.e. it results from the events that occur at the firm level. For example, poor profits as a result of a strike would be reflected in the firm's stock price in which the strike occured.

One of the most important contributions of this model is that the covariance data requirement reduces from $\frac{N^2 - N}{2}$ as par Markowit$_z$ to only "N" measures of each security as it relates to the index. It therefore requires 3N + 2 separate bits of information, as opposed to $\frac{3N + N^2}{2}$ as required by Markowitz. For example considering the 100 securities that require 5150 pieces of information under Markowitz, will now require 302 under this model i.e. 3(100) + 2 = 302.
The total input (3N + 2) required in the model comprises of the following:

KASHIM IBRAHIM LIBRARY
AHMADU BELLO UNIVERSITY
ARIA, NIGERIA.

N - estimate of return for each security

N - estimate of risk co-efficient for each security β.

N - estimate of residual variance for each security (or variance of the random term e) i.e. the difference between estimate and actual.

2 - i. Return on the market index

ii. Variance of market index.

All the above information is derived from past data, and can be used to find efficient portfolios in the markowitz mean - variance sense.

CAPITAL ASSETS PRICING MODEL

Another very important model on portfolio theory is the capital Assets pricing model or the capital market line. However this model is an extension of the Sharpe's single index model. "A further extension of the single index model led to the development of what is refered to as the capital market theory, or the capital asset pricing model. It has its foundation firmly set in the mean - variance efficient portfolio models. At the same time, it is a theoretical construct based upon certain simplifying assumptions, which present a framework that attempts to explain investor behaviour".[5] The model is concerned with the pricing of financial assets in the securities market. This market is a complex mechanism incorporating thousands of decision Variables, and therefore any attempt to gain insight in to the workings of such a market requires a high degree of abstraction. The concern then is the relationship between the risk and returns which define the efficient portfolio composition.

The capital market theory is based on a number of assumptions some of which include the following:

-All investors are Markowitz - efficient diversifiers who delineate and seek to attain the efficient frontier i.e. all investors are risk averse and reach their decisions using the mean - variance rule.

-All investors can borrow or lend any amount in the relevant range without affecting the interest rate, and there is no risk of bankruptcy. Lending and borrowing is done on a pure rate of interest that is risk free.

-Idealized uncertainty prevails in the market in the sense that investors visualize identical probability distributions for future rates of return. The probability distribution of future returns are considered to be the same. This means that investors have homogeneous expectations about returns in the market.

-All investors have the same one - period investment horizon.

-All investments are infinitely divisible. It is possible that an investor may buy a small portion of the shares of a given company.

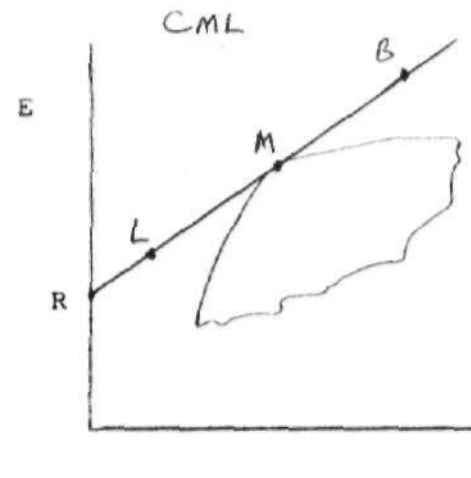
-No taxes and no transaction costs for buying and selling securities exist.

-No inflation and no change in the level of interest rates exist, or all changes are fully anticipated.

-Capital markets are in equilibrium i.e. no excess supply and demand of securities in the market.

These assumptions of the capital market theory clearly show that the market is perfect as expectations of investors are the same and there is less or no cost of transaction. Moreover the market caters for both large and small investors as investments are divisible. The theory therefore indicates that the investor has three alternative causes of action. First it is assumed that the investor can invest in a riskless asset yielding the pure rate of interest.

This is the price the investor demands for giving up immediate consumption. It is also assumed that the investor can borrow at this rate. Another strategy is that the investor can invest in a market portfolio which consist of all securities available in the market in proportion to the ratio of the security value to the total market value of all securities. For example a market portfolio may consist of different securities which may be valued in percentage terms. And the combination of the securities whose total value in relation to their market percentage value is considered to be the market portfolio. Finally the investor can invest in the market portfolio and either lend or borrow at a cheaper rate and invest in risky securities.



The capital market line RB sets out all the alternative combinations of the risk portfolio M with the riskless borrowing and lending. RM represent lending portfolio, and includes the mixed portfolios of risky securities and riskless bonds. Point M represents the optimal portfolio, since given the option of riskless borrowing or lending at rate R, this portfolio (M) permits the investor to reach the highest market line. The securities that occur on the segment MB represent levered portfolios, that is the risky portfolio M financed partly by loans.

The capital market line therefore indicates that the expected return and risk of all efficient portfolios lie on a straight line RB, and therefore all the (ultimate) efficient portfolios lie on this line.

Security market line (SML)

The relationship between the expected return of each risky asset and its risk is called the security market line (SML) which constitutes a linear relationship between expected return and risk. Within the expression of this portfolio risk are the covariance terms between all possible pairs of securities in the portfolio. As the covariance of securities determines effective diversification, it is necessary to look at the linear relationship between securities.

Markowitz diversification was defined as combining securities that are less than perfectly possitively correlated in an effort to reduce risk in the total portfolio without reducing the portfolio's expected return. The demand for the securities that have low or negative covariance of returns with most other securities will therefore be high. And the securities whose returns covary inversely or are independent of the returns from the market portfolio will have their prices bid up. This model therefore focus on the systematic risk of a security, as the security that has a high systematic risk (high covariance) will experience low demand, as such its price will fall. On the otherhand, the security that has a low systematic risk (low covariance) will experience high demand and this will cause its price to rise.

In equilibrium the expected returns increase as the price of the security falls, and it decrease with the increase in the price of the security. In this situation an asset's expected return is a positive linear function of its covariance of returns with the market. In otherwords, the expected return from a security is an increasing function of its systematic risk as measured by its covariance with the market.

It is this systematic risk that determines whether an investor will require more returns as an inducement for him to hold the portfolio. This is because the systematic risk cannot be eliminated by diversification, and the more of this risk a security has, the more returns an investor requires.

APPLICATION OF PORTFOLIO MANAGEMENT.

Determining investment objectives should be the first step in the development of any soundly conceived, investment program. For without first determining the final purpose of investing, it will be impossible to judge effectively the success of investment decisions or the appropriateness of the particular strategies employed. Investment objectives may be divided into two classes. First, it may be undertaken to maximise returns. In this case the investor employs different strategies and techniques to combine efficient securities to have a good portfolio composition. The other objective may be to improve economic as well as social development. In these type of investment decisions, profit is not the determining factor, but the level of development to be achieved. The former reflects the risk averse investor who base his investment decision on the returns to be generated and the risk to be avoided. The latter may include Government investment organisations that are agents of policy implementation.

However even the Government parastatals and corporations are expected to generate some revenues to the Government. That is to say that they are not only established to implement Government economic policies, they are also expected to operate at a profit. It therefore means that whatever investment made, by Government, organisations or individuals it is expected to generate returns to the investor.

To achieve the objective of maximising returns, investors hold different types of securities or projects i.e. financial or real assets. Investment in these types of assets requires a thorough analysis of each to determine its viability. In otherwords, a proper evaluation of each investment opportunity should be made by the investor. This will enable him know whether total benefits anticipated from the investment justify the amount of time and money involved. This is because no rational investor will commit his funds unless he anticipates a rate of return which is commensurate with the level of risk assumed.

There are different techniques used to evaluate investment projects. Financial analysis is one of the most important methods of evaluating an investment opportunity. A comparison should be made of the financial benefits of a project with the cost of its implementation. The financial cost in this sense means the estimated capital and operating requirements, and financial revenue may be refered to as the estimated benefits. These could be determined by the use of investment appraisal techniques which include the pay back period, the Net present value method, profitability Index, Accounting Rate of Return, Internal Rate of Return e.t.c.

The pay back period of an investment is defined as the number of years required to recover the original cash outlay invested in a project. It is calculated as the ratio of the initial fixed investment over the annual cash inflows for the recovery period.

$$\text{Pay back period} = \frac{C}{A}$$

where C = cash outlay (investment)

A = Annual Cash Inflow.

The acceptance rule is that if the payback period calculated is less than some maximum acceptable payback period, the proposal is accepted; if not, it is rejected.

The Net present value of an investment proposal is derived by discounting the net cash receipts at a rate which reflects the value of the alternative use of the funds, summing them over the life of the proposal and deducting the initial outlay. This method of evaluating the desirability of investments can be defined as follows:

$$NPV = \frac{S_1}{1+k} + \frac{S_2}{(1+k)^2} + \frac{S_3}{(1+k)^3} + \cdots + \frac{S_n}{(1+k)^n} - I_o$$

$$NPV = \sum_{t=1}^{n} \frac{S_t}{(1+k)^t} - Io$$

where:

S_t = the net cash receipt at the end of year t

I_o = the initial investment outlay

k = the discount rate, i.e. the required

minimum rate of return on new investment

n = the project's duration in years.

The acceptance rule of this method is to accept the investment project if its net present value is positive (that is, the present value of cash inflows exceeds the present value of cash outflows)

or equal to zero (i.e. NPV $\geq$ 0) and to reject it if the net present value is negative (i.e. NPV $<$ 0). It is very important to note here that the market value of the firm's share is expected to increase if projects with positive NPV are accepted.

Profitability Index, or benefit - cost ratio, is the ratio of the present value of future cash benefits, at the required rate of return to the initial cash outflow of the investment.

$$PI = \frac{\sum_{t=1}^{n} \frac{S_t}{(1+k)^t}}{I_o} = \frac{\text{PV of cash inflows}}{\text{Initial cash outlay}}$$

If a project's PI is greater than one, it should be accepted because its net present value will be positive.

An investment decision could be taken on the basis of the results of any of these methods, as the viability test of any project depends on its cashflow estimates.

Moreover the Technical and Economic Analysis of a project should be undertaken. The Technical Analysis involves the examination of the processes involved and the engineering requirements of a project i.e. engineering specifications of the plants and machinery. An investor should therefore determine the nature and capacity of the plant and machinery to be installed. This includes the operating requirements interms of quantity and quality of factor input such as raw materials, labour e.t.c., and the location of the plant taking in to consideration transportation costs, sources of raw materials,

infrastructural facilities, government policies e.t.c.

The Economic Analysis also has to be undertaken. This is to evaluate the economic conditions that affect a project, an examination of the market for its products and a consideration of the factor of management. Government fiscal, monetary and industrial policies with respect to raw material sources, plant location, pollution or quality standards, taxation e.t.c. have to all be analysed.

Securities or financial assets may also be analysed or evaluated on the basis of the performance of the issuing company. The financial Analysis of the company should be properly done to see its financial performance. The income statements as well as the balance sheets of an organisation may give a true picture of its business performance, although some financial engineering may be made in the financial statements of the company. This may not give the true picture of the company. The financial ratios of the company should also be calculated. These include the liquidity ratios, profitability, leverage and Activity ratios of the issuing company. This will enable the investor to know whether or not the company is performing well, and is liquid enough to settle all its short and long term obligations including dividend payments.

Other very important factors to consider are the nature and scope of business of the company, the geographical spread of its operations, its investment in Research and Development, Manpower Development Programme, and the quality of its management.

An investor should therefore analyse all these factors to enable him have the best combination of securities. This is the only way he can have the most efficient portfolio composition that will

generate for him maximum returns.

SUMMARY OF THE CHAPTER

A major event in the 1950s was the development of the portfolio theory and its eventual application. First exposited by Markowitz in 1952, the theory was later extended and considerably refined by Sharpe, Lintner, and others. The Markowitz theory tells us that the risk of an individual asset should not be judged on the basis of possible deviations from its expected return but rather in relation to its marginal contribution to the overall risk of a portfolio of Assets. Depending on the degree of correlation of that asset with other assets in the portfolio, the asset will be more or less risky, Risk and Return are therefore the main concern of this model.

Sharpe further refined the Markowitz model by reducing data input needed to evaluate a project, and defined the risk that could be diversified away in the portfolio of stocks held. His capital market line and securities market line have clearly shown how efficient portfolios are determined i.e. where they could be located.

A proper application of the portfolio theory is to undertake an indepth analysis of both financial assets and the real assets an investor wishes to hold.

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CHAPTER III

RESEARCH METHODOLOGY

This chapter is concerned with the method used in collecting all the information contained in this work. The chapter is divided into two: the first part dealing with the primary source of the data, while the second part deals with the secondary source. The primary source include the questionaire administered and interviews conducted personally with the staff of the company studied. The secondary source involve the studying of existing materials within and outside the company.

PRIMARY DATA

The primary source of this information was the questionaire administered and interviews conducted by the researcher. Both were conducted on the senior staff of the company, but emphasis was given on the staff of the investment division who are believed to have been well experienced in the area of investment.

QUESTIONAIRE

Questionaire was used to get a writen opinion of the respondent on the most important questions addressed by the study. The questions asked were on the history, objectives, and operations of the company among others. For example factors considered in investing, which determines the organisation's efficient portfolio selection, were asked in the questionaire. The questionaire was administered personally to solicite for better co-operation and to establish cordial relation with the respondents.

INTERVIEWS

Interviews were conducted with most of the staff, particularly those from the Investment division. Most of those interviewed are the management staff who participate actively in the decision making of the company. Issues like procedure of selection and evaluation of investments, who determines what project is to be selected and what amount to be allocated to which project, were discussed in the interviews.

SECONDARY DATA

The secondary data was obtained by studying existing materials within and outside the organisation. These include textbooks, newspapers and magazines, journals and reports of committees. Other sources were the Company's Annual Reports, pamplets like the investment policies and operational information for potential investors published yearly by the company, potential investors' Guide to Kano State, and other relevant documents on the operations of the company.

A lot of information was got from this source especially data on the yearly total revenues received by the company from both its quoted and unquoted investments, the composition of these quoted and unquoted portfolio holdings, and most importantly the priority area of the company. These were the main sources of all the information that was analysed in this research.

SUMMARY

The analysis of the operations of the Kano State Investment and Properties Limited and its investment policies and problems is made in this work. This was with a view to determining how an efficient portfolio management could be undertaken in the organisation.

The most important methods of data collection are questionaire, interview, and the examination of existing materials within and outside the organisa-

tion

CHAPTER 4

FINDINGS AND ANALYSIS

The Kano State Investment and Properties Limited is wholly owned by the Kano State Government. Its principal objective is the further stimulation and promotion of the Industrial and Commercial growth of the State in particular and the country in general. The strategies used to achieve this objective include direct equity investment, provision of Loans for suitable projects and the provision of Technical assistance to indigenous local enterprenuers. It therefore invest in different projects and businesses depending on their viability and importance to the economic and social development of the state and the country as a whole.

The company has a portfolio holding of about 50 subsidiary and associated companies and the method of participation is either by equity participation, direct participation or the provision of loans. Equity participation involves the subscription of the common stocks of other companies which generate income to the company by way of dividends. It also establish subsidiary companies which are either wholly owned by the company or it controls more than half the shares of these type of projects. Presently the company has four of these types of companies, the ownership of which is as follows:

KSIP LTD. SUBSIDIARY COMPANIES

SUBSIDIARY	PARTICIPATION	COST (₦)
Textile Commodities	100%	1,125,000
Kano Cotton Ginnery	100%	300,000
Kano State Oil & Allied Products	71%	3,300,000
Kano Textile Printers	100%	3,000,000
TOTAL		7,725,000

The Kano Cotton Ginnery was incorporated in 1977 as a limited liability company. It is involved in cotton seed ginning operations, and also carries out bailing, classing and storing of lint, seed and mote products on behalf of the defunct Nigerian Cotton Board.

The performance of this compony has not been very satisfactory due largely to poor and inefficient management, poor cotton harvest, and the stiff competition it faces from the sixteen ginneries operating in the country. For example the company recorded a loss of over ₦71,000 in 1980, ₦117,800 in 1982 and ₦34,000. However a remarkable improvement was made in 1987 when the company recorded a profit of about ₦400,000. This improvement could be attributed to the demonopolisation and deregulation of the cotton market, improvement in management performance and backward integration programme embarked upon by the Kano State Investment and Propertie Limited.

Kano State Oil and Allied Products Limited which is the largest oil mill in West Africa, started operation in 1972. It is jointly owned by KSIP controlling 71% interest and a privately owned company, Dantata Holdings Limited, which owns the remaining share.

KASOAP is involved in the acquisition of local raw materials for crushing and refining palm kernel oil, groundnuts, cotton seeds, and sunflower seeds. It has a crushing capacity of 500 tonnes per day, or about 182,000 tonnes per annum. However the maximum capacity utilisation ever achieved by the mill was 30% due mainly to the acute shortage of raw materials and management inefficiencies which led to the mounting liabilities of the company. The accumulated liabilities of this company,

which stood at about ₦10 million in 1984, are now being repaid as a result of the improvement in general performance. This is due to the reorganisation of the company, and the acquisition and effective utilisation of import licences for sunflower seeds and groundnuts in 1985. To further improve the performance of KASOAP, KSIP have embarked on sunflower demonstration and seed multiplication scheme, a backward integration project, as an alternative to importing raw materials.

Kano Textile Printers, another wholly owned subsidiary of the Kano State Investment and Properties Limited, was acquired by the Kano State Government from the alien businessmen in 1974 during the Nigerian Enterprise Promotion Exercise. It was formally transfered to KSIP in April, 1976.

Kano Textile Printers is principally engaged in weaving, dyeing and printing of textile materials (African dress and imitation of Java Prints) from imported and or locally purchased cotton yern. However this company too has not been performing well as a result of the serious management and technical problems it has been facing. This was why it has not been making any profits. The parent company is making all efforts to improve the situation.

From this brief analysis of the KSIP's subsidiaries it is clear that the performance of these companies lives much to be desired. These are the companies in which KSIP holds 70 - 100% where therefore most part of its revenues are expected to be coming from. Unfortunately the reverse is the case i.e instead of the company earning from the subsidiaries, it is the subsidiaries that are consuming what the

company earns from its other investments. This situation exactly reflects financing cash dogs with cash cows. However the parent company can make these subsidiaries perform better if it continues with its present plans. Reorganisation, local sourcing, procurement and installation of modern machines which the company embarked on is the most appropriate method of improving their efficiency and better performance.

Kano State Investment and Properties Limited, as said earlier, invests in both quoted and unquoted companies to earn returns inform of dividends and interest. In 1980 the company received a total dividends of ₦868,711 made up of ₦659,773 from quoted investments and ₦208,938 from unquoted investments. This increased to a total of ₦1,137,506 (₦1,055,532 quoted and ₦81,974 unquoted) in 1985. However the 1985 figure represented a decrease over the 1984 figure of ₦1,382,609. This may be due to the fact that operations of the company are directed and controlled by the Government, and as such all its investment activities must be in line with the Government development plan objectives. Moreover almost all the shares held by the company are those inherited from the Government when the company was established. This will be seen later in the chapter.

Most of the quoted securities held by Kano State Investment and Properties Limited are common stocks of different companies. In 1980, the company had investments worth over ₦7 million in quoted securities. This increased to ₦7.9 million in 1983, and then declined to the present figure of ₦3,557,372. This decrease may be due to two most important factors. One is the fall in the general level of economic activities due to the global depression caused by Oil glut.

The other factor, which is closely related to the first one, is the shifting emphasis, by the Government, to development projects which will ensure the realisation of its development objectives. These two reasons are viewed as the main reasons for the decrease in the quoted investments held by the company. This is also proved by the increase in unquoted investment from ₦8,983,192 in 1980 to over ₦14 million in 1987. Loans to subsidiaries also increased from ₦980,798 in 1980 to ₦4,215,421. This could be seen from the following summary of the investments of the company from 1980 - 1987.

SUMMARY OF INVESTMENTS OF THE COMPANY

1980 - 1987.

INVESTMENTS	1980 ₦	1981 ₦	1982 ₦	1983 ₦	1984 ₦	1985 ₦	1986 ₦	1987 ₦
QUOTED	7,499,968	7,542,517	7,868,557	7,936,518	7,716,281	3,557,372	3,557,372	3,557,372
UNQUOTED	8,983,192	9,382,304	9,551,804	14,235,804	14,208,579	13,629,404	14,429,404	14,333,404
LOANS TO SUBSIDIARIES	980,798	1,034,450	1,127,250	1,969,975	1,969,975	1,765,421	2,015,421	4,215,421
NEW PROJECTS	NA	NA	163,723	349,543	1,266,157	2,484,058	535,735	815,452
TOTAL	17,463,958	16,924,821	18,711,334	24,491,840	25,160,992	21,436,255	20,537,932	22,921,648
		NA = NOT AVAILABLE						

SOURCE: ANNUAL REPORTS AND ACCOUNTS OF THE COMPANY.

It could be observed that total investments have increased from ₦17,463,958 in 1980 to over ₦22 million in 1987. New projects also receive a large share of these total investments.

However the most important thing to note here is that the company invests in projects irrespective of their viability so long as they are in government's priority areas. For example there are projects that are not promising like the National Truck Manufacturers, but because government views them as important to economic development, it insists that the company invests and maintain its share in the project. Therefore despite the fact that the company knows well that it is not gaining anything from these types of projects, yet they invest to meet government's investment objectives. This is a minus in the company's effort to have an efficient portfolio composition.

Moreover as said earlier, the company's investments in most of its subsidiary and associated companies have not been changing, For example the total value of quoted investments in 1987 was ₦3,557,472 as compared with the 1980 figure of ₦3,557,445. This does not show any increase. Similarly there is not much difference in the dividends earned by Kano State Investment and Properties Limited from some of its quoted investments. This could be seen from the following tables of the quoted investments and dividends earned by KSIP for 1980 and 1987.

QUOTED INVESTMENTS, COSTS AND DIVIDENDS EARNED

1980

PORTFOLIO	NO OF SHARES	COST (₦)	D.E. (₦)
BATA NIG. LTD	24,000	12,800	1,200
BEWAC NIG. LTD	750,00	139,500	11,250
C.F.A.O. NIG. LTD	102.708	30,073	8,545
DUNLOP NIG. LTD	66,499	19,000	3,325
JOHNHOLT NIG. LTD	156,682	60,436	3,917
N.C.R. NIG. LTD	200,000	104,000	17,000
N.N.F. MILLS LTD	3,387,600	827,850	135,504
A.G. LEVENTIS LTD	887,062	194,156	N.A.
LEVENTIS MOTORS LTD	1,800,000	470,000	36,000
R.T. BRISCOE NIG. LTD	156,000	45,288	23,166
S.C.O.A. NIG. LTD	192,000	54,000	21,888
TOTAL NIG. LTD	337,500	54,000	86,400
U.N.T. LIMITED	431,258	375,000	18,328
U.A.C. NIG. LTD	7,140,997	1,030,333	574,136
U.T.C. NIG. LTD	375,000	123,750	35,137
FIRST BANK NIG. LTD	291	557	51
MOBIL OIL NIG. LTD	625	452	56
N.B.C. LIMITED	1,868	1,527	280
NIGERIA HOECHST LTD	14,500	6,460	1,450
SAVANNAH BANK NIG. LTD	9,100	8,190	N.A.
		3,557,372	

Source: Annual Reports and Accounts

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ZARIA, NIGERIA.
213589

QUOTED INVESTMENTS, COSTS AND DIVIDENDS EARNED

1987

PORTFOLIO	NO OF SHARES	COST (₦)	D.E. (₦)
BATA NIG. LTD	24,000	12,800	2,400
BEWAC NIG. LTD	750,000	139,500	N.A.
C.F.A.O. NIG. LTD	102,708	30,073	10,271
DUNLOP NIG. LTD	99,748	19,000	14,962
JOHNHOLD NIG. LTD	156,682	60,436	18,802
N.C.R. NIG. LTD	200,000	104,000	136,800
N.N.F. MILLS LTD	3,387,600	827,850	677,520
A.G. LEVENTIS LTD	887,062	194,156	35,482
LEVENTIS MOTORS LTD	2,250,000	470,000	67,500
R.T. BRISCOE NIG. LTD	156,000	45,288	N.A.
S.C.O.A. NIG. LTD	192,000	54,000	13,440
TOTAL NIG. LTD	337,500	54,000	121,500
U.N. TEXTILE LTD	646,875	375,000	129,375
U.A.C. NIG. LTD	7,140,997	1,030,333	612,698
U.T.C. NIG. LTD	375,000	123,750	22,875
FIRST BANK NIG. LTD	291	557	79
MOBIL OIL NIG. LTD	833	452	138
N.B.C. LIMITED	2,490	1,527	249
NIGERIA HOECHST	14,250	6,460	1,425
SAVANNAH BANK LTD	11,375	8,190	910
NIGERIA STOCK EXCHANGE	5	100	N.A.
		3,557,472	

Source: Annual Reports and Accounts.

UNQUOTED INVESTMENTS: 1980

PORTFOLIO	NO. OF SHARES	COST (₦)
SUBSIDIARY COMPANIES	1980	1980
TEXTILE COMMODITIES LTD	135,000	1,125,000
KANO COTTON GINNERY	300,000	300,000
K.A.S.O.A.P.	1,659,000	3,300,000
KANO TEXTILE PRINTERS	3,000,000	3,000,000
KANO FOOD PROCESSORS LTD	60,000	60,000
ASSOCIATED COMPANIES		
CINEMA DISTRIBUTION CIRCUIT	180,000	5,100
KAPITAL INSURANCE CO. LTD	280,000	140,000
NIG. VICTORY ASSURANCE CO. LTD	53,400	80,000
N.S. & FURNITURE LTD	321,600	194,910
FAWAZ STEELWOOD & CHEMICAL	96,000	216.000
ALUMINUIM PRODS NIG. LTD	24,500	49,000
EVEREADY NIG. LTD	480,000	960,000
NIG. LEATHER WORKS LTD	250,000	250,000
KANO CITIZEN TRADING CO. LTD	75,000	225,000
GARMENT MANUFACTURERS LTD	60,000	60,000
CONTINENTAL LINES (AFRICA) LTD	100,000	300,000
OTHER COMPANIES		
NATIONAL TRUCK MANUFACTURERS	1,500,000	1,500, 000
GIWARITE NIG. LTD	214,500	214,000
CRUSADER ASSURANCE	8,238	8,238
UNITED NIG. INSURANCE CO.	177,900	83,618
PHOENIX MOTORS	68,340	82,008
AREWA METAL CONTAINERS	100,000	100,000
NIGERIA HOTELS	180,000	180,000
N.M.P.P.	120,600	120,600
GREAT NORTHERN TANNINGS	150,660	75,330
STIRLING CIVIL ENG.	150,000	300,000
CERAMIC MANUFACTURERS LTD	450,000	450,000
C.C.N.N.	1,720,000	860,000
BANK OF THE NORTH	12% Loan stock	250,000

Source: Existing Materials.

UNQUOTED INVESTMENTS: 1987

PORTFOLIO	NO. OF SHARES	COST (₦)
SUBSIDIARY COMPANIES	1987	1987
TEXTILE COMMODITIES LTD	135,000	1,125,000
KANO COTTON GINNERY	300,000	300,000
K.A.S.O.A.P.	1,650,000	3,300,000
KANO TEXTILE PRINTERS	3,000,000	3,000,000
KANO FOOD PROCESSORS LTD	-	-
ASSOCIATED COMPANIES		
CINEMA DISTRIBUTION CIRCUIT	180,000	5,100
KAPITAL INSURANCE CO. LTD	280,000	140,000
NIG. VICTORY ASSURANCE CO. LTD	106,800	80,000
N.S. & FURNITURE LTD	321,600	194,910
FAWAZ STEELWOOD & CHEMICAL	96,000	216,000
ALUMINUIM PRODS NIG. LTD	24,500	49,000
EVEREADY NIG. LTD	432,000	864,000
NIG. LEATHER WORKS LTD	250,000	250,000
KANO CITIZEN TRADING CO. LTD	75,000	225,000
GARMENT MANUFACTURERS LTD	60,000	60,000
CONTINENTAL LINES (AFRICA) LTD	100,000	300,000
OTHER COMPANIES		
NATIONAL TRUCK MANUFACTURERS	1,500,000	1,500,000
GIWARITE NIG. LTD	286,000	214,500
CRUSADER ASSURANCE	8,238	8,238
UNITED NIG. INSURANCE CO.	177,900	83,618
PHOENIX MOTORS	68,340	82,008
AREWA METAL CONTAINERS	100,000	100,000
NIGERIA HOTELS	180,000	180,000
N.M.P.P.	120,600	120,600
GREAT NORTHERN TANNINGS	150,660	75,330
STIRLING CIVIL ENG.	150,000	300,000
CERANIC MANUFACTURERS LTD	450,000	450,000
C.C.N.N.	1,720,000	860,000
BANK OF THE NORTH	12% Loan stock	250,000

Source: Existing Materials.

From the tables of the quoted investments and the dividends earned for 1980 and 1987 it could be seen that some of the securities are performing well. For example the company earned ₦3,325 from its investment in Dunlop in 1980, which increased to about ₦15,000 in 1987 representing over 300% increase. Similarly the dividends earned from Northern Nigeria Flour Mills rose from ₦135,504 in 1980 to ₦677,520 in 1987. Increases were also recorded in the returns from Total, UNTL, UAC and Mobil. This remarkable performance shows some elements of good portfolio management.

However the performance of some of these quoted investments is not very encouraging. For example while KSIP earned ₦21,888 as dividends from SCOA in 1980, it only earned ₦13,440 from the some company in 1987 even though the number of shares held is the same. Earnings from UTC, NBC and Nigeria Hoechst also fell. Even the earnings from Bata, Leventis Motors and National Cash Register increase at a decreasing rate. Although this poor performance of these companies could be attributed to the fall in the general level of business activities, KSIP would not have suffered much if it had been evaluating the performance of these quoted investments. A constant evalua tion would have enabled the company to see the securiteies that are performing well and those that are not. It could have therefore divest from these type of securities, or atleast reduce its percentage holding, and use the money in either increasing its holding in better performing ones or financing more viable projects.

One very glaring fact that KSIP has not be evaluating its investments, thereby divesting from the non performing ones, is that almost all the quoted investments the company is holding in 1987 are the very investments it has been holding since 1980. This could clearly be seen from the tables of the quoted and unquoted investments of the company. Its

funds are therefore tied up in unprofitable investments instead of utilising them in better alternatives.

Considering the behaviour of the Nigerian Economy, which affects in one way or the other the behaviour of the consumers, one can hardly say that all these companies are performing well. It is believed that an organisation does not operate in a vacum, it affects and is affected by the environment in which it operates. Its performance is therefore dependent on the direction of the general business activities. When the business activities are high organisations will record high turnover which will positively affect the returns to investors. On the otherhand when there is a fall in business activities less and less goods and services will be purchased which will affect the revenues of most organisations.

The different economic policy measures introduced in the Nigerian Economy, from the 1982 Economic Stabilisation Programme, to the present Structural Adjustment Programme which are aimed at correcting the imbalances in the Economy, have no doubt changed the attitudes of the Nigerian consumers. Most people have now shifted from the demand for luxurious products to necessities, the basic needs of life. This has had a very serious effect on the performances of most manufacturing industries.

The above table of the KSIP unquoted investments for 1980 and 1987 also support the fact that the company has not been evaluating its investments. The investments held by the company in 1980 are exactly the ones it is still holding. Both the cost and the number of shares held did not change since 1980 which clearly shows that there was no increase in

those that perform, neither was there any decrease in those that have not been performing well.

However as the dividends earned by KSIP from these unquoted investments are not available, the above position could still be supported by the following table showing the annual performance of the companies for 1980 to 1987.

ANNUAL PERFORMANCE OF KSIP'S UNQUOTED COMPANIES

1980 - 1987

PORTFOLIO	NET PROFIT/LOSS (₦'000)							
SUBSIDIARY COMPANIES:	1980	1981	1982	1983	1984	1985	1986	1987
TEXTILE COMMODITIES LTD	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
KANO COTTON GINNERY	(71.2)	18.8	(117.7	(13.4)	(73.8)	(34)	79	406
K.A.S.O.A.P.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
KANO TEXTILE PRINTERS	(165)	(523.8)	(992.3)	(238)	(450)	(400.5)	811	428
KANO FOOD PROCESSORS LTD	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ASSOCIATED COMPANIES:								
CINEMA DISTRIBUTION CIRCUITS	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
KAPITAL INSURANCE CO. LTD	N.A.	130	146	69.6	148	28.6	N.A.	N.A.
NIG. VICTORY ASSURANCE CO. LTD	N.A.	154.3	105.9	64.7	51.6	14.3	59.9	185.6
N.S. AND FURNITURE LTD	N.A.	N.A.	N.A.	N.A.	(139)	(468)	(303)	(41)
FAWAZ STEELWOOD & CHEM.	N.A.	88	(130)	(121)	(98)	(112)	(196)	(182)
ALUMINIUM PRODUCTS NIG. LTD	8	2.3	1.7	(49.9)	(62.2)	76.3	225.9	107
EVEREADY NIG. LTD	N.A.	N.A.	N.A.	177	1,485	5,515	7,064	621.9
NIG. LEATHER WORKS LTD	(233)	(378.7)	(423)	(181.9)	(630.9)	(50.3)	(20.6)	(64.9)
KANO CITIZENS TRADING CO.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
GARMENT MANUFACTURERS LTD	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
CONTINENTAL LINES (AFRICA) LTD	(22.1)	19.2	46.2	(147.5)	(108)	(112)	(108)	(456)
OTHER COMPANIES:								
NATIONAL TRUCK MANUFACTURES	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
GIWARITE NIG. LIMITED	N.A.	1,114	304	(59.4)	(68.3)	487.5	1,723	2,164
CRUSADER ASSURANCE CO.	N.A.	585	557	791	871	386	1420	872
UNITED NIG. INSURANCE CO.	N.A.	3424	2789	2738	2803	3177	N.A.	N.A.

ANNUAL PERFORMANCE OF KSIP'S UNQUOTED COMPANIES 1980 - 1987 Cont....

OTHER COMPANIES Cont'd	1980	1981	1982	1983	1984	1985	1986	1987
PHOENIX MOTORS	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
AREWA METAL ONTAINERS	N.A.	N.A.	N.A.	N.A.	131	(332)	2.3	163
NIGERIANHOTELS	N.A.	453	(91.4)	(1242)	(490)	1859	N.A.	1297
NIG. MEDICAL AND PHM. PRDS	(102.9)	(435)	(471)	(247)	N.A.	N.A.	N.A.	N.A.
GREAT NORTHERN TANNINGS	N.A.	N.A.	141	128	466	759	N.A.	N.A.
STRILING CIVIL ENGINEERING	N.A.	2831	1874	2193	1630	2434	N.A.	N.A.
CERAMIC MANUFACTURERS LTD	N.A.	N.A.	N.A.	N.A.	N.A.	612	450	141
CEMENT COMP OF N.N.G.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(42,700)	(37,800)

SOURCE: SITUATION REPORT ON KSIP SUBSIDIARIES AND ASSOCIATED COMPANIES.

Looking at the annual performance of the KSIP'S unquoted investments for the period under study, one can clearly see the investments that are performing well and those that are not, which shouldbe phased out of the entire portfolio. It could be clearly seen that companies in the insurance industry, construction and battery are among those that are performing well. For example the Crusader Assurance Company which earned ₦585,000 profit in 1981, earned over ₦1.4 million in 1986. The United Nigeria Insurance Company earned the profit - after tax of over ₦3 million in 1985. Even though its earnings are increasing at a decreasing rate, the performance of UNIC is better than that of most companies. Eveready Nigeria Ltd, producers of the Eveready battery, earned about ₦177,000 in 1983. This figure rose to over ₦7 million in 1986 indicating a remarkable improvement in the performance of the company.

Although data on most of the companies could not be obtained, the performance of most of these organisations is not encouraging. It is the researchers feeling that some of the those whose data are not available have not been making any profits. One could clearly see that KSIP has not been earning anything from the companies it wholly owns upto the year 1984. The earning after tax of ₦814,000 declared by Kano Textile Printers in 1986 fell to ₦428,000 in 1987, a decrease of about 50% within one year. Throughout the period under study, Nigeria Leather Works which KSIP holds 25% interest, has been declaring losses. The samething applied to Continental Lines Ltd if not for the two years it declared profits - ₦19,200 and ₦46,200 in 1981 and 1982 respectively. Most unfortunately the losses of this company, in which KSIP holds 40%, are increasing, a situation which does not justify its continued holding.

All the poor performances of these companies are attributed to management inefficiencies, technical problems and stiff competition from imported products. For example the general performance of Kano Textile Printers, a wholly owned subsidiary, was characterised by high production costs and expenditure as well as show down in the production out put resulting from the declining efficiency of the ageing machineries. Another very important,problem is shortage of raw materials, a problem KSIP is currently tackling with its backward integration projects. KSIP has since embarked on irrigation projects for wheat, rice, tomatoes and sunflower production for its subsidiaries, a strategy that will boast the performance of these subsidiaries.

Modern development and stiff competition also affects the performance of some of KSIP's subsidiaries and associated companies. For example the introduction of video films in most/holds had seriously affected the performance of the cinema industry. Also competition from superior foreign goods affects the turnover and hence the profitability of most companies.

Another most important finding of this research is that methods of investment appraisals like the Net present value, ARR, profitability Index e.tc. are to this company considered theoretical, as such are not applied in appraising projects. Without a proper analysis and appraisal, it will be very difficult to select the best set of investments. An investment organisation is expected to employ all the techniques available to select the best set of real and financial assets to have an efficient portfolio composition. The Kano State Investment and Properties Limited does not also consider the variability of returns in investment. What is only considered, itself to a lesser degree, is the

expected returns of a project which is not being well calculated as said before. This is against Markowitz recommendation of (E.V) combination for an efficient portfolio.

The company does not also invest across different industries. This could be seen from the list of its investment portfolios. The banking industry, the construction industry which are among the most promising industries are not considered as good securities by the company. Although the building and construction industry received a serious decline as a result of the strigent economic measures, yet the importance of the industry in the economic transformation process cannot be over emphasized. Moreover there are not more than two companies each from the Oil and Food and Beverage production industries. These are also another most important industries interms of returns.

From these it therefore follows that the company has not been analysing securities, especially by the securities market reports as published in the daily papers.

SUMMARY

The Kano State Investment and Properties Limited is owned by the Kano State Government and its primary objective is to contribute directly or indirectly to the industrial and commercial development of Kano State.

The company has a portfolio holding of about 50 subsidiary and associated companies in which it participates by equity or the provision of loans.

As the company is owned and controlled by the state government, its participation in any project is determined by the government. It therefore follows that all the investments of the company must be in line with the states development plan objectives.

It has also been found that the organisation has not been changing its investments as almost all the companies portfolio holdings are the very ones it has been holding since inception. This means that it does not divest from a given project whether or not it is profitable, especially if it is in the priority areas of the government.

Most of the quoted securities held by the company are in form of common stocks which are of few industries, and have not been / constantly reviewed.

Investment Appraisal Techniques, which help greatly in determining the worthness of an investment are not used by the company. This hinders the selection of the best set of investments, and it is obvious that one can not manage what is not properly selected.

The company does not also invest across different industries which would have minimised the possible deviation of returns.

Most importantly therefore the company does not analyse securities, either using past data or forcasted securities performance, before selection, and at the same time does not evaluate the performance of its investments. A proper performance evaluation of the investments would have enabled it to divest from those that are no longer profitable, and invest more on those that are profitable.

CHAPTER V

CONCLUSION AND RECOMMENDATIONS

A portfolio is defined as a combination of investments, which are in either real or financial assets or both. Real assets investment involve the purchase and proper utilization of productive tangible assets, while investment in financial assets involves the purchase of an interest either ownership or creditorship in any company or Government. Creditorship interest confers a right on the holder to claim interest at a given interval for a defined period of time and the repayment of his principal investment at the date of maturity. These type of investments include Bonds, Debentures, and Government Stocks. The ownership securities on the otherhand give their holders the right to dividends when profits are made, and a control over the issuing company, these may include common stocks and some types of preference shares.

The proper analysis, selection and composition of these types of investments is what determines an efficient portfolio. Portfolio management is concerned with the selection and administration of efficient portfolios. A lot of studies have been undertaken on the selection of portfolio investments. These include the markowitz expected returns and variability of returns combination, the Sharpe analysis of systematic and unsystematic risk and his capital assets pricing model, to the Random walk theory on securities prices. All these gave their own suggestions and recommendations for a proper portfolio selection.

Investors are also cartegorized into individual and institutional investors the latter including the government development finance institutions. These are the public enterprises set up by governments

as agents of economic and social development. They help in the realization of governments development objectives through the provision of goods and services e.g. infrastructural facilities, water, light, transportation, banking e.t.c, and generation of revenue for the government.

The Kano State Investment and Properties Limited which is one of these types of enterprises, was established by the State Government to further the stimulation and promotion of the industrial and commercial growth of the state in particular and the country in general. This is through the provision of finance and technical assistance to enterprenuers. The company also in an effort to generate revenue for the government invests in the securities of other organisations. It is therefore engaged in both direct and equity participation, and presently has about 50 portfolio holdings in both quoted and unquoted investments. However the company like any other government owned enterprise is facing some problems in its operations. These include government interferance and in adequate funding among others. These problems hinder the company's efforts of generating an efficient portfolio composition. It is in line with these problems that the following recommendations are given.

The contimous government intervention in the day to day affairs of the company is one of the most important factors militating against the efficiency and effectiveness of the company. The day to day management of the company should be left as free as possible to carry out the policies required of them. There should be clear demarcation of responsibilities both between government departments and between ministries and boards. The measure of management should not be purely commercial

success or social achievements, but should be efficiency with which the enterprise carries out the joint commercial or special duties given to it.

The Board of Directors who determine major policies should comprise of men and women who are committed, qualified and of exemplary character, not those who are only interested in allowances e.t.c. Members should comprise of professionals especially in the field of investment as professional decisions like investment decisions should be taken by professionals in the organisation. Decisions taken by unqualified people will not be effective. Moreover as the Board of Directors approve major policies as they affect the operations of the company, professional workers in the company especially those in the investment division should be allowed to make suggestions and recommendations which the board should accept.

The financial resources of the company should be augmented so that it can diversify its activities. Government should provide more funds and give the company a freehand to choose and participate in efficient investments. The company should also take into consideration the risk and the returns of each investment opportunity. It should use all the available techniques of evaluating projects. Financial analysis, present value techniques, stock market reports should all be used to determine the best set of investments. It should also diversify its investment holdings into differenct industries with different economic back grounds i.e. industries that are perfectly negatively correlated.

The company should also undertake business education of the enterprenuers and the general investing public, through seminars, conferences and courses on ways and means of establishing viable projects. Moreover

the viable projects should be handed over to the indigeneous enterpre-nuers, and the use of local raw materials should be encouraged to reduce cost.

The company should undertake industrial survey of the state and find out areas of potential interest interms of raw materials, manpower e.t.c. It should also make available various forms of incentives to the enterprenuers in the state, especially to embark on backward integration. It should give wide publicity about its programs and activities and the financial facilities it can offer to new enterprenuers as widely as possible through various medias, especially in the local language.

Experts and well qualified civil servants from the ministries of finance and Trade could be used to make feasibility studies on investment opportunities, and publish their findings for enterprenuers identification, promotion and development.

The Kano State Investment and Properties Limited should be autonomous and well funded. As government bureacrucracy causes delay in project implementation, the company should be allowed a free hand to carry out its activities. Funds should also be sourced from goverhment, banks and non profitable ventures should be divested. The company should also employ all the modern investment appraisal techniques so as to determine the most profitable projects.

The need for portfolio revision for any sound portfolio management can not be overemphasised. It is to determine when more money is to be put or withdrawn from an investment. This can not be possible without first determining how best the investment is performing in relation to the prevailing market condition.

Portfolio revision may also be necessary for taking alternative decisions on whether or not to invest in other securities. This is to say that any investor, individual or institutional, should device a means of measuring the performance of his portfolio. An effective yardstick may be used such as the realised rate of return, the historical data on returns and the forcasted performance due to expected changes in government policies and other factors.

Two very important schools of thought were developed on securities evaluation. These are the Technical or Chartist Approach and the Fundamental or Intrinsic value Approach. To the Technical Analysts, securities value could be determined by the use of historical data. They believe that history repeats itself, as such the past performance of a security determines its future performance.

The Fundamentalists on the otherhand believe that the value of a given security is determined by some set economic variables like dividends, total earnings and the capital structure of an organisation.

Each of these positions is useful as far as portfolio revision is concerned. It all depends on how accurate the information to be used is.

The financial performance of companies should also be measured and a comparison made with a given standard. This will enable the company see which company is in a sound financial position. Ratios of different companies should be calculated, and for a given company ratios of two or more years operations should be determined to see how each company is performing. These ratios will enable the company see the liguidity, profitability and leverage position of the company in question.

This will serve as a good guide for taking a sound investment decision.

These suggestions if strictly followed, KSIP will no doubt make itself the best investment organisation. Its investment objectives will be achieved which will also lead to the realisation of the governments overall objective of setting up and funding the company.

SUMMARY

Portfolio is a combination of investments which may be in form of real or financial assets. An efficient portfolio could be obtained by a proper selection of these type of investments. These could only be possible when there is a systematic analysis of the different opportunities.

The Kano State Investment and Properties Limited, an investment arm of the Kano State Government, was established to engage in direct and equity investments. This is to earn revenue for the government and help in the realisation of the government's developmental objectives.

However the company is faced with some problems which are believed to have been the cause of the company's inability to have an efficient portfolio composition. Some of these problems include government intervention in the day to day affairs of the company and inadequate financial resources.

The company should therefore be allowed a free hand to operate in line with its investment policies. There is no doubt that the company has the best set of qualified staff in its investment division who may only be utilised if the company operates without any interference, and with adequate financial resources.

The company on its part should under take industrial survey of the environment, and embark on business education which will make the investing public understand well its operations. It should also be evaluating investment opportunities so that it could select the best set of investments. The performance of its portfolio holdings should also be constantly evaluated so that it could see the ones that are performing well and those that are not performing. This will enable the company increase its participation in those that are performing and divest from, or at least reduce its holding in, non performing investments.

The financial performance of companies whose securities KSIP is considering should also be analysed. This will give a true picture of the liquidity, profitability and capital structure of the company inquestion.

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QUESTIONAIRE

Dear Respondent,

I am undertaking a research work on portfolio management in patial fulfilment of the requirements for the award of Master of Business Administration.

The objective of the research is to solve the problem of risk in investment.

This will involve studying the operations of this company and its investment problems, after which suggestion will be given on how these problems could be avoided.

I am therefore assuring you that all the information you are giving on this Questionaire will absolutely be used for this academic assignment.

Thanking you for your co-operation.

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY

ZARIA

QUESTIONAIRE

TOPIC: PORFOLIO MANAGEMENT IN PUBLIC ENTERPRISES; A STUDY OF KANO STATE INVESTMENT AND PROPERTIES LIMITED.

You can tick in the appropriate box provided for any chosen response or answer, and write on the space provided where necessary.

PART A

1. Name of the Company:
2. Registered office of the Company:
3. Which year and under what law was the company incorporated?
4. When did the company start operation:
5. What are its main functions?

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- -

6. What is the Authorized share capital of the Company?
7. Are the shares fully paid up?

Yes ☐ No ☐

8. If No, state the number fully paid up?
9. Who are the shareholders of the Company?

a) Federal Government
b) State Government
c) Institutions (Please name them)
d) Individuals

10. Who are the major shareholders from the above.

PART C

11. How do you define risk?

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12. Which are the main risks the Company is facing

a) Market risk
b) Management risk
c) Industry risk
d) Interest rate
e) Others, please specify

13. Which of the above risks is the Company most concerned with?

a) ☐
b) ☐
c) ☐
d) ☐
e) ☐

14. Is this Company a member of the Nigerian Stock Exchange?

Yes ☐ No ☐

15. If yes, when was it registered?

16. How does the operation of the Nigerian Stock Exchange affect that of this company.

17. Which of the following does this Company invest in:

a) Government Bonds
b) Co-operate Bonds
c) Prefered Stocks
d) Common Stocks
e) Other, Please specify.

18. What factor(s) does the Company consider in buying a security:

a) Expected return
b) Variability of return
c) Liquidity of the issuer
d) Its own resources
e) Others, Please specify

19. Does the Company invests in different industries?

Yes ☐ No ☐

20. If yes, name the major ones.

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21. Does the Company engage in direct participation?

Yes ☐ No ☐

22. If yes, name the most important of these projects

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23. Which of the following factors does the Company considers in embarking on a projects.

a) Demand for the product/service
b) Supply of raw materials
c) Availability of funds
d) Others, please specify

24. Which of the following problems are faced in evaluating a project

a) Manpower
b) Finance
c) Logistics
d) Attitudes of beneficiaries
e) Others, please specify

25. What criteria are used in appraising a project?

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26. Comment on the main problems facing the Company

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