SUBSIDIARIES FINANCING BY FIRST BANK OF NIGERIA, PLC.

BY

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SEPTEMBER, 2000

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DEDICATION

This Thesis is dedicated to the memory of my father ALH. Abubakar Garba and brother Umar Garba Zango.

DECLARATION

I hereby declare that this thesis is the result of my work, and independent research conducted at the school of Post-Graduate of Ahmadu Bello University, Zaria. The various sources to which the author is indebted are clearly indicated in the references.

Any errors in the script are entirely my own.

KHALID MOHAMMED GARBA

The above declaration is confirmed.

28/9/2000

Student **Date**

CERTIFICATION

This thesis titled "Subsidiaries Financing by First Bank of Nigeria, plc". By Khalid Mohammed Garba meets the regulations governing the degree of masters of Business Administration (MBA) of Ahmadu Bello University, Zaria and is approved for its contributions to knowledge and literary presentation.

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ABSTRACT

The main objectives or focus of this study was to examine subsidiaries financing, using First Bank of Nigeria (FBN) Plc as a reference point.

Subsidiaries financing refer to the provision of funds for the operation of subsidiaries by a parents company. FBN, Plc is a financial institution established since 1894 with the purpose of enhancing banking service and contribute to the economic advancement and development of the country.

Questionnaires, interviews and personal observation methods were used mostly in the survey. 130 questionnaires, were filled and returned out of 150 randomly distributed and interviews were conducted with top management staff of FBN, Plc and its subsidiaries.

The result of the research were:

1. FBN, Plc should give free hand (autonomy) to its subsidiaries to operate as autonomous or independent corporate entity with its own charter, tax liabilities etc.
2. (renerally, subsidiaries financing (sources of funds) is derive mainly from parent company. This research then recommend that FBN, Plc should allow its subsidiaries resort to other sources of financing like autonomous companies in their type of business.

3. FBN, Plc should make it a policy to provide staff training and development. This will help retain staff and improve performance.

4. Finally, there is the need for FBN, Plc to keep abreast of new trends in subsidiaries financing, as well as the need to compare favorably with banks in other developing countries and those in developed economics who have made conspicuous progress in subsidiaries financing.

However, based on the conclusion drawn from the data (research), a number of recommendations were made which the researcher hopes Would enhance the performance of FBN. in its subsidiaries financing and add to existing knowledge in this area.Plc

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CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Many firms see the improvement or diversifying on their services as well as promoting this through subsidiaries as something that must be done. Infact, some see it as a do or die affair.

The decision to invest, establish or even expand through subsidiaries is a principal means of implementing the global strategy of business worldwide. Direct investment in one company or one business enterprise typically involves a company or enterprise in a commitment of enormous sums of capital to an uncertain future. In this respect, risk is inevitable. The added risk dimension is compounded by constant state of change and competition from competing companies or firms in the same business.

A subsidiary is established to provide synergies to the parent company. To emphases the importance or need for subsidiary financing and put in the words of the Managing Director/Chief Executive Officers (CEO) of First Bank of Nigeria (FBN) plc "in the corporate banking business, we discovered that the market is becoming highly competitive given that the economy has shrunk in the past years. Thus instead of the usual single transaction/business approach, we are now emphasizing building broad, multi-product relations with corporate clients, with interests in different areas. This will enable us to be all things to a focussed niche market. We also recognize how the increasing rate of market globalization and business consideration are affecting our business, and the challenge that come with it, we are refocusing on subsidiaries financing to meet our individual clients global requirements and how we can create growth opportunities from the challenges" 1.

In seeking to discuss the issue of subsidiaries financing by FBN, we should perhaps begin with stating the problems.

1.1 Statement of The Problem

Many subsidiaries and affiliates of powerful corporations or companies (First Bank of Nigeria Subsidiaries) are financed with parent's equity and funds.

According to Livingstone, " a common situation in a subsidiary is that fixed capital at the initial stage of the operation is provided by the parents enterprise while the working capital is raised through appropriate local channels".

How common is this statement in financing of subsidiaries in Nigeria? Apart from funds from the parents companies, are there other sources that subsidiaries in Nigeria could raise funds (financing) for their operations? And who really determines the need and sources financing for operations of these subsidiaries?

It is against the background of these questions above that has given rise to this study of subsidiaries financing by FBN, plc in understanding the financing of subsidiaries, to find out problems in relation to subsidiaries financing by FBN Plc and to suggest ways by which the Bank improve the situation.

1.2 Objectives of The Study

This research work is to make a study of subsidiaries financing using FBN, Plc as a reference point of study, particularly with a view to identify ways of enhancing the efficiency of the illustrated case study. Also the primary objective of this study or work is to show the efficiency and effectiveness of subsidiaries financing by FBN,plc.

Therefore, in the light of the above this research work have the following specific objectives:

1. To determine the importance of setting up subsidiaries by an organisation (FBN)
2. To determine how these subsidiaries are set up.
3. To examine the sources of subsidiaries financing.
4. Point out the role subsidiaries plays
5. To identify the problem of financing these subsidiaries and
6. To identify and suggest recommendations to the identified problems at the end of this study.

1.3 Significance of The Study

This study or research work intends to examine subsidiaries financing by FBN Plc its techniques, sources of funds as a leader in the industry, its guidelines and dynamics and performance.

The study is also delving into survey the various factors responsible for the slow pace in achieving the objectives of subsidiaries financing and at the end suggest solutions, which if fully or partially implemented will go along way in solving the Banks problems.

Finally, specifically this study will serve as:

a. A pioneering work undertaken using FBN Plc, as a case study;

b. Help the Bank to identify and enlarge its source of financing its subsidiaries.

c. It will also help enlightens the larger society as regards the importance of subsidiaries financing by FBN and its various methods.

d. Business students will as well benefit from the study as they understand on the subject matter will be widen and it will serve as a guide to others or future researchers in this area. And

e. Also it is hope that this piece of work will add to knowledge generally.

1.4 Scope of The Study

This work is specifically restricted to FBN Plc. The work is confined to the study of subsidiaries financing by FBN Plc and it covers the period from 1994 to 1999.

This study is considering one industry (Bank) as a case study. It will analyze the in-depth of subsidiaries financing by FBN Plc and problems facing it and suggest solutions. This will no doubt reveal some valuable information to parent and potential Banks and other companies in the country on subsidiaries financing.

1.5 Limitation of The Study

A comprehensive study to cover other Banks or industries could not be taken to make a comparison. Unfortunately, due to limitation of time and financial resources, it was not possible to include this vital area. The researcher hopes that some other persons will, in future, be in a position to undertake a more comprehensive study of the problem along the lines suggested above or covered.

Another major limitation of this study which should be recognize is the unwillingness and secrecy on the part of the management of the sample Bank by with holding some vital information necessary for this study. Also, the small size of the sample is a definite limitation for generalizations base on this study. However, it is hope that the findings of the research may add to knowledge.

1.6 Statement Of Hypothesis

In this research work some Hypothesis are assumed to guide the researcher in the course of this work. The researcher will test the validity of the Hypothesis below:

1 That FBN Plc, has good and adequate sources of subsidiaries financing;

2 That FBN Plc, sources of subsidiaries financing are bad and inadequate.

3 "That FBN Plc, has achieved the objectives of subsidiaries financing".

4 "That the objectives of subsidiaries financing by FBN Plc, has not been achieved" and

5 "That the problems of subsidiaries financing by FBN Plc is directly associated with inadequate, ineffective sources of financing policy".

1.7 Research Methodology

Methodology is the process, techniques or approaches employed in problem solving in doing research. It is the system that analyses the principles or procedures that should guide inquiry in particular fields.

In this study, two types of data were used in the research work. They are:

1. Primary data and
2. Secondary data

Primary data are those collected or given directly from the original real sources of the problem. That is, it is data collected for the first time by the researcher (first hand).

Secondary data is that which is collected from other sources rather than the original source i.e. data collected from other works e.g. books, journals, projects and other relevant document etc.

For the purpose of this study, four instrument of investigation were used in the collection of both the primary and secondary data. They are:

1. Interview method;
2. Questionnaire method;
3. Documentary (content analysis) method; and
4. Personal participant or observation method.

I. **Interview Method**

Interview generally is an idea of obtaining information about a particular subject. It is a method that enables the interviewer to get first hand information from the respondents. Interview method involves face-to-face conversation and observation by the researcher who is the interviewer and the person being interviewed is the interviewee. It can also be conducted by telephone.

The interview method was adopted in the study because of some of its advantages, which include the following:

a. The first advantage of the interview method is accuracy. Doubts can be cleared and cross examination of the information can be done where the interviewer (that is the researcher) feels that the right type of information is not being given,

b. Another advantage which is that of flexibility i.e. the method can be very flexible since the interviewer (researcher) can change his/her language and tactics of interview on the basis of the type of person he/she interview.

2. **Questionnaire Method**

Questionnaires are structural series of questions in written form to be answered by potential respondents. This method is aimed at collecting data about a particular subject using question forms, which are to be either ticked or completed by the respondents. The questionnaire method was adopted in the project because of the following advantages:

a. It helps those respondents that are not good in expressing themselves to tick from the option given;

b. It is easy for the researcher to analyze his/her data;

c. A lot of information can be obtained since the respondents are given the questionnaire to fill and return them at their convenient time and;

d. A large group or number of respondents can be research at the same time e.t.c.

3. **Documentary Method**

This is a method based on obtaining information from existing records or documents. It involves the use of library materials e.g. books, relevant journals and other official records etc. the method was used because of the following advantages;

a. It is fast in collecting data and such saves time and money.

b. This method is used in collection of secondary data to serve as a base for the research.

4. **<u>Personal Participant or Observation Method</u>**

The last but not the least method adopted to use in this project or study is personal observation. The observational method plays an important role in data collection.

Thus the researcher is a long-serving member of the Bank. In the Bank he has personally observed and is involved in the problem under investigation.

1.8 OPERATIONAL DEFINITION OF TERMS OR CONCEPTS.

Subsidiary - Is an affiliate or an off-shoot or branch of a company or Corporation established to provide synergies to the parent Company in a particular area of its services.

Finance - "the provision of money at a time it is most needed".

Financing - is taken to mean "the provision of funds for the operation Of a company or an enterprises

FBN - Firs Bank of Nigeria Limited.

PLC - A Public Liability company.

FBN(Merchant Bankers) Limited - is a subsidiary of First Bank of

Nigeria to provide synergies e.g. to serve the wholesale banking service.

Investment - is a process of exchanging income during one period for an asset that is expected to produce earning in the future periods.

Equity Financing - This is the selling of capital stock or the buying of such capital stock by a company.

Authorised Capital - This refers to the maximum number of all classes of Securities that can be issued by a company.

BOD - Board of Directors.

RISK - Is the uncertainty of either a loss or gain (Profit borne by the investor)

SUB - Strategic Business Units.

1.9 Chapter Preview

The project is discussed under five chapters. The first chapter introduces the subject of the research, it enunciate the statement of the problem, objectives of the study, significance of the study, scope of the study, limitation of the study, statement of Hypothesis, research methodology, operational definition of terms or concepts, and chapter preview.

The second Chapter provides the literature review/conceptual framework. Here the review will be restricted only to relevant concepts that relate to subsidiaries financing. These are:

What is financing, Subsidiary financing/major determinates of financing alternatives and sources of subsidiaries financing.

The third Chapter deals with Background, organizational structures of FNB, plc subsidiaries. It spells out brief histories of FBN, Plc subsidiaries, organizational structure(s) of FNB Plc, subsidiaries and operations of FBN, plc.

The fourth chapter deals with evaluation of the data obtained. It will spell out the finding of the research based on the analysis of data.

The fifth chapter finally, will contain a summary of facts obtained from the study, conclusion and then provides some recommendations.

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CHAPER TWO

LITERATURE REVIEW/CONCEPTUAL FRAMEWORK

2.0 Introduction

The purpose of literature review in any study is to use or review researchers or accepted work relevant to the study to serve as a guide to the analytical discussion and proper understanding of the subject matter.

The literature review in this study will therefore be restricted only to relevant concepts that relate and affects subsidiaries financing. These are: What is Financing?, Subsidiaries financing/major determinates of financing alternatives, and sources of subsidiaries financing.

2.1 What Is Financing

Financing means given capital assistance to a business when required either at the initial stage or during the operation of an enterprise or corporation. Financing can also be defined as the provision of equity and capital for the operation of a business or enterprises and or development project.

According to Draku, financing of a business can be divided into two broad forms or groups:

1. The internal form of financing and
2. The external form of financing.

1. **The Internal form of Business Financing**

a. **Equity**

It serves as a form of financing. It is the risk capital contributed by the owner(s) of a company or business. It determined the amount of loan that can be raised for the project.

b. **Retained earnings**

Retained earnings are the company's earning which are retained rather than distributed as dividends. It is the act of not paying out all profits in form of dividend and that is what is retained earnings is termed to be. The company or business may have a policy of retaining about 40-50% of corporate profits after taxation. These retained earnings when agreed upon by the Board of Directors (BOD) are plagued back into the company's business.

c. **Disposal of Assets**

Disposal of assets is another form of financing. This could be seen as a sale of depreciated and unprofitable assets. Using this avenue it serves as an income to the business or company and also as a way of financing its projects.

2. **The External form of Financing**

It can be classified into two main categories:

a. Short term financing and

b. Long term financing

a. **Short term Financing**

The short term financing can be in terms of borrowing salary from staff, line of credit that is selling or establishing negotiation with certain commercial Banks so that a company can draw certain amount above its balance as needs indicate, loans from specialised finance companies and sales of commercial paper that is unsecured, promissory notes through the security market.

b. **Long term Financing**

The long term financing include loans from the government by the sole owner for the business and the secured loans from commercial banks and other financial institutions. This serves as a vital form of financial. 1

2.2 Subsidiary Financing/Considerations That Govern Fun Raising Policies

Many subsidiaries and affiliate of powerful companies or corporations are financial with parent company equity and funds. According to Livingstone "a common situation in a subsidiary financing is that fixed capital at the initial stage of operation is provided by the parents enterprise or company, while the working capital is raised through appropriate local channels". 2

There is no single ideal way of funding a subsidiary (subsidiaries financing) whether big or small. Each business has individual circumstance which make its requirements unique; the industry and the market in which it operates, its ownership, the rate at which its owners wish to expand these, and a whole series of other factors, mean that each decision about financing has to be made in the light of the particular circumstances of each case. However, there are some basic principles.

James Bates, has put forward the following five main considerations that govern fund raising policies of a subsidiary (subsidiaries financing). These are:

1. How much fund is needed.
2. When is it needed?
3. The purpose for which it is needed
4. The form of finance to be used and
5. Whether it is profitable to undertake the venture (business)?

The amount of money required is often not easy to estimate with accuracy but the chance of making a major mistake are reduced by budgeting and forward planning. Overestimation of requirements is not on the whole less serious than under-estimation. The former may cost the firm more interest payments on borrowed funds, which are not earning their keep. The later may result in the firms running short of funds before returns start coming back from expenditure.

Timing too is usually a matter of planning in advance. Capital equipments usually need to be ordered, along time a head, and even when it arrives, it may take some time to install, and reach the stage where its operations yield a profit to the firm or business.

The purpose for which the fund is needed must be borne in mind when initiating the expenditure of the fund. If the purpose is for the purchase of industrial goods, such purchases must not be emotionally oriented but economically motivated. The purchases most justify the amount spent by the firm by all standards.

The cost of financing needed must also be considered. Is the business going to be financed with equity capital, working capital or growth capital? The type of financing extended to an industry or firm will be a function of its specific capital needs. This is a function of its specific capital needs. This is a crucial decision to the putting into consideration advantages and disadvantages of the various alternative source of financing.

Finally, management must have to address the issue of profitability. Putting into perspective the amount of resources and time committed to the business, shall the pay of worth the risks?

2.3 Sources Of Subsidiaries Financing

To Fredrick D.S. subsidiaries can obtain funds (finance) from both internal and external sources."

Internal financing consist of the following:

a. Funds from the parent

- Equity contribution

- Loans from the parent
- Parent - supplied inventory

b. Funds generated within the subsidiary

c. Funds from sister subsidiaries

d. Borrowing with parent guarantees

External Financing consists of

a. Equity capital

b. Working capital

c. Growth capital

2.3.1 **Internal Sources Of Subsidiaries Financing (Funds)**

Internal financing consists of funds that are generated within the subsidiary and parent affiliate network. It assumes such familiar forms as capital contribution from the parents, retention of subsidiary earnings, inter subsidiary fund transfers and burrowing under parent company guarantee.

a. **Funds from the parents**

i. **Equity contribution**

Funds supplied as equity contributions of cash direct to a subsidiary are on a prima facio basis a normal way of financing a subsidiary, or of contributing to the expansion of that unit. Such a straightforward cash investment follows the conventional format of regarding acquisition of a subsidiary as a separate purchase of property by the parent. Parent purchase of subsidiary common stock for cash causes the transactions to resemble a portfolio investment and infact a subsidiary acquired for cash may tend to be treated as a separate business investment rather than an integral part of the parent operation.

ii. **Loan from Parent**

Instead of increasing its equity, a parent can advance its subsidiary, fund in the form of an inter-company loan. Sometimes such loans are informal, often interest free, and with the time of repayment left unspecified. Such an informal loan may be preferable to the parent's, which thus retains great flexibility in timing the recall of funds from its subsidiary to coincide with periods when the subsidiary has excess funds available. The informal type of cash advance operates much like an open book line of credit.

Loans from the parent (rather than equity advances) are more common in instance where the subsidiary need is not deemed permanent. In additions, subsidiaries relatively inexperienced tend to resort more frequently to parent loans and less to equity advances.

iii. **Parent Supplied Inventory**

When a subsidiary operated in part of inventory obtained from the company, a parent can increase its investment in the subsidiary by advancing inventory items on an open-book basis without requiring payment within normal credit terms. Payment on account of such inventory may even be delayed beyond the point at which the subsidiary collects for the sales of imported item. The advantage of this technique is similar to those for informal cash advances discussed earlier. The consequence of course, is that the parent effectively provides funds to subsidiary by delaying the time when funds flow from the subsidiary back to parent on account of inventory purchases.

b. **Funds generated from within the subsidiary**

Subsidiaries typically generate funds internally after operations begin. Such funds consist primarily of earnings plus not cash charges such as deprecations. Internally generated funds may be used to expand the subsidiary without need for additional funds from parent.

c. **Funds from Sister subsidiaries**

A subsidiary or affiliate can also raise funds for its operations from a sister subsidiary. Any subsidiary having excess funds for which it has no immediate local need, for instance, might loan these to a sister subsidiary and vice versa.

A subsidiary needing funds may simply contact its sister subsidiary within the organisation to see if a loan can be arrange.

A more formal alternative is for the family network to establish a central pool of all excess corporate liquidity.

Another way in which cash loans can be obtained from sister subsidiary directly or through a central pivot is by purchase of inventory items on delay payment terms. The effect is essentially the same as was discussed under the heading "parents supplied inventory".

d. **Borrowing with parent Guarantee**

Any compilation of sources of funds (financing) obtainable within a corporate family must logically include loans arranged by the subsidiary but effected only because the parent company is willing to affix its own guarantee. Traditionally, Parent Company has hesitated to guarantee the debts of their subsidiaries. However, the current trend appears to be an increased use of such guarantee.

Parent guarantee can take a variety of forms. The strongest type is an "unlimited guarantee" in which the lender is protected on all loans to the subsidiary without regard to amount or time limit. Other guarantees are limited to single loan agreements between a lender and a subsidiary, and constitute only a part of specific loan agreements.

Yet another type of guarantee is a purchase agreement under which the parent commits it self to purchase the subsidiary's promissory note the lender in case the subsidiary defaults. A weaker version of this is a "collection of guarantee" in which the parent guarantees only that the lender will be able to collect the note. The lender must first try to collect the note from the subsidiary before turning to the guarantor – parents. An even weaker arrangement, which is not a true guarantee, is for the parent to subordinate its own claims on the subsidiary to those of the lender.

The substance of most parent guarantees is that the lender advances funds primarily on the basis of the parent's standing. Although as a procedural matter, the creditor is the responsibility of the parent. Such an arrangement is likely to result in lower interest cost to the subsidiary, and may at times be the only means by which the subsidiary can increase its financing.

2.3.2 **External Sources Of Subsidiaries Financing**

External financing on the other hand connotes the utilization of resources extended to the subsidiary. It consists of private and public issuance of equity and debt securities (often approved by the Nigerian securities and exchange commission), and personal or institutional credit sources, which may take various forms.

Generally these various forms are:

a. Equity capital

b. Working capital

c. Growth capital

a. **Equity Capital**

Equity capital is normally the original investment in a business by its promoters or owners to which is added the retained earnings of the business, and external financing later obtained on a permanent investment basis. The value of equity is very crucial in determining the type of financing an industrial enterprise gets or adopts, as the net-worth of the enterprises is measured by its equity value. Financier's external to the enterprise want to be assured of the safety of their funds or that they are not taking any unnecessary risks financing the business. Hence the net-worth of the business or the owners equity investment in it should not be found wanting. Only a reckless financier will commit funds to an industry in which there is obvious deficiency of owner's equity interest.

Equity capital is normally raised either by public or private issuance of shares. It represents permanent investment in an enterprise, and it is therefore not generally obtained from the banks, as they cannot afford to be "locked in" especially in the early life of the growth of an industry.

b. **Working Capital**

Working capital is needed to sustain a growing concern. It is otherwise called fluctuating capital because it is related to the cyclical aspects of a business. For instance, as turnover increase, accounts receivable rises, inventory of finished goods, work in progress and raw materials may have to increase and payroll cost may mount. All these require funds to sustain. Thus, working capital provides money to carry on enterprise through its seasonal yearly period of greatest cash needs. Working capital financing is usually met by utilizing appropriate institutional credits or even personal credit source. Banks, especially the commercial banks are very important in meeting the needs of industries for this type of finance.

Working capital financing is the easiest to arrange. It is short term, in nature and many take various forms such as bank overdrafts, short-term loans and suppliers credit. To obtain a working capital, the financier expects the borrower to demonstrate how the loan will be redeemed especially during the firm's period of greatest liquidity. The loan may be secured or unsecured credit line depending on the overall financial strength or future of the borrowing firms or the strength of the relationship between the lender and borrower. Unsecured credit line obtained from Nigerian banks are however rigorously limited. Casual observations may suggest that industries or business do not face any serious difficulties in securing their working capital financing requirements from banks. A closer look will however, show that this is not universally true of all industries. Small-scale industries have been determined to experience severe financial set backs even with respect to the procurement of capital loans from commercial banks. As was carried in Business Times of February 8, 1958. "There is now a popular view that banks discriminate against the small business in favour of other larger corporate customer" 4. The need for fashioning more dynamic and resilient working capital financing packages for a more effective financing of industries in Nigeria by banks is very crucial.

c. **Growth Capital**

Some financiers often categorize growth Capital with working capital but the two are clearly distinguishable. Growth capital is required for a planned program of industrial expansion through purchase of better production equipments, replacement of and addition to install machinery to enhance promotional expenditure, property development etc. it is for a medium or long term industrial use. Various types of financing can be arranged depending on the projected profitability of such an expanded programme. It can be equity financed, met by internally generated funds, issuing debt–stocks or by bank loans. Banks normally appraise the capacity of the expansion to generate future profits to make for scheduled amortization of the debt and meet interest payments before they make any commitments.

The availability of growth capital can be very critical in the process of industrial development. Since growth capital is essentially "expansion capital" it follows that the pace at which the national industrial productive capacity, is increased will depend on the relative availability of growth capital and the willingness of financial institutions particularly banks to provide growth supporting capitals for industry.

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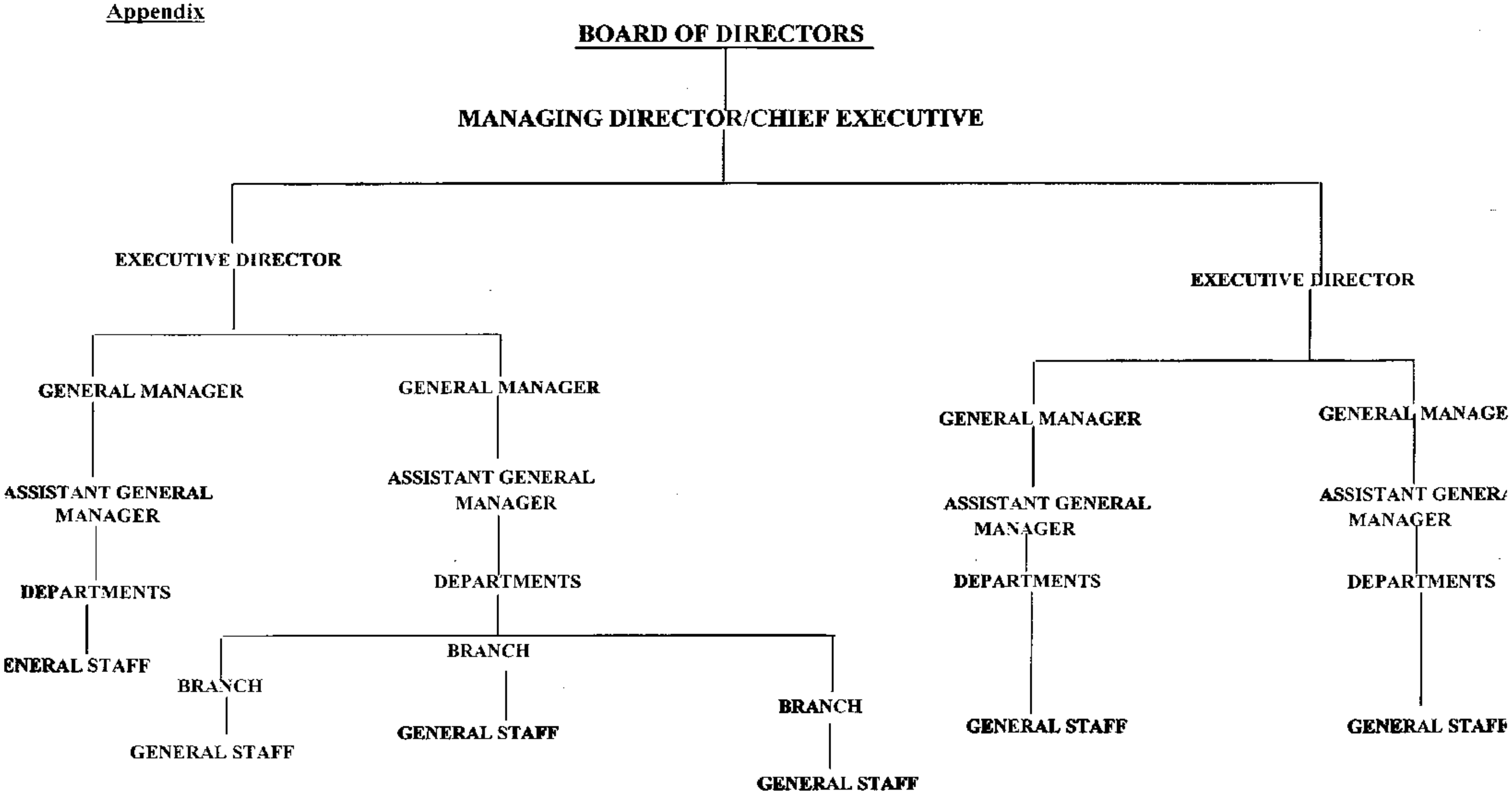
Figure 1,

Appendix

ORGANIZATIONAL STRUCTURE



CHAPTER THREE

BACKGROUND, ORGANISTIONAL STRUCTURES OF FBN, PLC SUBSIDIARIES

3.0 Introduction

In this chapter we intend to examine the background, organizational structure of FBN Plc subsidiaries.

First Bank Nigeria, Plc. has over a century distinguished itself as a banking institution and a major contributor to the economic advancement and development of Nigeria. Founded in 1894 by Sir Alfred Jones a shipping magnate from Liverpool. It was incorporated as a limited liability company in London in March, 1894 with head office in Liverpool and started business under the corporate name of Bank of British West African (BWA). With paid up capital of 2,000 pound sterling. The bank commenced business in Lagos the same year (1894).

To justify its West African coverage a branch was opened in Accra, Gold Coast (Now Ghana) in 1896 and another in Freetown, Sierra Leone in 1898, which marked the genesis of the Bank's international operation. The second branch of the Bank in Nigeria was opened in old Calabar in 1900 and two years later, the services of the Bank extended to the Northern Nigeria, with a network of 311 branches (as at August 1999) spread through out the Federation, the Bank maintains the largest network of branches in the Nigerian banking industry. The Bank also has a branch in London and has diversified into a whole range of banking activities and services including commercial, merchant, Stock-broking, trustee, portfolio and international banking.

At the inception of the Bank's operation in 1894, it had a staff strength of six, comprising three (3) Europeans and three (3) Africans. Today, the Bank is fully Nigerianised in response to the aspiration and yearnings of the Nigerian people and government, as well as the banks determination to support the country in its march towards development.

To be well positioned for opportunities in the changing Market environment, the Bank under took several restructuring exercises. First, it changed its name from the Bank of British West Africa to Bank of West Africa in 1957, and Standard Bank of British West Africa Limited, 1966. Then, the Bank was incorporated locally in 1969 as the Standard Bank of Nigeria Limited in line with the companies Decree of 1968. Thereafter, active participation of Nigerians in the management of the Bank became a matter of corporate policy. The Bank got listed on the Nigerian Stock Exchange (NSE) in March 1971 and has won the NSE President Merit Award eight times as the bank with the best Financial report. Changes in the name of the Bank also occurred in 1979 and 1991 to First Bank Nigeria Limited and First of Nigeria Plc. respectively. In

1985, the Bank introduces a decentralized structure with five (5) regional administration. This was fine tuned in 1992 to enhance the Bank's operational efficiency.

First Bank, no doubt, is well positioned to provide the best efficient services comparable to global standards, to its numerous customers locally and international.

3.1 Brief History Of FBN, Plc. Subsidiaries

The head office of FBN, plc is located in Lagos. In an effort to bring it's services near to the people and also diversify it's services, four (4) subsidiaries were incorporated to date. These are FBN (Merchant Bankers) Ltd, First Trustees Nigeria Limited, Premium Securities Limited and Registrar Department.

The brief history of these subsidiaries are discussed below:

3.1.0 FBN (Merchant Bankers) Limited

FBN (Merchant Bankers) Limited is a subsidiary of First Bank of Nigeria Plc. A private Limited Liability Company, FBN (Merchant Bankers) Limited was incorporated on 20th October 1983 and granted Banking License on 5th March 1990. The Bank commenced operations on 1st August 1990, and currently has an accumulated shareholder's funds in excess of N1.0 Billion. Today, the bank operates from its registered Head Office at 9/11 Macarthy Street, Lagos three branches located in Kano, Onitsha, Port-Harcourt and Abuja.

The share holder's structure of the Bank which has remained unchanged since inception, is as follows:

First Bank of Nigeria Plc.	60%
Private Nigerian Investment	30%
Staff	10%
	100%

FBN (Merchant Bankers) Limited provide a full range of Merchant Banking Services which includes Treasury, Import and Export Credit, Capital Issues and Investment, and International Foreign Exchange Operations.

3.1.1 First Trustees Nigeria Limited

First Trustees Nigeria Limited, a wholly owned subsidiary of first bank of Nigeria Plc was incorporated on 8th August, 1979 as a private limited liability company to carry out a wide range of trustees, portfolio management and advisory services functions.

The company's primary concern is to help improve and develop the Nigeria financial systems by providing specialist trustees and asset management services, the demand for which is currently not being satisfactory met.

With the full backing of FBN plc, the biggest bank with the widest network of branches coupled with our merchant banking and stock-brooking affiliates as well as seasoned professional our company is better positioned to respond promptly and effectively to diverse needs of our clients.

3.1.2 **Premium Securities Limited**

Premium Securities Limited a subsidiary of FBN (Merchant Bankers) limited was incorporated on 23rd July, 1991 as a limited liability company.

Premium Securities Limited (PSL) is registered by the Security and Exchange commission (SEC) as a capital market operator. It is licensed by the Nigerian stock exchange as a dealing member.

Premium securities Limited offer the following service;

- Funds Management
- Portfolio Investment Management
- Pre and past listing services and
- Project financing/financing Advisory services.

Premium securities limited extend the same tradition of reliability, security and efficiency with which the first Bank group is known for. The company's board and management include experienced staff of First Bank of Nigeria plc, and backing of the parent company, FBN (merchant bankers) Ltd.

3.1.3. **Registrars Department**

Registrars department was incorporated in 1980 as a department of FBN plc and granted a subsidiary status in 1999.

Registrars department offers the following services;

- Issues of securities for public and other quoted companies;
- Issuance of shares certificate for parent company and other and;
- Dividend warrants.

3.2 **Organisational Structures of FBN Subsidiaries**

Typically speaking, the FBN subsidiaries has a vertical line authority structure, i.e. a structure that defines the superior - subordinates relationships from the top of the organisational to the bottom or lowest level.

The highest body or organ for decision making in these subsidiaries is the Board of Director (BOD) which is conferred with the management of the subsidiary business, e.g. approval of investment proposal, appointments of senior staff or officers, approval of standing orders and conditions of service approval of budgetary proposals and general policies.

Below the level of the Board of Directors is the managing Director (MD) who is the chief executive and accounting officer. He is responsible to the Board and Central Management of the company. the functions of the managing Directors of these subsidiaries can be summarised to include the following;

- Overseeing to policy relating to all decisions of the company (subsidiaries).
- Responsible to the Board of Directors for the operation of the subsidiary.
- Conferring with the parent (FBN) on subjects as concern such subsidiaries.
- Approval of promotions, appointment and disciplines of staff.
- Liaison with the cabinet office executive council as it affects the subsidiary.

Executive directors are responsible for investment promotions, appraisal of investment proposal, preparation of papers for board's consideration, supervision of investment, general administration, and legal and accounting/financial functions.

The deputy general managers are next to the executive directors. They are responsible for the administration of the divisions.

The Assistant general managers are responsible to the deputy general managers. They are responsible for the departments/Branch operations.

Some of the departments for the operations of these subsidiaries include:

- Investment and corporate Banking
- Management services and Branches
- Legal services

- Management services
- Treasury and financial services
- Credit and market
- Administration / personnel
- Internal Audit
- Information Technology e.t.c.

Figure / diagrams are attached.

3.3 Operations of FBN Plc

The bank operate through four (4) strategies business units (S.B.Us)

The S.B.Us are for corporate Banking, commercial Banking, consumer Banking and Transactions Banking.

a. The corporate Banking Unit handles the marketing and relationship management of the banks very large and sophisticated corporate customers, which include very highly structured or formal organisations with annual business turnover of N1 billion and above e.g. Oil and gas companies, big-time manufactures and conglomerates.

b. The commercial Banking Unit is in charge of marketing and relationship management of organisation and business people who do not fall within the profile of the corporate Banking S.B.U's customers in terms of the formality, sophistication and structure of their management's systems. Less structured/semi-formal organisations and very large one-man business are managed by this SBU.

c. The Consumer Banking Unit markets personal credit and financial advisory services to reputable individuals such as employed professionals of corporate organisations, self employed professionals e.g. owners of business and high net-worth individuals (H.N.Ts)

d. The Transaction Banking Unit is anchored on delivery payment and transaction services as well as operators. It constantly reviews and redefines branch banking in the Bank's entire branch network and regional office structures for optional service delivery.

The market-facing S.B.Us - corporate Banking, commercial Banking and consumer Banking - have teams of professional relationship managers and account officers at the head office and selected branches to ensure that the needs of all corporate, commercial and consumer banking customers are effectively met.

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3. First Trustees Nigeria Limited Annual report and account 1997
4. Premium Securities Limited Annual report and account, 1998
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CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

As stated in chapter one, four methods of data collection were used in the collection of both the primary and secondary data. They are documentary, personal observation, interview and questionnaire.

As earlier on pointed out in chapter one (1) Ref. 1.7.2) a structured questionnaire was designed and administered randomly to 150 respondents in the following four (4) subsidiaries of FBN, Plc namely FBN (Merchant Banker) LTD, First Trustee Nigeria Limited, Premium Securities Limited Registrar Department and FBN, Plc. One hundred and thirty (130) of these were completed and returned, i.e. one hundred and thirty (130) of the answered questionnaires were received this shown about 86.67% responded. The research findings and conclusion is however based on the sample stated above. Percentages/ranking techniques were used to interpret the data and the research findings drawn there from.

4.1 Presentation and Interpretation of Data Collected

As stated earlier one set of questionnaire was administered. The questionnaire was divided into three (3) sections viz. A, B and C - A (about the respondent), B (Background of the company (subsidiary) and C (Consideration and sources of subsidiaries financing).

About the Respondent

Question 1 (a-c) of the questionnaire was meant to find out personal data or information about the respondents. From the questionnaire responses of the respondents reveals, that all the 130 respondent that filled and returned their questionnaires were found to be staff holding various responsible positions in the FBN, Plc subsidiaries and served in these subsidiaries between 5 - 10 years.

Background of the company

Questions 2 - 10 (section B) of the questionnaire were meant to find out background information about the companies or subsidiaries from the questionnaire responses of the respondents reveals that all the companies are subsidiaries of FBN, Plc registered within Nigeria; were incorporated between 5 - over 20 years not joint subsidiaries i.e. not owned by two parent companies and establishment to provide synergies in specific service area or business for the parent company.

Sources of initial Finance

In order to determine the sources of initial finance to the subsidiaries. Responses to question 11 in the questionnaire are used by the researcher to examine this. The data gathered are collected and tabulated below:

Table 1

Responses	Number of Respondents	Percentage
The parent company	120	76.92
The company's management	25	19.23
Others (specify)	5	3.85
Total	**130**	**100%**

Sources: *Administered questionnaire and Interview*

Table 1 indicates that funds from the parent company (FBN plc), constituted the most important initial sources of financing (funds) to all the subsidiaries in the sample i.e. (76.92%) of the respondents. During the researchers oral discussions (interview) with the top management of the subsidiaries their responses also justified this findings.

This result also tended to agreed with the study by Livingstone (1975) on the financing of subsidiaries and Frederick D.S. Choi (1978) Both studies concluded that in financing a subsidiary, the parent Company provides funds at the initial stages of the operation while additions can be generated through the company's management as indicated in table 1, 25 (19.23%).

Parent Company approval:

In order to determine whether FBN Plc subsidiaries seek parent's company approval before plans are put into effect. Table II below shows their responses:

Table II

Responses	Number of Respondents	Percentages
Yes	100	76.72%
No	30	23.08%
Total	**130**	**100**

Source: *Administered questionnaire and interview*

Table II indicates that parents company's approved is need with 100 (79.92%) i.e. parents company approval is need before plans are put into effect by all the FBN subsidiaries.

Considerations and sources of subsidiaries financing.

In order to determine the considerations and sources of subsidiaries financing. Responses to question 15 in the questionnaire is used by the researcher to examine this. The data gathered are collected and tabulated below:

Table III

Determinates of financing Alternatives:

Responses	Number of Respondent	Percentage
Economic environment	70	53.85
Nature of operation	40	30.76
Credit terms	18	13.85
Others	2	1.54
Total	130	100%

Sources: *Administered questionnaire and interview*

Table III shows the result of the questionnaire conducted on the sample to determine the variables that most influences the financing alternatives. By their choices 70 (53.85%) indicated "economic environmental" as the major determinants while 40 (30.76%) respondents choose "Nature of operation" as their top priority, with 18 (13.85%) respondents settling on credit terms and only 2 (1.54%) indicated others.

The above result not with standing during the interview some subsidiaries tended to rank "Nature operation" as major (though not most important) determinant of their alternative choice of finance.

From the result in table III the researcher observes that the major determinant of financing alternatives used by FBN Plc subsidiaries were economic environment, nature of operations and credit terms.

Use of internal or external source of financing:

In order to determine whether FBN Plc subsidiaries frequently make use of internal sources more than external source in financing their operations.

The data collected from the responses of respondents to questions 17 - 22 were used by the researcher to examine this. The data gathered are collated tabulated, and the inference made below:

Table IV

Responses	Number of Respondents	Percentages
Internal sources	80	61.54%
External sources	50	38.46%
Total	**130**	100%

Sources: *Administered questionnaires and interview*

The result of table IV indicates that internal sources which included equity contributions by parent, funds from the parent, loans from sister subsidiaries and other funds generated within the parent affiliate network with 80 (61.54%) respondents are much too frequently used as sources of subsequent finance, while 50 (38.46%) respondents indicated the use of external source. However the above result not withstanding, from the oral interview with top management of some of these subsidiaries external sources of financing tended to be considered and make use of than internal sources. The preferences according to them is due to the economic conditions in the country.

However, based on the result of sample, the researcher observes that FBN plc subsidiaries use both internal and external sources in financing their operations.

Assessment of sources of financing:

In order to test some hypothetical assumption which need to be proved right or wrong, the table V below shows the responses of the respondents on their assessment of FBN Plc subsidiaries source of financing over the year:

Table V

Responses	Number of Respondent	Percentage
Good and adequate	130	100%
Bad and not adequate	-	-
Total	**130**	**100%**

Sources: *Administered questionnaire and Interview*

The analysis of the result from the table above shows 130 (100%) of the respondents indicated that FBN, plc sources of subsidiaries financing is good and adequate.

4.2 Summary of Research finding / observations

From the study and the analyses of the data collected (from questionnaire, interview and personal observation) during the research, the researcher makes the following finding / observations:

1. All the FBN subsidiaries shares are owned by the parent company (FBN Plc) i.e. wholly owned subsidiaries and not branches or joint subsidiaries.
2. The parent company (FBN, Plc) provide the initial sources of financing (Funds) to all its subsidiaries at the initial stages of operation while additional funds are raised through appropriates local sources.
3. That parent company (FBN, Plc) approval is needed before plans for alternative financing are put into effect by all FBN, Plc subsidiaries.
4. Economic environment consideration constitutes a major determinant of the financing alternative use by FBN, Plc subsidiaries.

5. FBN, Plc subsidiaries use both internal and external sources of financing to generate funds for their business operations.

6. FBN, Plc subsidiaries financing is good and adequate.

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CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.0 Summary and conclusion

The focus of this study was " subsidiaries financing by First Bank of Nigeria (FBN) Plc". Therefore this chapter summaries the important features of the project as presented in the previous chapters, conclusions made or arrived at and finally recommendations.

The research work or study is divided into five chapters:

In chapter I, the chapter introduces the research topic and we started by highlighting what prompted the research, i.e. the statement of the problem. We noted that subsidiaries are establish to provide synergies to the parent company which is a global strategy of business world wide, therefore the need for adequate financing. The Chapter further discussed the objectives of the study, scope of the study, limitation of the study, operational definition and chapter preview.

In chapter II, we review related literature and conceptual frame work. The literature review considered the relevant concept that relates and affects subsidiaries financing. However because of the massive literature that is available in this field, we reviewed the following: What is financing?

Subsidiaries financing/major determinants of financing alternatives, and sources of subsidiaries financing.

The third chapter dealt with background, organizational structures of FBN, Plc subsidiaries. In the chapter we spell out brief histories of FBN, Plc subsidiaries, organizational structure(s) of FBN, Plc subsidiaries and operations of FBN, Plc.

The fourth chapter dealt with presentation and data analysis. The following conclusions research finding/observations made:

1. All the FBN, Plc subsidiaries shares are owned by the parent company (FBN, Plc)i.e. wholly owned subsidiaries and not branches
2. FBN, Plc provide the initial sources of financing (funds) to all its subsidiaries at the initial stages of operations while additional funds are raised through appropriated local sources.
3. FBN, Plc as parent company approval is needed before financing plans are put into effect by the subsidiaries.
4. Economic environment consideration constitutes a major determinant of the financing alternative use by FBN, Plc
5. FBN, Plc subsidiaries use both internal and external sources of financing to generate funds for their business operation and
6. FBN, plc subsidiaries financing is good and adequate.

CONCLUSION

FBN, Plc has contributed immensely in promoting economic development in Nigeria. It is in fact a corner stone of our future economic development.

From the foregoing there is no doubt that FBN, plc prospect, in the Nigeria journey to economic development is bright. It is also certain that the bank will continue to maintain its leadership holds in the area of service delivery.

5.1 Recommendations

It is in the light of our findings, conclusion and the need for FBN, Plc to improve on its current performance in the area of its subsidiaries financing and to breast up to the present needs of the country in subsidiaries financing. The following recommendations are however hereby made:

1. FBN, Plc should give free hand (autonomy) to its subsidiaries to operate as autonomous or independent corporate entity with its own charter, tax liabilities e.t.c.
2. Generally, subsidiaries financing (sources of funds) is derive namely from parent company. This research then recommend that FBN, Plc should allow it's subsidiaries resort to other sources of financing like autonomous companies in their type of business.

3. FBN, plc should make it a policy to provide staff training and development. This will help retain staff and improve performance.

4. Finally, there is the need for FBN, Plc to keep abreast of new trends in subsidiaries financing, as well as the need to compare favourably with Banks in other developing countries and those in developed economies who have made conspicuous progress in subsidiaries financing.

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CHAPTER THREE

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4. Premium securities Limited Annual Report and account, 1998.

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CHAPTER FOUR

1. LIVING STONE L. 1978 op. Cit.

2. FREDERICK D.S. Choi 1978 "An introduction to multinational Accounting, practice Hill international Inc London.`

APPENDIX 1

Department of Business Administration

Ahmadu Bello University,

Zaira. Date...............................

Dear Sir/Madam,

REQUEST TO ADMINISTER A QUESTIONNAIRE

Attached is a questionnaire in respect of a research project on "Subsidiaries Financing by First Bank of Nigeria (FBN) Plc".

This research is undertaken to satisfy a requirement for the award of a Master of Business Administration Degree MBA.

In view of this, I am requesting your kind assistance in providing answers to the issues raised in the questionnaire.

I wish to state that the information that would be provided would be treated in strict confidence.

Yours faithfully,

Signed

KHALID M GARBA.

QUESTIONNAIRE

INFORMATION

Please feel free to tick or comment where applicable.

SECTION A. (ABOUT THE RESPONDENT)

1.a Position held in the company…………………………………………..

…………………………………………………………………………………...

b. Department……………………………………………………………...…

c. Years of service to the company…………………………………………………

…………………………………………………………………………………...

…………………………………………………………………………………...

SECTION B. (BACKGROUND OF COMPANY)

2. Name of Company………………………………………………………………..

3. Registered Headquarters…………………………………………………………

4. Name of Parent company…………………………………………………………

5. Name (s) of subsidiaries of the parent company……………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

6. When was the company incorporated?

……………………………………………………………………………………………

7. What is the Nature of the Company's business?……………………………………

……………………………………………………………………………………………

8 Is the Company a subsidiary of any company?

……………………………………………………………………………………………

9. If yes, who is the parent company?

……………………………………………………………………………………………

10. What percentage share do/does they /it hold?

……………………………………………………………………………………………

11. Who determines the need for potential sources of financing for the company (subsidiary)? Tick below

a. The parent company

b. The company's management

c. Others (specify)

…………………………………………………………………………………

…………………………………………………………………………………

12. Does the company (subsidiary) seek parent approval before financing plans are put into effect? ……………………………………………………………………

13. If yes, specify………………………………………………………………………..

14. In the alternative, does the company operate independently within guidelines provided by the parent company? Explain with example If possible…………………………………………………………………………

SECTION C (CONSIDERATIONS AND SOUIRCES OF FINANCING)

15. The major determinants of financing alternatives used by the company are:- (if more than one tick in order of importance

a. Economic environment

b. Nature of operating

c. Credit terms

d. Other

16. If (d), specify……………………………………………………………

17. Generally, which source of subsidiaries financing (internal or external) has the company used more frequent in financing her operations?…………………………………………………..……………………..

18. Give reasons……………………………………………………………………………

…………………………………………………………………………………………..

19. Which of these interval sources of subsidiaries financing has the company benefited from, rank in order of frequency).

a. Equity contribution by parent
b. Funds from the parent company
c. Loans from sister subsidiaries
d. Parent supplies inventory
e. Retained earnings

20. Why has the company not made use of the least ranked in respect of 19 above?

……………………………………………………………………………………………

21. Has the company ever borrowed with the parent guarantee?……………………………………………………………………….….

22. Tick the type of guarantee (if more than one rank in other of frequency).

a. Unlimited guarantee

b. Purchase guarantee

c. Collection guarantee

e. other (specify)

23. What is your assessment of FBN, plc subsidiaries financing are the years? Tick

a. Good and adequate

b. Bad and not adequate

24. What problems do FBN plc encountered in its subsidiaries financing? Please comment freely...

....

....

....

25. .Suggest recommendations or solutions to the problems observe or encountered:

....

....

....

....

....

Thank You.

APPENDIX 2

Department of Business Administrative

Ahmadu Bello University, Zaria

Zaaria

Date...

The M/D CEO

FBN, plc

Sir,

I am conducting a research on "Subsidiaries Financing by FBN, plc"

In view of the above, I intend to hold personal interview with top management staff of your subsidiaries. I am therefore requesting you to kindly grant me the opportunity to hold the interview.

Sir, you may also kindly give me any suitable date and time convenient for you.

The content of the interview is attached for study please.

Thank you.

Yours faithfully,

Signed

Khalid M. Garba

APPENDIX 3

INTERVIEW CONTENTS WITH THE TOP MANAGEMENT OF FBN PLC SUBSIDIARIES

1. What is the name of your company (subsidiary).
2. When was the company incorporated?
3. What is the nature of the company's business?
4. Is the company a subsidiary of FBN, plc?
5. What percentage share do/does it holds?
6. Who determines the need for potential sources of financing for the company (subsidiary)
7. Does the company (subsidiary) seek parent's approval before financing plans are put into effect?
8. What are the major determined of financing alternatives used by the company (subsidiary)
9. Which of these internal or external sources of subsidiaries financing has the company benefited from?
10. Generally, which source of subsidiaries financing internal or external has the company used more frequently in financing her operations?
11. What is your assessment of FBN, plc subsidiaries financing?
12. What problem in your opinion does FBN, plc encountered in financing its subsidiaries?
13. Suggest recommendations or solutions to the problems observed or encountered.