**IMPACT OF FINANCIAL CONSTRAINTS ON FIRMS INVESTMENT DECISION MAKING IN NIGERIA**

**Abstract**

Several investment decisions are made by organizations and firms without due analyses and end up causing such organizations or firms investment not to return its due benefits or rewards to the investor(s). To this end, the study is on the impact of financial constraints on firms investment decision making in Nigeria was carried out. Data were collected from one hundred and fifty (150) respondents being our sampling size to whom questionnaire were distributed for the study. Out of this a total of one hundred and twenty (120) were completed and returned which formed the total respondents with which our analysis were conducted and inferences arrived at. The findings of the study revealed that there is the need for finance, capital structure and liquidity of firms or organizations in making investment decisions as not to incur losses resulting from poor returns. Based on the findings the study recommended among others that the risks and return characteristics of any investment be put into consideration in making investment decision.

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background To The Study**

The study is focused in examining financial constraint and investment decision of firms in Nigeria. The study seeks to reveal various financial constraints that are having effect on firms’ investment decision. The data have been taken from the balance sheet of nine (9) manufacturing firms listed in the Nigerian Stock Exchange for the time period 2008 to 2012. Multiple regression analysis has been done to examine the relationship among firm’s size, dividend payout ratio, firm’s age, capital stock, debt and cash flows and investment.

The empirical findings show their investments are much affected by fluctuations in their cash flows or retained earnings as it has a positive influence on investment and that there is positive relationship between the firms’ size and investment as well as debt while a negative relationship exists between firms’ age, capital stock, and investment. It also reports that there is negative relationship between dividend payout ratio and the investment as well as

The study, thus, concluded that financial constraints are present in the market, which indicates that the firms are unable to access to external forms of financing. In addition, the presence also signifies the presence of asymmetric information problem, agency cost, tax exhaustion cost e.t.c. between the firm and its financer.

It thus, recommended that an optimal dividend decision with less effect on the firms’ investment decision should be embraced upon by the firms. In addition, firms should opt for a strategy of using modest levels of debt and overinvesting as a way of increasing debt capacity.

Investment being a sacrifice made now for benefits in the future is associated with the different activities, having a common target that the employed funds during the time period is seeking to enhance the investor’s wealth. In order to achieving that wealth enhancement, decision making a process that involves a sequence of actions with the identification of an investment related problem, issue or opportunity and ends in the approval of an investment project is essential (Boonstra 2003).

**1.2 Statement of the problem**

The process of investment decision at the company level is a multi-criteria process taking into account numerous factors such as economic and risk factors, but also political, social environment and government regulations (Enoma and Mustapha 2000). Buonanno et al 2005 argues as important as these factors, different approach need be applied on industry and organization basis.

Also of note is top management support considered one of the most important factor in the decision making; as it helps the organization in delivering successful investment plans. Wang, (2007). There is growing controversy over the impact of financial development on economic growth, some researchers (McKinnon, 1973; Shaw, 1973; Dash & Hamman 2009) have argued that financial development deepens financial markets and thereby promotes economic growth, while (De Bondt, 1998 and Lintner, 1983) have provided empirical evidence that financial repression can have positive impacts on economic growth. The studies are however, largely based on the macroeconomic/aggregate correlations between finance and growth or on the nature of this relationship at the microeconomic level. Very few studies have been able to integrate macro and micro variables in the same analysis in order to provide evidence for a microeconomic channel through which macro-financial development influences the growth of the real economy. Asymmetric information, managerial agency problems, and transaction costs can make external finance more expensive than internal financing. Investors be it individual or corporate are faced with the challenges of making decision because of several factors ranging from finance to terms of determining when to invest or not (Carpenter & Guariglia (2008). Financial information enables an investor to minimize the risk involved in investment decision making. A financing decision results in a given capital structure that is suboptimal can lead to corporate failure and individual losses. A great dilemma for management and investors is whether their decisions through the financial information available will result in efficiency and optimal returns on investment which is the over-riding motive of any investment decision. It is therefore intended to conduct this study to view the effect of financial constraints on investment decision making (Carr, James, & Keith, 2001; Memba & Nyanumba, 2013).

**1.3 Objective of the study**

The broad objective of this study is to establish the effect of financial constraints on firms investment decision making in Nigeria but the specific objectives are to:

i) identify the effect of finance on a firm’s investment decision in Nigeria.

ii) establish a firm's capital structure and suboptimal financing decisions on a firms choice of investment.

iii) determine the impact of firms liquidity on a firm’s investment decision in Nigeria. The study formulated and tested the following hypotheses in the null form

**1.4 Research Question**

i. Does finance have any effect on a firm’s investment decision making in Nigeria?

ii. Does a firm’s capital structure and suboptimal financing decision have any effect on a firms’ choice of investment?

iii. Is there any impact of liquidity on investment decision of firms?

**1.5 Significance of the study**

It is believed that at the completion of the study, the findings will be of great importance to the management of organizations who are saddle with the responsibility of investment decision in an organization as the study seek to explore avenues to effectively utilized the scarce resources (finance) which is the red blood cell of business. The study will also be useful to investors and potential investors as the study examine the impact of financial constrain on investment decision of an organization. The study will also be useful to researchers who intend to embark on a study in a similar topic as the study will serve as a guide to further research. Finally, the study will be useful to academia’s, student, teachers, lecturers and the general public as the study will contribute to the pool of existing literature on the subject matter and also contribute to knowledge.

**1.6 Scope And Limitation Of The Study**

The scope of the study covers the impact of financial constraints on firms investment decision making in Nigeria, but in the course of the study, there are some factors that limited the scope of the study;

Staff Reluctance: In most cases the staff of the used study often feels reluctance over providing required information required by the researcher. This result in finding information where the structured questionnaires could not point out.

Researcher’s Commitment: The researcher, being of part time student spent most of her time on business and other engagement such as test, class work, assignment, examination etc which takes average focus from this study.

Inadequate Materials: Scarcity of material is also another hindrance. The researcher finds it difficult to long hands in several required material which could contribute immensely to the success of this research work.

**1.7 Operational Definition Of Term**

Finance

Finance is a field that is concerned with the allocation (investment) of assets and liabilities over space and time, often under conditions of risk or uncertainty. Finance can also be defined as the art of money management.

Financial constraint

A financial constraint is a lack of money because of which you cannot buy something, or do something. When you act under constraint, you are forced to do something which you do not like.

Firm

A firm is a for-profit business organization—such as a corporation, limited liability company (LLC), or partnership—that provides professional services.

Investment

To invest is to allocate money in the expectation of some benefit in the future. In finance, the benefit from an investment is called a return

Decision making

Decision-making (also spelled decision making and decision making) is regarded as the cognitive process resulting in the selection of a belief or a course of action among several alternative possibilities.

**1.8 Organization Of The Study**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), statement of problem, objectives of the study, research question, significance or the study, research methodology, definition of terms and historical background of the study. Chapter two highlight the theoretical framework on which the study its based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE/THEORETICAL FRAMEWORK**

**2.1 Corporate Investment Decision**

There are vast of literature that estimates the impact of financial constraints on the investment behavior of firms. Fazzari, Hubbard and Petersen (2000), classify firms according to whether they were likely to be financially constrained on the basis of their size, dividend payouts and capital structure and this characteristic determines whether they are more sensitive to the supply of internal funds measured by cash flow. The highest sensitivities to cash flow are found for firms categorized as financially constrained, and this is taken to indicate that financial constraints are binding in this case. Kaplan and Minton (2008) have also argued that the classification adopted by Fazzari et al. (2000) tends to assign firms incorrectly. They make use of more detailed information in financial statements from annual reports to classify the same firms over an identical sample period into three categories of financially constrained, possibly financially constrained, and non-financial constrained. Using this classification they found that financially constrained firms have the lowest sensitivity of investment to cash flow. McCahery, Zacharias & Laura (2010) using a larger data set also found that the most constrained firms have the lowest sensitivity. The findings of Kaplan and Zingales (1997) can be explained by a few influential observations whereas the results of McCahery, Zacharias & Laura (2010) can be explained by observations of firms with negative cash flows. One of the main results of the work by Kaplan and Zingales (1997) and McCahery, Zacharias & Laura (2010) is that for firms under distress the cash flow sensitivity might be reduced, so that for severely constrained firms the relationship found might be reversed. One of the more important reasons to be cautious in interpreting cash flow sensitivity as indicating financing constraints is that cash flow might forecast future profitability or sales growth. Modigliani and Miller (1958) postulated that firms’ financing and real investment decisions are taken independently of each other. This theory is however hinged on perfect markets (no taxes, no transaction costs and other market frictions). This suggests that, there is no relationship between financial markets and corporate real investment decisions. Corporate finance theory suggests that market imperfections such as underdeveloped financial system may constrain firms’ ability to fund investments and will invariably affect firms’ investment decisions. The theory indicates that the development of financial markets and instruments result in a reduction in transaction and information costs, influencing saving rates and investment decision (Kang & Shivdasani, 2009).

**2.2 Evolution of the Capital Market**

The Nigerian stock market enjoyed a decade of high activity in both trading value and volume which grew at 176% and 153% respectively over the period. However, the in-organic growth recorded in the market was induced by the regulation which mandated the recapitalization of Banks and was a clear deviation from the market’s natural growth pattern. As seen in the 2007 and 2008 radical spikes in total market capitalization and trading volume were clear departures from the trend line of the market’s natural growth. In a move by regulators to strengthen the institutions for global competitiveness, banks were mandated in 2004 to shore up their capital base from N2 billion to N25 billion. The exercise triggered a string of public offers, mergers and new listings. At the end of the first exercise, the increase in Banks’ capital base catapulted equities capitalization attributable to the sector from N400 billion to approximately N1.12 trillion and led to the reduction in the number of banks from 89 to 25 by the end of 2005. Since equities dominated the market, banking stocks by extension became the major determinant of the fortunes of the equities market. Nonetheless, the positive market sentiments set off by the wave of bank driven public offers aroused corporate interest, leading to record breaking new issuance activities. Aggregate new issues by corporate organizations increased from N412.7 billion in 2005 to N1.34 trillion in 2007; a growth of 224.6%. Several real sector entities equally accessed the capital market for funds with strong public participation in the offers. The euphoria of the offers led to a surge in the average number of subscribers, hitting the 99,000 mark in 2007, up from 4200 in 2002 with many companies from the real sector becoming first time issuers in the market. During this period the Nigerian Stock Exchange All-Share Index (NSE ASI) gained 161.64%, while equity market capitalization increased by 384% from N2.5 trillion ($22.73 billion) in 2005 to N12.1 trillion ($110bn) in March 2008. That period also saw an increase in the establishment of brokers, asset managers and issuing houses. Consolidation efforts and the ensuing capitalization opened up the Nigerian financial landscape to the international space.(NBS, 2010). Regrettably, emphasis on risk management and corporate governance did not evolve commensurately to support the fast growth. Invariably, the additional capital raised by the banks went into speculative lending to the oil and gas sector, as well as unregulated margin finance to brokers and individual investors, thus, fueling an asset bubble. Banks engineered over-valuation of their stocks on the stock exchange prior to accessing the market for capital. There were also instances of financing the purchase of own stock in the primary market to create a semblance of huge investor appetite for such stock through shell companies. Companies purchased their stocks to push up their prices and public appetite. The own stocks are subsequently sold at premium when its valuation peaks. Since such pricing is not based on fundamentals, natural corrections followed, leading to the plummeting of the stock price. There were also cases of manipulative transactions in the stock of listed companies outside the floor of the exchange. The regulators were neither sufficiently prepared nor well positioned to monitor and sustain the explosive growth in the capital markets, thus, these illegalities largely occurred unhindered. When therefore the global financial crisis triggered large portfolio outflows, international investors exited the Nigerian capital markets to address challenges in their home countries. Stock prices started to decline, prompting margin calls and local investors who were unaccustomed to huge and persistent declines started to panic, fueling more sell orders, Financial Constraints and Investment further depressing prices and eroding investor confidence. The situation was exacerbated by the huge borrowing and margin finance exposure of individual investors, brokers and banks. Between 2007 and 2009, the capital market lost over 70% of its value, leading to a loss of investor confidence. By 2009, new issues had dropped by 93.5% to only 85.9 billion naira from the peak of 1.3 trillion naira in 2007. Also the share of the banking sector in the equities market fell from its high of 53 per cent in 2008 to 18 per cent in 2011 (NBS, 2010; Adekunle & Sunday (2010; OECD, 2005).

**2.3 Theoretical Review**

The theories underpinning this study include the Modern Portfolio Theory, Efficient Market Hypothesis and the Behavioral Finance Theory

**2.3.1 Modern Portfolio Theory**

Markowitz (1952), an American economist developed a theory of portfolio choice, which allows investors

to analyze risk relative to their expected return. Markowitz’s theory is today known as the Modern Portfolio Theory, (MPT). The modern portfolio theory MPT) is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although the MPT is widely used in practice in the financial industry, in recent years, the basic assumptions of the modern portfolio theory (MPT) have been widely challenged. The Modern Portfolio Theory, an improvement upon traditional investment models, is an important advance in the mathematical modeling of finance. The theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific company. The modern portfolio theory (MPT) is a sophisticated investment decision approach that aids an investor to classify, estimate, and control both the kind and the amount of expected risk and return; also called Portfolio Management Theory. Essential to the portfolio theory are its quantification of the relationship between risk and return and the assumption that investors must be compensated for assuming risk. Portfolio theory departs from traditional security analysis in shifting emphasis from analyzing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio. The MPT mathematically formulated the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. The possibility of this can be seen intuitively because different types of assets often change in value in opposite ways. But diversification lowers risk even if assets' returns are not negatively correlated-indeed, even if they are positively correlated (Chebii, Kipchumba & Wasike, 2011). By combining different assets whose returns are not perfectly positively correlated, MPT seeks to reduce the total variance of the portfolio return. MPT also assumes that investors are rational and markets are efficient. The fundamental concept behind the MPT is that assets in an investment portfolio should not be selected individually, each on their own merits. Rather, it is important to consider how each asset changes in price relative to how every other asset in the portfolio changes in price. Investing is a trade-off between risk and expected return. Generally, assets with higher expected returns are riskier (Chebii, Kipchumba & Wasike, 2011). For a given amount of risk, the MPT describes how to select a portfolio with the highest possible expected return. Or, for a given expected return, the MPT explains how to select a portfolio with the lowest possible risk (the targeted expected return cannot be more than the highest-returning available security, of course, unless negative holdings of assets are possible).

**2.3.2 The Efficient Market Hypothesis**

The idea of the efficient market hypothesis (EMH) was developed by Eugene Fama in the mid 1960s. It asserts that financial markets are informationally efficient. That is, one cannot consistently achieve returns in excess of average market returns on a risk-adjusted basis, given the information available at the time the investment is made. There are three major versions of the efficient market hypothesis (EMH): weak, semi-strong, and strong. The weak efficient market hypothesis (EMH) asserts that prices of traded assets (for example, stocks, bonds, or property) already reflect all past publicly available information. The semi-strong efficient market hypothesis (EMH) opines that prices reflect all publicly available information and that prices change to reflect new public information. The strong efficient market hypothesis (EMH) additionally claims that prices instantly reflect even hidden or insider information. There is evidence for and against the weak and semi-strong EMHs, while there is powerful evidence against the strong EMH (Fama, 1970). Extensive researches have revealed signs of inefficiency in financial markets. Critics have blamed the belief in rational markets for much of the late-2000s global financial crisis. In response, proponents of the hypothesis have stated that market efficiency does not mean having no uncertainty about the future, rather the market efficiency is a simplification of the world which may not always hold true, and that the market is practically efficient for investment purposes for most individuals (Adekunle, 2009).

**2.3.3 Behavioral Finance Theory**

According to Lintner (1983), behavioural finance is the study of how humans interpret and act on information to make informed investment decisions. The emergence of behavioural finance has presented a new realm for analyzing the ways in which investors make decisions that includes psychological factors; as well as providing new grounds upon which to question conventional methods of modeling determinants of investor behaviour. Brabazon (2000) suggests that the finite aspects of behavioural finance can be split into two different classification groups. The first is that of heuristic decision processes (a common sense rule), where an individual investor through instinctive psychological processes can result in decisions that according to the standard finance model, are not rational. Brabazon (2000) explains that these decision processes are those with which humans attempt to make mental short cuts. These short cuts have been vital for the survival of the human race, especially useful when decision making time is limited. Decision makers in this instance tend to form decisions by observing patterns that may not be relevant or even truly apparent (Brabazon, 2000). They may assume that a recent trend in price movements will definitely continue into the future. This may result in individual investors devoting too much attention to popular stocks that have recently been performing well. Statman (1999) explained that being duped into making investment decisions based upon this imperfect theory of small numbers is something that the standard finance investor would never do; that an investors regarding past performances of stocks as evidence of future returns is a realistic possibility contrary to the standard finance 15 model of an investor. De Bondt (1998) explains how this psychological factor affects individual investors’ decisions and opined that regret aversion results in a disposition effect where investors sell well performing stocks too soon and hold poorly performing stocks for too long. Regret aversion may also result in what is known as herding investing in a popular stock if everyone else believes that it is a good one. Responsibility of it failing will be shared with the other investors who originally expected it to do well also.

**2.4 Empirical Review**

The study of Fazzari, Hubbard and Petersen (2000) first established the role of financial constraints and firms’ investment behavior by using firm-level panel data of 427 US manufacturing firms over the period 1970 to 1984. The authors grouped firms into three categories by the level of dividend payout, which is assumed to be a proxy of the financial constraints: low, medium and high dividend payout firms. They found significantly larger estimated coefficients of cash flow for the low-dividend-payout firms than the high-dividend-firms. The establishing of a close relationship with main banks, mitigate financial constraints and thus lower the responsiveness of investment to cash flow in order to avoid the strong assumptions that are necessary in both the q theory and Euler equation approaches. Chebii, Kipchumba & Wasike (2011). Appling vector autoregression to firm level panel data from 36 countries. and argued that by using orthogonalized impulse response functions they were able to separate the fundamental factors (such as marginal profitability of investment) from the financial factors (such as availability of internal finance) that influence the level of investment. They found that the impact of the financial factors on investment, which they interpreted as evidence of financing constraints, is significantly larger in countries with less developed financial systems. In a bid to identify the institutional factors that affect investment constraints, Kang and Shivdasani (2009), Chen & Volpe (1998) investigated financing constraints in a large cross-country data set covering most of Europe. They found a strongly positive coefficient on the cash flow, suggesting the presence of financial constraints and their results also showed that the cash flow sensitivity of investment is lower in countries with better finance, thus, suggesting that investment is less likely to be constrained in countries with better financial development. They found this effect to be weaker in conglomerate subsidiaries, which are likely to have access to internal capital markets and depend less on external financing. Several other studies following traditional approach have tried to use the sensitivity of cash-flow as a sign of financial constraints for a recent microeconomic survey on investment and financing constraints). Their results suggest that large firms and those with high dividend payout ratios will have lower investment to cash-flow sensitivity than smaller firms and those firms with low dividend payout ratios, since they are less affected by capital market imperfections that result in much higher cost of external finance relative to internal funds. This methodology however is having a growing criticism. VAR forecasting equations given that cash flow is explicitly included in observed fundamentals, fundamental q should fully capture the information, if any, about future returns to capital contained in cash flow. As a result, any additional sensitivity of investment to cash flow in their regression models should result from capital market frictions. As predicted, they confirmed that there was no excess sensitivity of investment to cash flow for firms which have easy access to financial markets, but a large responsiveness of investment to cash flow for firms with no access to financial markets. Kaplan and Minton (2008) questioned the traditional approach and assumed that a firm does not face financing constraint if it can invest more at a given point in time. They found that the less financially constrained group exhibited significantly greater investment cash flow sensitivity than those firms classified as more financially constrained. Similarly, McCahery, Zacharias & Laura (2010) using international panel data determined the interrelationships among some measures of financial constraints and found that firms that are classified as not financially constrained tend to be larger and have higher payout ratios and that firms with stronger financial positions are more investment cash flow sensitive than firms with weaker financial positions even after controlling for size and dividend payout. Their analysis also revealed that higher payout firms are more investment cash flow sensitive than lower payout firms even after controlling for size and financial strength. Carpenter & Guariglia (2008) evaluated the impact of capital market imperfections on investment behaviour of productive sector firms in Nigeria between 1984 and 2000. They adopted a model based on Tobin’s q theory and employed the OLS and instrumental variable techniques to estimate the model. Their results revealed that the Nigerian capital market is imperfect and that bigger and older firms rely more on internal funds compared to smaller and newer firms. Their switching regression analysis showed that an increase in both future profit prospects measured by Tobin’s q and cash flow result in an increase in corporate investments of firms that have low credit worthiness. Tobin,(1969). The conclusion emerged that the incidence and severity of information and agency problems vary across firms and over time, thereby having different effects on investment behaviour. The implication is that capital market imperfections lead to binding financial constraints on corporate investment behaviour in Nigeria. This study however has a number of limitations, the analysis covers only the capital market segment of the financial sector, their results therefore not providing a complete picture of the impact of financial market development on the investment behaviour of firms in Nigeria and the period of the study (1984-2000) does not include many of the significant economic and financial sector reforms that have taken place in the last decade.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 INTRODUCTION**

In this chapter, we described the research procedure for this study. A research methodology is a research process adopted or employed to systematically and scientifically present the results of a study to the research audience viz. a vis, the study beneficiaries.

**3.2 RESEARCH DESIGN**

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated in a logical manner to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled.

**3.3 POPULATION OF THE STUDY**

According to Udoyen (2019), a study population is a group of elements or individuals as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitute of individuals or elements that are homogeneous in description.

This study was carried out to a**ssess The Impact Of Financial Constraints On Firms Investment Decision Making In Nigeria using staff of the Nigeria Stock Exchange as a case study**. The staff of the Nigeria Stock Exchange, Lagos state form the population of the study.

**3.4 SAMPLE SIZE DETERMINATION**

A study sample is simply a systematic selected part of a population that infers its result on the population. In essence, it is that part of a whole that represents the whole and its members share characteristics in like similitude (Udoyen, 2019). In this study, the researcher adopted the convenient sampling method to determine the sample size.

**3.5 SAMPLE SIZE SELECTION TECHNIQUE AND PROCEDURE**

According to Nwana (2005), sampling techniques are procedures adopted to systematically select the chosen sample in a specified away under controls. This research work adopted the convenience sampling technique in selecting the respondents from the total population.

In this study, the researcher adopted the convenient sampling method to determine the sample size. Out of all the entire population of staff of the sampled company, the researcher conveniently selected 150 out of the overall population as the sample size for this study. According to Torty (2021), a sample of convenience is the terminology used to describe a sample in which elements have been selected from the target population on the basis of their accessibility or convenience to the researcher.

**3.6 RESEARCH INSTRUMENT AND ADMINISTRATION**

The research instrument used in this study is the questionnaire. A survey containing series of questions were administered to the enrolled participants. The questionnaire was divided into two sections, the first section enquired about the responses demographic or personal data while the second sections were in line with the study objectives, aimed at providing answers to the research questions. Participants were required to respond by placing a tick at the appropriate column. The questionnaire was personally administered by the researcher.

**3.7 METHOD OF DATA COLLECTION**

Two methods of data collection which are primary source and secondary source were used to collect data. The primary sources was the use of questionnaires, while the secondary sources include textbooks, internet, journals, published and unpublished articles and government publications.

**3.8 METHOD OF DATA ANALYSIS**

The responses were analyzed using the frequency tables, which provided answers to the research questions.

**3.9 VALIDITY OF THE STUDY**

Validity referred here is the degree or extent to which an instrument actually measures what is intended to measure. An instrument is valid to the extent that is tailored to achieve the research objectives. The researcher constructed the questionnaire for the study and submitted to the project supervisor who used his intellectual knowledge to critically, analytically and logically examine the instruments relevance of the contents and statements and then made the instrument valid for the study.

**3.10 RELIABILITY OF THE STUDY**

The reliability of the research instrument was determined. The Pearson Correlation Coefficient was used to determine the reliability of the instrument. A co-efficient value of 0.68 indicated that the research instrument was relatively reliable. According to (Taber, 2017) the range of a reasonable reliability is between 0.67 and 0.87.

**3.11 ETHICAL CONSIDERATION**

he study was approved by the Project Committee of the Department. Informed consent was obtained from all study participants before they were enrolled in the study. Permission was sought from the relevant authorities to carry out the study. Date to visit the place of study for questionnaire distribution was put in place in advance.

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

**INTRODUCTION**

This chapter presents the analysis of data derived through the questionnaire and key informant interview administered on the respondents in the study area. The analysis and interpretation were derived from the findings of the study. The data analysis depicts the simple frequency and percentage of the respondents as well as interpretation of the information gathered. A total of one hundred and fifty (150) questionnaires were administered to respondents of which only one hundred and twenty (120) were returned and validated. This was due to irregular, incomplete and inappropriate responses to some questionnaire. For this study a total of 120 was validated for the analysis.

**4.1 DATA PRESENTATION**

**Table 4.1: Demographic data of respondents**

|  |  |  |
| --- | --- | --- |
| **Demographic information** | **Frequency** | **percent** |
| Gender  Male |  |  |
| 70 | 58.3% |
| Female | 50 | 41.7% |
| Religion |  |  |
| Christian | 40 | 33.3% |
| Muslim | 80 | 66.7% |
| Age |  |  |
| 20-25 | 30 | 25% |
| 25-30 | 30 | 25% |
| 30+ | 60 | 50% |

**Source: Field Survey, 2021**

**4.2 ANSWERING RESEARCH QUESTIONS**

**Question 1: Does finance have any effect on a firm’s investment decision making in Nigeria?**

To address this question, our respondents were asked to state if finance has any effect or not in a firm’s investment decision making in Nigeria. Question 5 of the questionnaire provided the response.

Table 4.1: Does finance have any effect on a firm’s investment decision making in Nigeria?

|  |  |  |  |
| --- | --- | --- | --- |
| Responses | Frequency | % of total frequency | Cumulative % |
| YES | 108 | 90 | 90 |
| NO | 12 | 10 | 100 |
| **Total** | 120 | 100 | 100 |

The result above show that ninety (90) percent of the respondents affirm that the investment decision making of firms are dependent on finance as against ten (10) percent. However in order to access the effectiveness of finance on investment decision making, the respondents were asked in Question 6 the extent to which finance affects decisions concerning investment. Their responses are given below:

Table 4.2

|  |  |  |
| --- | --- | --- |
| Response | No of Respondents | % of responses |
| Great Extent | 76 | 63.33 |
| Moderate Extent | 22 | 18.33 |
| Negligible | 22 | 18.33 |
| **Total** | 120 | 100 |

A cursory look at table 4.1 shows that 108 respondents are of the view that finance has an effect on firm’s investment decision making. This represents about 90 percent of the respondents, while 12 respondents representing 10 percent hold contrary position.

On the extent of the contribution of finance to a firm’s investment decision making, all the respondents opined that finance contribution is to a great extent. These results underscore the inadequacy of firms in vital sectors and finance has to be a hindrance because without sufficient finance, no much investment decision can be made.

**Research Question 2: Does a firm’s capital structure and suboptimal financing decision have any effect on a firms’ choice of investment**?

To illicit response to address the issue, question 7 in the questionnaire was raised to have respondents’ opinion. The respondents were specifically asked to indicate if firm’s capital structure and suboptimal financing determine choice of investment.

Table 4.3: Response to choice of investment dependent on firm’s capital structure/suboptimal financing

|  |  |  |  |
| --- | --- | --- | --- |
| Responses | Frequency | % of total frequency | Cumulative % |
| YES | 112 | 93.33 | 93.33 |
| NO | 8 | 6.67 | 100 |
| **Total** | 120 | 100 | 100 |

A cursory look at table 4.3 reveals that 112 out of 120 or 93.33 percent of the respondents hold that firm’s investment choices are a function of the capital structure and the sub-optimal financing decisions while a paltry 8 respondents or 6.67 percent have the reversed view. To further elucidate on this question 8 was asked and the results is as below.

Table 4.4 Response on extent to which choice of investment is dependent on firm’s capital structure/suboptimal financing

|  |  |  |
| --- | --- | --- |
| Response | No of Respondents | % of responses |
| Great Extent | 90 | 75 |
| Moderate Extent | 18 | 15 |
| Negligible | 12 | 10 |
| **Total** | 120 | 100 |

The results on table 4 further strengthen the view that choice of investment is dependent on firm’s capital structure/suboptimal financing. It reveals that 90, 18 and 12 respondents or 75, 15 and 10 percent, respectively are to great extent, moderate and negligible.

**Research Question 3: Is there any impact of liquidity on investment decision of firms?**

In order to address the above question, the respondents were asked whether there is any impact liquidity on investment decision by firms. In question 9 and 10, the researcher sought to know if the above is true or not and if true to what extent.

Table 4.5: Response to impact of liquidity on investment decision

|  |  |  |  |
| --- | --- | --- | --- |
| Responses | Frequency | % of total frequency | Cumulative % |
| YES | 120 | 100.00 | 100.00 |
| NO | 0 | 0.00 | 100 |
| **Total** | 120 | 100 | 100 |

|  |  |  |
| --- | --- | --- |
| Response | No of Respondents | % of responses |
| Great Extent | 87 | 72.50 |
| Moderate Extent | 20 | 16.67 |
| Negligible | 13 | 10.83 |
| **Total** | 120 | 100 |

A cursory look at tables 4.5 and 4.6 shows that all 120 and 87 respondents in the both situations believe that liquidity is a necessary requirement for any investment decision making.

**CHAPTER FIVE**

**CONCLUSION AND RECOMMENDATIONS**

**5.1 Conclusion**

The conclusions of the study are:

1. The investment making decision of organizations or firms is dependent on the availability of finance and the potentials of its return on investment as firms or organizations invest to get a return.

2. The capital structure and optimality of financing is a determinant to the choices of investment made by firms and organizations.

3. New investments significantly require liquid finance and this to a large extent determines the firm’s financial performance and by extension the decision to invest.

**5.2 Recommendations**

Based on the conclusion, the study recommend among others that:

1. Firms or organizations needing to embark upon any investment take into cognizance the return alongside the risks associated and ensure there is sufficient finance to be ploughed into the project or investment project as to avoid shipwreck of any planned project.

2. Consideration has to be given to the capital structure and optimality of finance in the organization or firm in investment decision making.

3. Organizations and or firms need as a matter of priority ensure liquidity of the organization as illiquidity can stifle options of diversification on any investment.

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**APPENDIX**

**QUESTIONNAIRE**

PLEASE TICK [√] YOUR MOST PREFERRED CHOICE AND AVOID TICKING TWICE ON A QUESTION

**SECTION A**

**PERSONAL INFORMATION**

**Gender**

Male [ ]

Female [ ]

**Age**

18-25 [ ]

20-30 [ ]

31-40 [ ]

41 and above [ ]

**Educational level**

WAEC [ ]

BSC/HND [ ]

MSC/PGDE [ ]

PHD [ ]

Others………………………………………………(please indicate)

**Marital Status**

Single [ ]

Married [ ]

Separated [ ]

Widowed [ ]

**Section B**

Question 1: Does finance have any effect on a firm’s investment decision making in Nigeria?

YES ( )

NO ( )

Research Question 2: Does a firm’s capital structure and suboptimal financing decision have any effect on a firms’ choice of investment?

YES ( )

NO ( )

Research Question 3: Is there any impact of liquidity on investment decision of firms?

YES ( )

NO ( )