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Assessing the Financial Management Practices of Runel Oil Limited, a Tema Based Domestic Oil Company in Ghana

By

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DECLARATION

I hereby declare that I have under supervision undertaken this study herein submitted and to the best of my knowledge, it contains no material previously published by another person nor materials which have been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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ABSTRACT

Financial management practices are vital for every organization that wishes to survive for a foreseeable future. This study assess the financial management practices of Runel Oil Ltd, a Tema based domestic oil company, that has about 10 branches across Ghana. This study examined the financing decisions, the investment decisions and the dividend policy of the company by conducting interviews and analyzing these practices with fundamental theories in finance. The study also assessed the effect of these individual decisions on the performance of the firm. This was done by analyzing the financial statements of the company, using financial ratios which include the profitability ratios, the liquidity ratios and finally the efficiency ratios. In addition, the researcher used regression analysis in analyzing the profitability of the company, and the contributing variables to the company profits. Finally the researcher forecasted profit for the next 6 years using the regression model and the beta coefficient designed. The overall impression from this study shows that this company understands and practices good financial management. The financial management practices and decisions taken have proved to suit the vision, profitability and size thresholds that shareholders have agreed upon. The close fit among these should indicate a level of financial management that should be encouraged by the small and medium indigenous Ghanaian companies.

ACKNOWLEDGEMENT

First and foremost, I thank The Almighty God for the wisdom, knowledge and strength given me to go through this task. I also thank the management of Runel Oil limited Ghana.

DEDICATION

To my family especially my dad, my friends and supervisor.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Until recently, there has been little empirical analysis of the cross-functional composition of corporate financing, dividend, and investment policies. While considerable effort has been dedicated to developing the theory of these fundamental corporate policies, empirical support for the model is fundamentally subjective (Smith & Watts, 2002). Gaver and Gaver (1993), however, insist that objective development of the theory as well as its universal application is critical for business success, in a competitive age as the one being seen in the 21st century.

For many decades now, financial professionals have made several attempts to document the actual investment decision-making practices of organizations, in an attempt to project which financial management decision is appropriate for achieving best results. Yet, the effective management of liabilities is critical to the financial well-being of the firm, as well as the management of assets, since a misguided financing decision, misguided dividend decision and misguided investment decision all have the potential to drag a firm toward liquidation(Scott & Johnson, 1992).

Effective business management requires accurate market information that can help managers discharge their managerial functions (plan, organize, direct and control) effectively in order to enable them track cost, solve problems, and to reduce uncertainties in the business environment. Finance is referred to as the language of business, and provides much of the necessary information for effective business management. However, financial management has been identified as an important means through which businesses can achieve better organizational profitability in today's competitive business environment, as it offers the opportunity to attain significant improvement in all operational activities.

According to Paramasivan and Subramanian, (2008) financial management requires integrated, coordinated and cohesive decision making process, and deals with the obtaining, financing and managing the assets of the organization so as to realize the underlying goals and objectives of a business entity. This view is generally corroborated by (Hill,2008, Tang, 2014 and Bob, 2014). Making financial decision is a focal piece of all forms and sizes of business firms, from relatively small privately held firms to extensively trade on open market enterprises. Almost all decisions made by businesses worldwide have financial consequences, as such, it is imperative that all financial decisions are looked at from a strategic perspective.

In addition, financial management includes three noteworthy decisions thus decisions pertaining to investment, decisions pertaining to financing, and the dividend policy or strategy. These choices concern the procurement and designation of assets between the business's range of activities. It is important, therefore, that managers do not evaluate these decisions on a bit by bit basis, but rather as an integrated whole, since they are rarely autonomous of each other. For instance, decisions pertaining to investment in all-purpose affect financing choices and the other way around.

Because long term investment decisions entail enlisting the nature and the sum of resources that the corporation wants to hold, the financial managers make investment decisions about all types of assets.

Long-term investment decisions, sometimes, depend largely on certain financial management principles that state that the organization ought to put resources into assets and projects that yield returns greater or above the least acceptable hurdle rate. On the other hand, long term financing decisions entails the attaining of funds considered necessary to sustain long term investments that can yield maximum returns. These decisions choices concern the firm's capital structure, which is the mix of long term debt and equity the firm uses to sustain its operations.

It cannot be overemphasized that financial management plays a dynamic and vital role in a modern firm's development, and also the ability of the organization to effectively manage the mix of these decisions will provide the opportunity to maximize shareholder wealth and overall profitability of the business, as reflected by the market value of each stock.

1.2 STATEMENT OF THE PROBLEM

In today's competitive business environment, external factors have a growing impact on success of good financial management. Some these factors include keen business competition among firms, technological transformation, rapid instability in rates such as interest and inflation rates, economic uncertainty worldwide, unpredictable exchange rates, changes in laws pertaining to tax, and ethical concerns over how certain financial transactions are dealt with are the worries which must be managed very nearly on everyday schedule. As an end result, the finance function is obligated to play a constantly imperative strategic role inside the firm, as the ideal team player, in the last effort of the firm to create wealth and value.

Since the ultimate purpose of decision making in financial management is to maximize shareholder wealth, hence as reflected by the market value of the stock, conscious effort must be directed towards its achievement. This sole priceless purpose function is superior to all alternatives because it provides managers with a lucid basis for making financial decisions. That is, when making a decision, cogent managers would choose alternatives that best increases the or maximize the wealth or value of the owners of the business. It is not clear how, and under what conditions, is one financing decision or combination of decisions more appropriate or worth considering.

Estemmed reseachers like Modigliani and Miller (1958) establish that under excellent or perfect capital market assumptions, business financing and investment decisions are totally detachable. In view of this, an essential question in financial economics has been whether market imperfections create a connection among these decisions. From one viewpoint, empirical studies show that company's characteristics, for example profitability, volatility of firm wealth, guarantee value of assets, developmental opportunities and technological uniqueness, which are the end product of the firm's investment decisions, have an effect on the firm's financing decisions (Bradley, Jarrell, & Kim, 1994).

The Ghanaian downstream petroleum industry has seen massive improvement over the past decade. All eyes are keen on the industry, from the lay man at home saying Ghana will be rich because they discovered oil, to the international investor, who keeps computing and estimating the value of every barrel of cruel oil drilled. Due to the possibly unfair attention on the petroleum industry, the industry has seen large number of new entrants, been it start ups or existing companies, as a means of diversifying their portfolio, to reduce risk. According to the National Petroleum Authority, as at 2015, there are 200 registered Oil Marketing Companies in Ghana, and irrespective of this number, there is little documentation about the growth and survival of these SME's, in terms of financial management, and the financial health of these companies. This dissertation seeks to document the formation, growth, and survival of Rural Energy Resource Limited, one of the surviving OMCs in Ghana, by concentrating on assessing its financial management practices and the effects of same on the company's financial performance. It is hoped this study will open the door for further research into financial management of Ghanaian indigenous companies, especially those in the oil and gas sectors.

1.3 OBJECTIVES OF THE STUDY

The general objective of this study is to assess the financial management practices of Runel oil Ltd. However, in order to attain the key objective of this study, the researcher has outlined the following specific objectives:

i. To examine the financing decisions of Runel Oil Ltd. ii.

To examine the investment decisions of Runel Oil Ltd. iii.

To examine the dividend policies of Runel Oil Ltd.

iv. To synthesize how these decision and policy choices have impacted the success or otherwise of Runel oil, and or what challenges they have created for Runel oil as a company.

1.4 RESEARCH QUESTIONS

This area defines how the various objectives of the study would be realized in terms of the relationships among the various variables. Among these research questions are

i. What are the sources of finance for Runel Oil Ltd, both short term and long term?
ii. What were the major investment opportunities that were spotted and embarked upon by Runel oil Ltd?
iii. What are the dividend policies of Runel Oil Ltd?
iv. What are the cumulative results of the above financial actions taken by Runel oil Ltd, on financial management practices of the company, in terms of profitability and investor wealth growth?

1.5 SIGNIFICANT OF THE STUDY

The study is aimed at establishing how a good financial management and accompanying decisions can add value to the organizational competitiveness. The following describe the significance of the study.

i. The study will add to the scant literature in the financial management practices in indigenous Ghanaian businesses, and serve as a basis for further research, for all those interested in the field.

ii. It will also provide firsthand information to management of the company, on how to identify possible best financing, investment and dividend strategies, to improve upon their operations, leading to higher profitability and maximization of shareholder wealth.

1.6 SCOPE OF THE STUDY

The research seeks to assess the financial management policies of the company, with reference to:

1. Sources of finance available to the company
2. Finances utilization(the investment decisions made and its outcomes)
3. Dividend policies of the company and how it affects company finances
4. Advising the company with regard to alternative sources of funding, other investment potentials and recommended dividend policy that may enhance shareholder wealth creation.

1.7 METHODOLOGY

Generally, methodology refers to the posture of the researcher in the scheme of collecting and interpreting data (White, 2005; Driscoll et al. 2007).Two principal variants exist. The positivist or quantitative posture adopts the rules of science in research. It uses statistical methods or models to analyze the forms and patterns of the subject matter. The other, interpretative or qualitative approach aims at understanding human reasoning, emotions and values that may be lost except on the researcher that adopts a positivist approach. The research is case study, which focuses on the impact of financial management decisions taken by Runel oil, so far. The population for the study is made up of all the managers of the company. In this vein, the researcher opts for a quantitative methodology. It is hoped this method will reveal numerical effects of financial management decisions made, which can then be analyzed against expected financial returns, as well as suggest and demonstrate how alternative decisions may impact profitability and investor wealth.

The research data will be collected from both primary and secondary sources. Primary data will be collected through the use of semi structured interviews which would be conducted with management. Secondary data will be collected using audited financial statements of the company and other relevant data sources like journal, articles and other publications related to the study area. Data analysis would be facilitated by Statistical Package for Social Science (SPSS) software in order to promote the clarity and presentation of findings.

1.8 LIMITATION OF THE STUDY

The research is limited to one company. It may be difficult to make projections of the findings to the total population of Ghanaian companies in the oil and gas sector of the Ghanaian economy. This shortfall may be overcome by subsequent research, which takes a random sample of all businesses in the sector.

1.9 ORGANIZATION OF THE STUDY

The study is organized in five chapters, with each chapter dealing with specific issue in a logical manner.

Chapter 1 hosts the introduction, the background to the study, problem statement, objectives of the study, scope of the study, research methodology and limitations among others.

Chapter 2 is a detailed literature review, that at its end, highlights the research question, hypothesis and the theoretical framework

Chapter 3 details out the methodology employed and the detail issues discussed
Chapter 4 highlights the results of the study

Chapter 5 provides summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature in the subject area, and focuses more on the empirical literature on financial management and its sub topic options such as the financing decision of a business, the investment, and dividend decision, as well as all other relevant areas related to the study.

2.2 DEFINITIONS AND CONCEPTS

It is not in vain that finance is referred to as the bloodline of every business entity, be it a large entity like the government (preparing its budget) or a small firm managing its resources (finance) for survival and growth (Thomas, 2007). Financial management is, therefore, important and permeates all financial decisions and situations. However, the concept does not enjoy a single universally accepted definition, even among academics and practitioners.

Financial management like all concept is defined as the acquiring and administration of finances whilst the main purpose of management is indeed the maximization of payoff, which is then made accessible to the firm at all times, and in adequate quantities to redeem debt obligations as they fall due (Sodat & Perry, 2001). In other words, Sodat and Perry (2001) define financial management as handling funds to meet debt obligations or to satisfy creditors demand. Neven (1981) acknowledged financial management as indeed one of the specialized aspects of management, which creates duties and obligation with the main focal point been financing and investing in a way to achieve organizational goals. Unlike Sodat and Perry (2001) who concentrates on meeting creditors demand, Neven (1981) looks at financial management from the perspective of the investor seeking to meet organizational goals.

Keown et al., (2005) define financial management as the maintenance and creation of economic value and wealth. Pinches (1990), Mannes (2002), and Scoth Jr. et al., (1999) state that financial management deals with the proper acquisition of cash and the effective allocation of cash within the corporation. In other words, they define financial management as the effective movement of funds to create valve and wealth. Jones et al., (1999) posit that financial management has no coherent and systematized body of knowledge of its own. The authors claim it is a selective discipline, which draws upon a wide and expanding range of arts and sciences, from law, accounting, computer science, economics and the behavioral sciences. Bradley (1998), defines financial management as the aspect of business administration that is committed to empowering the spending unit `to accomplish its goals by estimating to a great extent the resources of a firm should be expanded to make room for growth and survival in terms of funds to finance the asset at hand, as well as the additional one considered necessary for growth and survival of the business.

With all these definitions in mind, the researcher defines financial management as the effective acquisition, financing, and management of resources (finance) with the purpose of achieving optimal organizational goals and objectives. It is the effective and efficient utilization of financial resources. This definition is consistent with the views of Neven (1981) and Keown et al., (2005). This definition seems more appropriate for the following reasons:

a) It avoids the limitation of considering financial management as a tool to only ensure that creditors have access to their funds, as and when they fall due (Sedat and Perry, 2001). Management, or better still, financial management is broader in scope than that.
b) The purpose of the concept of management, in the corporate world, entails maximization and increase of wealth and minimization or erosion of shareholder wealth. This process is complex, in fact, more complex than simply meeting creditor demands on the company. It involves a careful blend of shareholder funds, debt, labor and materials to produce goods and services, that are in demand, to satisfy human needs.

c) Finance goes beyond cash as portrayed by Pinches (1990), Mannes (2002), and Scoth Jr. et al., (1999). A broader definition of finance, as suggested by the author, may include not necessary cash, but other sources of fund supply such as letters of credit, promissory notes, leasing, etc, (Fan and Yang, 2010), which are equally good sources of funding for today's businesses.

2.3 FINANCIAL MANAGEMENT AND MANAGEMENT

The difference between financial management and general management is demonstrated by Mckinney (1995), who states that financial management was traditionally connected with the functions of budgeting, financing, and controlling, with little linkage to the general management functions of planning, programming, controlling and evaluation. In other words, financial management is concerned with managing funds while general management is concerned with strategically planning and execution of plans, to achieve the entire organizational goals. In the traditional approach, financial management focuses on budgeting, financing and controlling expenditure, while general management focuses on planning, drawing programs and performance evaluation. Such an approach creates conflicts due to overlap of functions in companies where such functions are not highly structured and assigned as distinct packages. An integrated and more modern approach that aims at goal achievement is hereby recommended.

2.4 IMPORTANCE OF FINANCIAL MANAGEMENT

The importance of financial management is effectively emphasized by (McKinney, 1995; Xuhui, and Rouxi, 2013), as the only activity that touches every aspect of organizational expectation, hence emerging as a critical integrating force in all aspect of everyday operations. Competition for businesses is no longer the geographical location they operate in, but rather the world at large, due to technological breakthroughs, and the fact that the world has become a global village. Businesses ultimately fail or succeed based on their ability to effectively and efficiently create and manage a profitable value chain. The combination of competition, global environment and mandatory regulated compliance means that successfully managing finances is one of the opportunities a firm can take advantage of. According to McKinney (1995), effective financial management enables every organization

to:

i. Effectively handle firm's finances to maximize profit and wealth. ii.

Ensure adequate liquidity and create financial stability for the firm.

iii. Ensure organized and coherent financial decisions, since all decision are made after adequate and efficient analysis. In other words effective financial management leads to analytical thinking.

iv. Allows efficient utilization of information, and increases access to information, like financial statements, cash flow statements, and any other information needed to meet government requirements or any form of management decision.

v. Measure performance against objectives and targets vi. Financial management is vital in developing strategy that enhances the efficiency and effectiveness.

vii. Proper financial management helps the business survive in the long term and serve as a base for easy adaption to change.

The importance of financial management is further demonstrated by Denzil and Head (2007). The authors posit that the goals of financial management are expressed in various ways including maximizing profitability, maximizing profit subject to cash restrains, maximizing net profit present worth and seeking an optimal position along the risk return frontier. Irrespective of the size of the entity, it is very clear that financial management is important.

At a very local level, some people simply refer to financial management as money management to highlight the importance of the concept. They argue that without proper money management, every organization, public or private, will grind to a halt.

2.5 QUALITY FINANCIAL MANAGEMENT

It is apparent that effective financial management gives competitive advantage to the entity that practices it. The rising significance of this issue brings up fascinating questions as to whether companies are enhancing their abilities to have effective financial management and actualizing changes that will empower the firm to analyze their results, interpret, and to forecast future performance, as well as make necessary improvement on their business choices (Barker 2003). The most important question is what encompasses or and quality financial management? Excellent corporate financial management ought to incorporate the following:

i. Smart investment decisions. This involves assigning capital resources to projects with the astounding net present values (NPV), at all times.

ii. Sourcing capital from the least expensive and most favorable source to begin with, before considering others (Abor, 2007).

iii. A robust working capital management scheme that ensures that funds are available to meet its commitments as they reach maturity, and to take advantage of opportunities, such as trade and quantity discounts, as well as other unique lower prices during promotions. iv. Reviewing and periodic redefining financial budgets, income and cost prediction (Justor, 2004).

v. Seeking alternatives forms of funding for the company's expansions, from both short and long tenure avenues.

vi. Assessing the monetary health and position of the business, utilizing several financial and accounting strategies, including ratios.

i. Comprehending and demonstrating knowledge on the different strategies and procedures utilized in project appraisal and resource valuation.

ii. The application of effective and sound investment appraisal techniques to investments.

iii. Comprehending and demonstrating knowledge in valuation techniques for the company's portfolios and intangible assets.

2.6 COMPONENTS OF FINANCIAL MANAGEMENT

Financial management has to do with three major decisions; they include the financing decision, the investment decision and finally the dividend decision, as shown in Figure 2.1 below.

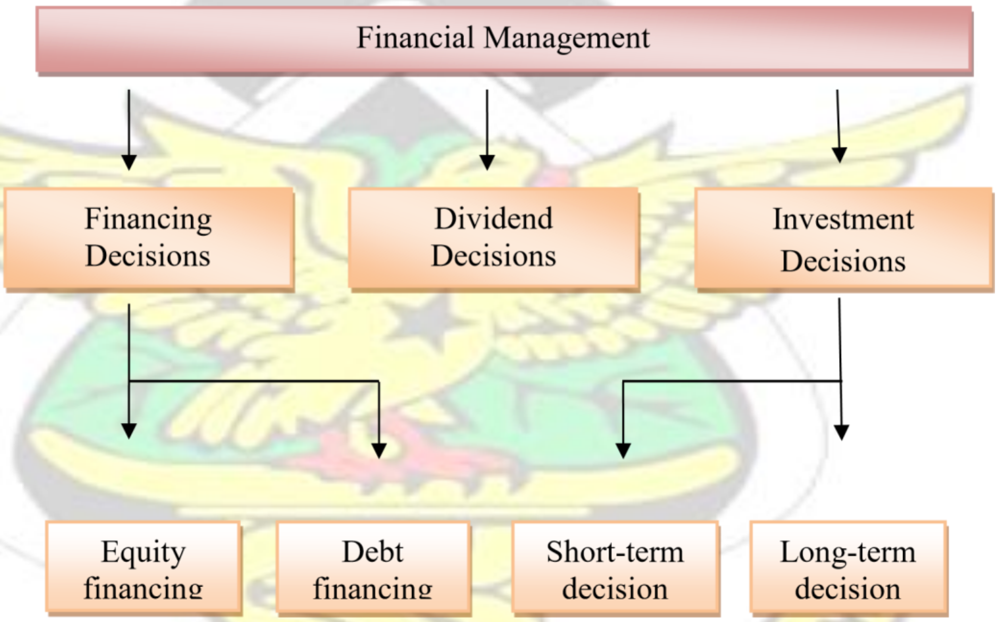


FIGURE 2.13 COMPONENTS OF FINANCIAL MANAGEMENT OF FINANCIAL MANAGEMENT

2.6.1 FINANCING DECISIONS

Financial management helps to take sound and rational economic choices in the business concern. As emphasized by Nieman et al. (2006), financial management is accountable for obtaining the essential financial resources that guarantees the most favorable results; over both the short and the long term, and ensuring that the business makes the best utilization of its financial resources over a time period. The financing choice addresses the issue of the amount of money or capital that ought to be raised to sustain the firm's operations, both funds existing and proposed funds, and the best financing mix. There are two major ways a firm can finance its operations. They include financing with equity, such as issue of shares, and debt financing, such as loans, bonds and others.

2.6.1.1 SOURCES OF FUNDS FOR BUSINESS

Cash is the very blood of very business and good cash management consequently lies at the heart of a solid business. The following are the major sources of cash for the business. a. Shareholders' funds

It is the largest proportion of long term finance for the business. It is also known as equity capital. One can become a shareholder by purchasing shares of the company. As a part owner of the business, the equity investor shares in both risk and profit of the business. He or she also participates in running of the business by voting at general meetings to choose directors and approve major policy decisions of the company. However, day to day running of the company is left in the hands of the elected directors.

b. Loans

This is money loaned to the business by outsiders. It is also called debt finance. Nearly all organizations acquire long term by issuing credit stocks such as bonds, debentures and the likes. The terms of the advance determine the repayment conditions, and they carry lower risk to the lender but higher risk to the borrower, since creditors can force the company to bankruptcy.

c. Retained profit or earnings

It is the most favorable source of finance for prominent and well established businesses. It is any profit remaining after deduction all operation cost, interest and tax and dividend. It is the cheapest and easiest way of generating funds for the business, and helps business to grow and create value for shareholders, either through capital gain or dividends.

d. Funds from exemptions

Government provides a variety of financial incentives to business so as to encourage the entrepreneurial spirit, to boost the economy. Example of such exemptions are tax relieve programs. These monies are retained in the company and are used as capital.

e. Operational cash flow

It is a major source of cash for business. The normal course of business generates cash inflows, when consumers pay for the goods and services. Raw materials etc create cash outflows. The net cash inflow is important, especially when the company enjoys a favorable credit days from suppliers, for investment into short term investments for additional income. A popular one in the Oil Marketing business in Ghana is the investment of such net inflows into money market operations such as call accounts and 30 days treasury bills etc.

2.6.1.2 TYPES OF FINANCING

There are two types of financing. They include the long term financing and the short term financing. Short term financing addresses shortfall in working capital and or investments in projects that have very short payback periods, and high net present values. They are addressed with short term loans or overdrafts. These short term financing instruments attract relatively high interest rates, and their tenor does not exceed one year. Raw material purchase, pre-financing of co-production products, and direct labor costs lend themselves to short term financing, because of the high assurance that appropriate cash inflow will be achieved in the short run (Hadzima, 2006; Whitehead, 2009).

Long term financing is one that has a tenor of at least five years. This financing is invested in projects and programs that produced long term profitability and returns. A new machinery for the production floor in a manufacturing company, as well as a new truck for a trucking company fit into long term financing schemes. The outlays are large but the returns streak in gradually over a long period. Such financing is met best with equity or long term loans through outright purchase, hire purchase, and or leasing arrangements.

The role of financial management becomes important here in designing the financing scheme that is appropriate for each type of financing desired by the company so as to achieve corporate objectives efficiently and effectively (Abor, 2007). This is discussed below:

2.6.1.3 CAPITAL STRUCTURE THEORIES

In a financing decision, the finance manager must determine the funding issues of how funds should be raised, and in what form should it be raised. This is what is commonly referred to as the capital structure or the capital mix problem. Simply put, it is important to decide how much equity and how much debt, and debt types, will be most advantageous to the company. This is because Abor (2007) believes that the capital structure of a company determines, by large, the wealth creation potential of the company. The optimal aim of an effective capital structure is to maximize the value of the firm, and to reduce the cost associated with capital. The choice between the quantity of funds that should be debt and equity is not an easy decision and several theories try to help in this decision making. Some of these theories are discussed below.

a) PECKING ORDER THEORY

This theory argues that, firms choose internal finance or operational cash flow for investment, over and above debt and equity (Myers and Bajluf, 1984). When internal funds are exhausted, then debt is preferred to equity, which becomes the last resort. The argument for this pecking order is based on information asymmetry. Managers are well versed in knowledge about the firm's performance and future prospects than outside shareholders and stakeholders. Accordingly, it is unrealistic for managers to issue equity when they believe shares are undervalued, however more inclined to issue shares when they believe them to be overpriced Myers (1984).

b) TRADITIONAL APPROACH

It is also referred to as the as intermediate approach. As indicated by the traditional approach, the mixture of debt and equity capital can increase the value of the firm, by lessening the overall cost of capital up to certain level of debt.

The capital structure theories are based on certain general assumptions, which include:

1. There are just two broad sources of funding used by a firm thus debt and equity.
2. 100% of the firm's earnings is paid out as dividend
3. The entire resources of the firm are given and do not change over time.
4. The overall finances remain constant.
5. It is not anticipated that operating earnings (EBIT) should grow.
6. The risk incurred by the business remains constant or the same.
7. The firm has an eternal life span.
8. The investors are rational and analytical beings and behave as such.

c) TRADE OFF THEORY

This theory states that firms want to enjoy the benefits of lower cost of borrowing (the aftertax cost of borrowing is normally much less expensive than the cost of equity).But at the same time, firms do not wish to increase the financial risk involved in committing to contractual agreement to pay interest and repay debt. The tradeoff theory of leverage informs that the firm trades off the benefits or rewarding aspect of debt financing (encouraging corporate tax treatment of interest payments) in opposition to bankruptcy costs and higher interest rates (Kraus and Litzenberger, 1973; Frank and Goyal, 2011).

d) MODEM CAPITAL STRUCTURE

This theory began in 1958, when Professors Franco Modigliani and Merton Miller (MM) published what has been called the most influential finance article ever written. MM proved, but under a very restrictive set of assumptions, that a firm's value is unaffected by its capital structure (Timmer, 2011). Thus, MM's results suggest that it does not matter how a firm finances its operations, because at least under their assumptions, capital structure is irrelevant.

The M&M approach is based on the following important and general assumptions:

i. There is an immaculate capital market.

ii. There is a 0% plowed back income policy.

iii. Corporate tax does not exist.

iv. The investors are rational and logical in seeking wealth.

v. The profit payout proportion is 100% that is entire income earn is payout.

vi. All businesses consist of the same level and amount of business risk.

vii. The assets of an insolvent firm are and can be sold at full market values. There are no bankruptcy costs.

viii. There is no brokerage or other transactions charges.

ix. All participants in the market including firms, and investors lend and borrow or can lend and borrow at the same risk-free rate.

Despite the unrealistic and generalized assumptions, MM's insignificance theory result is very vital, in light of the fact that by demonstrating the conditions under which capital structure is unessential, MM likewise furnished literature with a few pieces of information about what is needed for capital structure to be pertinent enough to influence a firm's value. MM subsequently published a follow up paper in which they loosen the supposition that there are no corporate taxes. The tax code or law permits firms to remove interest payments as an expense. MM established that if all their additional supposition were to remain constant, this differential treatment of taxes sums up to circumstances which requires relying solely on debt as a source of finances. A number of years later, Merton Miller extended the study to incorporate individual taxes. Miller carefully expressed that the deductibility of interest supports the utilization of debt financing, nevertheless the favorable tax treatment of income from stocks lowers the required rate of return on stock and, thus favors the use of equity funds. It is rather hard to precisely articulate what the net impact of these two factors is. However, nearly all observers trust that interest deductibility has the stronger impact, and that the tax systems till promotes the corporate use of debt. Nonetheless, that effect is abridged by the lower capital gains tax rate.

2.6.1.4 DEBT VERSUS EQUITY

It is clear that the theories discussed above attempt to determine what the best debt and equity mix is for a company. None of the theories has succeeded in this endeavor. This failure projects the concept of a universal, accurate, and optimal capital structure as an elusive concept (Graham and Harvey, 2001). The best fit is one of choice determined by the company characteristics, and its directors' willingness to take risk.

Raising capital as debt has several advantages.

a) Interest i s tax deductible, which brings down the viable expense associated with debt.

b) Debt holders are limited to a fixed interest, so owners of stock do not need to share proceeds if the business does exceptionally well.

c) Debt holders do not have voting rights, so stockholders can control the business with less cash than would otherwise be needed.

d) With debt there is no dilution of control.

However, debt financing also has its own inconveniences.

i. The higher the debt proportion, the larger the risk, and as a result the higher the interest rate. Sooner or later, rising interest rates overpower the tax advantages of debt.

ii. If the organization falls on difficult times, and if it's operating income is inadequate to cover the interest charges, then shareholders will be oblige to or will have to make up the shortfall. This condition can lead to forced bankruptcy.

Virtually most firms raise equity finance is raised through the offer of ordinary shares to investors. This sale could be to new and even old investors through the stock exchange. It could also be sold through private placements, especially if the company is a private one in terms of the provisions of the Ghana Companies Code, 1963 (Act179) Raising capital as equity has several advantages.

i. Favorable gearing position to borrow hence a solid financial position

ii. No fixed interest payment. iii. Do not have maturity date

Raising capital as equity has several disadvantages.

i. Dilution of Ownership and control.
ii. Cost of issuing shares can be expensive as compared to issuing debt certificates.

2.6.1.5 WORKING CAPITAL MANAGEMENT

The level of current resources is the key element in a firm's liquidity position. A firm must have the capacity to create enough money to meet its current or immediate needs, in the event that it wishes to keep no surviving in the business world. In other words, working capital management is a key component in the organization's success and achievements in the long run; it is the bloodline of the business. The greater the degree to which current resources surpass current liabilities (net working capital), the more liquid or solvent a company is, depending on the nature or form of its current resources (Denzil and Head , 2010).

Working capital management has three objectives:

a. To improve the effectiveness and profit level of a company.

b. To make sure that it has adequate liquid resources to meet short-term obligations as they mature (Pass and Pike 1984).

c. Provide short term finance for the company

2.6.1.6 TYPES OF WORKING CAPITAL POLICIES

Denzil and Head (2010) identify three working capital policies as below:

i. **An Aggressive Policy:** is the type of policy that encourages low levels of current assets such as inventory, cash and trade receivables for a particular activity or sequence of activities or firm's operations. A forceful strategy will build up profit levels, because a lesser amount of borrowed funds will be locked up in current resources. However, this type of policy will also increase the firm's level of risk due to the likelihood of funds and inventory shortages (Nazir and Afza, 2009).

ii. **A conservative policy**: is the more adaptable working capital management strategy for a given level of turnover and can be demonstrated as keeping up a bigger cash balance, maybe as far as even investing in short-term securities, offering more liberal credit terms to clients and holding higher levels of stocks (Nazir and Afza, 2009). Such a strategy will definitely present a lower risk of stock and financial problems yet to the detriment of lower profit levels and not efficiently managing resources.

iii. **A moderate policy:** is the policy that incorporates both the aggressive and conservative approaches. It is the most recommended policy for working capital management.

2.6.2 INVESTMENT DECISIONS

The investment decision is also referred to as the capital budgeting decision, and is the decision to make a specific investment, amongst competitive others. This implies that a company has many avenues or projects or assets to invest in. Since investible funds are limited, it is imperative that a careful analysis is done to single out the best investment that can be made with available funds, to generate the best possible profits and cash flow. As a result, an investment decision is amongst the most significant strategy choice that a firm makes (Irani, Ezingeard and Grieve, 1997). The firm must be knowledgeable in the field of capital budgeting techniques to establish the most efficient way of utilizing investible funds.

2.6.2.1. IMPORTANCE OF CAPITAL BUDGETING

i. **Colossal Investments:** Capital budgeting requires colossal investments of resources or the commitment of large amount of funds, but like all economic resources the accessibility to funds are limited, therefore the firm before putting resource in its projects must plan and control its capital expenditure (Marx et al., 2010) ii. **Long-Term Risk against Returns:** Capital expenditure spans over a year hence longterm in nature or is made for a significant long period. The longer the period of recovery of the investment through net cash inflows, the higher the financial risks involved in the investment decision. Such high risks should inform careful planning and refined capital budgeting (Brealey et al. 2011) as a basis for decision making. At least, such rigor assures the decision maker that all known factors and risks have been taken on board, and the best options for achieving organizational goals have been considered and chosen. This does not mean, however, that divergences cannot occur and unforeseen conditions cannot impact negatively on the best intentioned and analyzed investment decisions.

iii. **Irreversibility:** Huge capital investment decisions are irreversible without massive negative consequences. For an example, once a decision is taken, and long term and expensive machinery or other asset is purchased and commissioned, it is near impossible to dispose of the acquired assets, in the short term, especially if they are industry specific assets, without much bloodletting.

iv. **Long Term Impact:** Excellent capital budgeting does lessen the cost, but also increases the revenue in the long term. It improves long term profitability, survival and competitive advantage through ensuring that, within reasonable limits, poor investments are not made as investments in managerial ego (Wood and Wood, 2005) and by avoiding over investment or under investment in really viable opportunities and projects, as a result of lack of knowledge and management tool for careful analysis. Over capitalization creates underutilization of the resource while undercapitalization prevents the company from maximizing returns from the investment made.

2.6.2.2 INVESTMENT PROCESS

In their book on financial management, Paramasivan and Subramanian (2008) point out that the capital budgeting process follows the following steps:

a) **Identification of Diverse Investments Proposals: Adequate** capital budgeting may involve different investment propositions. Such proposals for investment may be put forward by top management or any member of lower level management, and even operatives from the factory floor. The heads of various departments examine the various investment proposals before the proposal is presented to the planning committee of proficient authority. At this stage in the process, emphasis is on identifying processes and programs that can create a competitive advantage for the company. To each proposal, it is imperative to note that, there are many other alternatives, which aim at achieving the desired outcomes.

b) **Screening and Coordinating the Proposals:** The planning committee will then examines the different proposals, screen and select those that seem to achieve a set threshold. It becomes important, in screening proposals, to align or match each proposal against the available resources of the firm. This eliminates the investment gap, and misalignment between the assets and the speculated cost.

c) **Evaluation:** After screening, the proposals are assessed with the assistance of various evaluation strategies. They include the payback period, the net discovered present value method, the accounting rate of return and risk analysis. The proposals are then assessed as: i. An independent propositions ii. A contingent of dependent propositions and iii. A partially exclusive propositions.

d. Fixing property: This stage involves a careful determination of the profitability, quantum, and timing of net cash inflows attributable to each of the proposals submitted. This enables a sort of scientific rankings of the proposals considered. Normally, the first-past-the-post proposal is what is recommended to top management, in addition to a few other alternatives that made the mark, according to the cutoff point previously agreed upon, for acceptance of proposals. Those proposal alternatives that did not meet the standards of acceptance are discarded.

e. Final Endorsement: The planning committee approves the ultimate proposal for the final investment with the assistance of these accompanying variables:

a) The Profitability of the proposal

b) Economic constituents

c) Financial violability

d) Market conditions

f. **Implementing:** At this stage, competent authority authorizes the disbursement of funds for the selected proposal to be implemented. Responsibilities and duties necessary to see the project through are assigned. This process reduces cost, and makes controlling and evaluation of the project more efficient and effective. Techniques used for such projects are the Program Evaluation and Review Technique (PERT) and Critical Path Method (CPM) (O'Brien and Plotnick, 2010); Hendrickson and Tung, 2008). This network models help management and all other related parties in effective and efficient monitoring and containing the execution of the proposals.

g. **Performance Audit of Feedback:** The last phase of capital budgeting is real results compared with the standard or targeted results. Any deviations in results identified are analyzed carefully to identify bottlenecks and difficulties. Quick steps are taken to mitigate the impact of the identified bottlenecks, to ensure that investment objectives are achieved.

2.6.2.3 CAPITAL BUDGETING METHODS

In the business world, there are various capital budgeting techniques which can be utilized by financial managers for investment evaluation (Ross et al. 2011). The capital budgeting methods are extensively gathered in two categories, which include:

1. Discounted Cash Flow (DCF), which is also referred to as the modern methods; and 2. Non-Discounted Cash flow (NDCF) methods, which are also referred to as the traditional methods.

2.6.2.3.1 TRADITIONAL METHODS OF CAPITAL BUDGETING

a. **PAY BACK METHOD:** This method speculate base on the number of years it is estimated to take to recoup the original investment from the net cash flows coming about from a capital investment. The rule of choice when utilizing the payback technique is to accept a project if its payback period is equivalent to or less than a predetermined maturity value. As soon as the payback period (PBP) has been ascertained, it is then compared with the minimum satisfactory payback period, which is selected arbitrarily (Brealey et al. 2007; Keown et al. 2011).Research has demonstrated that payback is the most well used investment appraisal technique. Then again, it has several severe weaknesses that it ought to just truly be viewed as only a first step screening method (Denzil and Head, 2010). Despite the fact that PBP is easy to compute and simple or basic, it gives equivalent weight to all cash flows before the initial investment maturity or retirement date, and not making any allowance for the cash flows beyond the payback period. Once more, this method does not employ or consider the time value of money. It does not take into consideration risk of project or uncertainty. Finally, it does not distinguish between projects of diverse sizes, as far as investment outlay (Brigham and Campsey, 1991), and how fast they can be recouped may lead to misinformed decision making.

b. **ACCOUNTING RATE OF RETURN:** This method is commonly known as Return on Capital Employed (ROCE). It is a valuable measure for comparing the relative profitability of an organization in the wake of considering the amount of capital used and Return on Investment (ROI). The accounting rate of return (ARR) points out the proportion of either the original net investment, or the average investment to the average annual net profits in the project. The choice tenet is that if the ARR ascertained above or is equivalent to that is larger than the fancied rate of return (subjectively picked), the project is accepted. The issues associated with ARR include ignoring cash flows the investment may generate as an important factor in the analysis. Secondly, the method ignores the impact of the time value of money, which is an essential theory in Finance. Thirdly, the magnitude of investments, in terms of investment outlay, is not considered in the ARR computations. Fourthly, ARR does not obey the rules to the standard of stockholder wealth maximization, because the value of the company is not measured in terms of ARR, but in terms of the flow of cash. Nevertheless, there is an upside of ARR is that it is simple to comprehend and calculate. As such numerous financial managers are acquainted with it, and it is a widely used method (Gitman, 2010).

2.6.2.3.2 DISCOUNTED CASH FLOW (MODERN METHODS)

a) **THE NET PRESENT VALUE**

In theory, the net present value (NPV) is the ideal method, and for that reason, it is the most publicized capital budgeting strategy with academia. The net present value (NPV) method of investment appraisal uses discounted cash flows to assess capital investment projects. It is in view of theoretical foundation of the investment and consumption model created or engineered by Hirshleifer (1958). The NPV choice guideline is to accept all independent projects with a positive net present value (Berk et al, 2015).

b) **PROFITABILITY INDEX METHOD**

It is also called the cost benefit ratio. The profitability index (PI) incorporates the breaking down of future net cash streams, and afterwards the present values are sum up. Summation of the added present values is then divided using the initial investment as the denominator, or the principal amount. The choice guideline is to acknowledge every capital projects with the Profitability index equivalent to one or higher than one (Gurau, 2012). At the point where the Profitability Index is higher than one then the present estimation of future cash flows is larger than the initial expenditure. The IRR is like to NPV yet is illustrated in dissimilar metrics. The

NPV uses cash flow furthermore IRR utilize an index. The NPV is usually preferred to the profitability index Brealey et al. (2007) and Keown et al. (2011).

2.6.3 DIVIDEND DECISIONS

A firm's dividend policy refers to the choices the firm makes about whether to pay shareholders surplus earnings or not, how huge the cash dividend ought to be, and how often the dividend is supposed to be disbursed. In a more extensive or more advanced sense, the profit payout policy also involve choices such as whether to give dividends via share repurchases or through specially designated dividends payout schemes. It also involves a decision about how much of earnings should be retained, and the quantum of earnings to be declared as dividends (Fama and French, 2001). This is informed by the fact that the amount of dividend payout, is closely negatively correlated with both the investment and financing decisions that the company can make after the payout. The mechanics of paying dividends in general are governed by a company's Code 1963 (Act 179). Though there are numerous elements in the dividend decision, modem corporations still struggle with the same issues that occupied managers in the 1950's. Brealey and Myers (2002) describe dividend policy as the top ten puzzles in finance. Managers must choose if firms ought to uphold their current dividends or change them. Managers have a tendency to boost up regular dividends only when they anticipate that future cash flow is enough to pay the dividend and to meet their firm's other monetary obligations, as and when they fall due. The firm ought to also weigh and establish the stock market's reaction to changes in the dividend policy (Dasilas and Leventis, 2011). Several many decision dynamics make dividend policy decisions quite difficult, at least for some firms (Fama and French, 2001).

2.6.3.1 DIVIDEND POLICIES IN PRACTICE

Even though dividend policies are assumed to favor stakeholders without any restriction, it is largely affected by the following issues.

LEGAL HINDRANCES

Organizations in Ghana are constrained, by the legal requirement of Companies Act 1963 (Act 179) to pay dividend exclusively out of net realized profits that has been accumulated. This involves earnings that are realized in the present year and those that have been realized previous period. The Act unfortunately fails to characterize, without a doubt, how net realized earnings for accumulated period should be estimated. A business whose net resources fall beneath the full amount of its un-distributable reserves and it is called up share capital is, consequently, banned from paying out profit (Bernstein, 1976). Companies should likewise abide by any limitations forced on dividend policy by loan agreements or covenants which look to safe guard their interests in the company as lenders (Shao, Kwok and Guedhami, 2013).

LIQUIDITY

Dividends and their related tax expenses are ready or available money transactions. Managers need to deliberately reflect on the impact on the firm's liquidity position of any proposed dividends. A common misconception is that a company with high levels of profits can afford to pay high dividends (Arnott and Asness, 2003; Ajanthan, 2013).

Unfortunately, cash accessible to the company for business is not the same as profit made by the firm. The sum of profit paid out must reflect the profit of the company, as well as the firm's capacity to pay dividends (Sujata, 2006).

INTEREST PAYMENT COMMITMENTS AND DUTIES

Interest and taxation liabilities are accounted for before dividends are paid out of the outstanding balance or profit. The major constraints on the organization's dividend policy are company's interest commitments and its level of gearing (Ajathan, 2013). A exceedingly geared organization or abnormally high level of debt with sky-scraping interest payments will have less earnings from which to pay dividends. The reverse also holds for a company with low gearing and related revenue levels. However, if a immensely geared corporation may pay a fairly larger dividend per share than a low geared business provided it has fewer common stock holders than a low geared company (La Porta et al.,2000).

INVESTMENT OPPORTUNITIES

It has already been established that plow back earnings area wellspring of money for any company. At a point where firms are confronted with several striking, attractive and enviable projects, there is the apparent demand and longing to lessen dividends s o a s t o b a c k u p such projects as much as possible from reserve income (Ravichandran and Mohammed, 2011). Whether a company will choose to reduce amount paid as dividend to finance new projects will depend on these factors:

a) Attitude of shareholders and capital market to a reduction in amount paid.
b) The accessibility and penalty of external funding sources.
c) The total financial requirement with respect to the accessible distributable profits.

2.6.3.2 DIVIDEND POLICIES

There are several dividend policies or payout choice that companies can adopt. Most of these directives are discussed by Lawrence (2011), in terms of the relative advantages and disadvantages, as follows:

1. THE FIXED PERCENTAGE PAYOUT RATIO

Here the company pays out a settled rate of annual profits been it a stated percentage as dividends. For an example, a company may maintain a constant payout ratio say 45% of

Profit after tax. There wards of this guiding principle, from the organization's perspective are that it is reasonably simple and effortless to operate and sends an unequivocal signal to investors concerning the firm's level of the efficiency. The shortcoming in reference to using this is that it forces a restriction on the amount of money to retain as internal generated or for reinvestment. This profit payout approach is inappropriate for business with volatile or unpredictable profit which has shareholders requesting a steady profit payment.

2. ZERO DIVIDEND POLICY

With this form of strategy the business decides not to pay any form of profit to holders of stock and such intense approach is prone to be greatly beneficial to a small number of or minority of investors, while being absolutely inadmissible to the greater part of investors. A greater proportion of ordinary shareholders may possibly be institutional investors, who depend on profit payments for their expenditures. For that matter, a zero dividend strategy is barely or not likely to be tolerated on a continuous basis. A zero dividend policy, is regularly use by startups or new businesses which require hefty amounts of reinvestment in the initial couple of years of their life (Kaplan Financial, 2015) .

3. STEADILY OR CONSTANT GROWING PAYOUT POLICY

An organization may opt for a consistent or gradually growing dividend in either cash terms or in the real terms. A regular or growing dividend in terms of money may bring about an expanding or declining dividend in real terms depending on the power of deflation or inflation. It is vital for an organization to stay away from unpredictability in profit payments, as doing so can help keep up an unwavering share price. Reductions in dividends, nevertheless, affectthe securities market and are typically taken to connote monetary weak point and result in descending force on a firm's share price (Dasilas and Leventis, 2011). The downside effect of maintaining consistent or persistently increasing dividends is that investors may expect that dividend payments will carry on in this pattern for an indefinite period. This can bring about significant issues when the business wish to lessen dividend payment, either to finance reinvestment, or for the sake of responsibility toward financial prudence. In view of the response of the market to profit payment cut, organizations encountering increment in profit have the tendency to be wary about a dividend increase.

4. LOW REGULAR AND EXTRA POLICY

A few organizations adopt a low regular and extra procedure that pays a low standard dividend and supplement it by an extra or supplementary cash payment when profit

necessitates it. In the event that profit elevates than the typical margin in a given period, the firm may pay this excess money and disguise it as an extra dividend or a special dividend. By designating the sum by which the dividend surpass the habitual payment as an “ extra” payment management avoids relating to owners any false commitments. The use of the 'extra' or the ‘special’ designation is more frequent amongst businesses that experience temporary movement in income.

2.6.3.3 OTHER FORMS OF DIVIDEND POLICIES

Apart from paying cash dividend firms also make use of other means of distributing either cash or securities to investors (Lawrence, 2011). They include:

STOCK DIVIDEND

A stock dividend is the compensation of existing owners of a payout using stock as a way of the exchange. Scrip payout entails the offer of further common shares to equity financiers, in in fraction of their current shareholding as a fractional or complete substitute to a cash dividend. Mostly, shareholders are given the decision of taking either the pronounced cash profit or the scrip alternative, permitting them to pick the alternative that facilitates best their position of tax and liability. A stock dividend does not necessarily boost the worth of an investor's portfolio. Scrip dividend improves the gearing ratio of the company (Lawrence, 2011).

CAPITALIZATION ISSUES (STOCK SPLIT)

Capitalization issues have tremendous impact on the firm's stock price as compare to that of stock payout. When a firm conducts a capitalization issue (also termed as a stock split) its offer cost or share price declines on the ground of the quantity of outstanding stocks increases. For example in a 3-for-1 issue or split, the firm triples the outstanding quantity of its shares. As on account of a stock dividend capitalization, it ought not to generate value for shareholders. This issue additionally has no result on the capital structure of the firm in question. It basically expands the quantity of shares outstanding, and diminishes the value of each share. Managers take on stock split in light that they trust that if the selling price per share gets too high, several investors particularly individual investors will no longer wish to buy it. Firms sometimes conduct reverse stock splits, in which they replace a specified quantity of shares outstanding with just one new share. For instance, in a 1-for-3 split one new share replaced three old shares and so on. Most firms commence reverse stock splits when their shares are selling at a dreadfully low price and probably so low that the Stock Exchange threatens to remove them.

SHARE REPURCHASES

Share repurchases have turn out to be an inexorably common means of returning worth to the conventional shareholders following their adoption by a number of leading companies in recent years (Denzil and Head, 2010). The realistic motivation for share repurchases include acquiring shares to be utilized as part of acquisitions proceedings, having shares readily accessible for staff share option plans and lastly resigning, retiring or redeeming shares. Commencing a broader and more realistic perspective, the rising importance of share repurchases implies that they enhance shareholder value possibly because they have, conventionally, been a tax-advantaged method of distributing cash. Though it is not clear exactly what managers are trying to achieve through repurchases, frequently mentioned rationales include sending an encouraging and optimistic signal to investors in the respective market places that management believes the value of its shares are underestimated. The fundamental gain to shareholders of a share repurchase is that they collect surplus funds from the business.

SPECIAL DIVIDENDS.

Sometimes, firms return surplus earnings to shareholders by making a unique dividend payment. A special dividend is mostly a cash payout in over the initial dividend payments and more often than not made by the company. On the chance that a firm has fund surplus in relation to its investment obligation, paying out these funds via a special dividend empower shareholders to reinvest them as indicated by their inclination. This practice creates a good corporate image of the company in the eyes of shareholders.

NON-PECUNIARY BENEFITS

Most often than not, this is also known as shareholder perks or rebates, these can take the form of discounts on the corporation services and good, and rebate on all other complimentary services and goods. To qualify for most non-pecuniary benefits, however, shareholders usually have to hold a specified minimum number of the company's shares.

2.6.3.4 DIVIDEND POLICY RELEVANCE (THE ARGUMENTS).

Profit sharing policy is an aspect of corporate finance that has been the subject of wideranging empirical research. This is no coincident but rather the handiwork of the continuing deliberation on whether dividend payments are pertinent in determining the share price of a company, and enhancement of investor wealth or not. Magni (2001) attempts to present the arguments for and against using dividend policy as a tool to change market and investment decisions of investors without a conclusive position on the debate. Black (1976), therefore, concludes that the puzzle that the question presents may be far from a definite resolution.

Four viewpoints are explained hereunder as answers to the question of relevance-irrelevance of dividend policy to managing the company/shareholder matrix of dividend policy.

i. **MM THEORY (MILLER AND MODIGLIANI)**

The dividend insignificance school began with a paper made public by Miller and Modigliani (1961). They argued that share valuation is a component of the level of a company's proceeds, which mirrors the firm's investment choices, instead of an element of the proportion of a company's proceeds paid out as dividends. They further contended that, due to irrelevancy of an organization's capital structure, investment decisions are accountable for a firm's future efficiency or profitability and consequently the main factor in influencing the business market value. The pair further concluded that share valuation is self-regulating from the level of dividend paid out by the company.

Their assumptions include:

a) Zero transactions overheads connected with exchanging shares into money by selling them.
b) Listed organization can trade shares without incurring issuance cost.
c) Zero levy on income at both individual and corporate level.
d) Impeccably efficient capital markets therefore unlimited access to information

Professor Miller and Modigliani point to the fact that investors are logical and critical thinker. They at all times settle the options that boost their resources, and are unmoved as to whether they obtain capital gains or dividends on their investment in shares. What does make a difference, on the other hand, from standpoint of advancing shareholder utility, is that a corporation boosts its estimated worth by adopting a finest investment strategy. An optimal investment guiding principle oblige a corporation to put resources in all ventures with a positive net present value and hence maximizes the net present value of the company in general. Miller and Modigliani are not stating that dividends are a residual payment. But rather are contending that as far as the corporation follows its finest speculation guidelines, its worth is totally unbothered by its payout policy. As per Miller and Modigliani, the venture choice is detached from the dividend choice. Or more accurately, a firm's choice of payout policy, given its venture strategy, is truly a choice of financing technique.

Miller and Modigliani are often misunderstood by the finance research fraternity. They do not contend, as is frequently assumed, that investors are not concerned whether they received a dividend or not. Instead, they argued that shareholders are unmoved to the timing of profit payments. In the scenario where zero profits are paid, in light of the fact the entire earnings had been devoured by the corporation's most advantageous venture plan, the market price of the company will raise to reveal the anticipated future profit payments. Shareholders, who want ready cash when no or little profit has been paid, can create a homemade dividend by offering a number of their respective shares (Miller and Modigliani, 1961)

ii. **BIRD IN HAND THEORY**

Esteemed researcher Lintner (1956) and Gordon (1959) argue that dividends are chosen to capital gains because of their surety. This concept is regularly known to as the “bird in the hand” argument. It implies that an investor will have preference to take delivery of a particular dividend payment now, instead of leaving the corresponding amount in a venture, whose future value is dubious, due to risk, time and inflation. Current dividends on this analysis speak to a more solid reward than future capital gains (Bhattacharya,1979)

iii. SIGNAL EFFECT THEORY

Empirical literature has argued that because of unbalance access to information or the asymmetry of information existing between managers and corporation owners in a semistrong form efficient capital market, owner's see payout choices as conveying new information about the corporation and its prospects. A dividend increment is typically seen by the business sector as passing on uplifting news. Illustrating the corporation has favorable prospect, whereas a diminishing payout is more often than not seem as terrible news, demonstrating a bleak future for the corporation. Total disclosure of information could reverse turn around this observations and ideology. A payout increment may perhaps be as a result of shortage of alluring ventures, inferring that development prospects for the corporation and its dividends are unfortunate. On the same note, a lessening dividend may be a positive sign for investors, demonstrating a large quantity of alluring ventures, and resultant excellent prospects for development in future dividend payments. Shockingly the markets have a propensity to be somehow nearsighted in their perceptions of dividend variability. Miller (1986) contends that it is difference between the market's expectations actual dividend payment that is important and this is what market reacts to but not the direction of a dividend change.

iv. THE CLIENTELE EFFECT THEORY

This theory argued that shareholders are not unmoved regarding whether they collect dividends or capital gains (Kawano, 2014). Inclination for one or the other can emerge for two fundamental reasons.

a) Because several shareholders have need of dividends as a wellspring of normal income. This is factual for small shareholders, for example, pensioners and other enormous institutional investors for instance insurance companies and pension funds which has habitual liabilities to meet.

b) The liking for dividends or capital gains may crop up because of their distinctive tax managements. The reality of inclinations for either dividends or capital gains implies that investors will be fascinated with organizations whose profit arrangements meet their necessities. Every corporation will consequently develop a group of shareholders who are fulfilled by its profit arrangement. The connotation for a corporation is that a momentous alteration in its dividend guidelines could give rise to unhappiness among its shareholders buying about a strain on its share price hence dividend policy is relevant (Miller and Modigliani, 1961).

2.6.3.5 DIVIDEND GROWTH MODEL

The dividend growth model (FinPlan.com, 2015) is a mathematical model that ascertains the present value of a continuously rising stream of money flows (for eternity).

The problems frequently associated with the usage of the dividend growth model to value shares include

a. It has been noted that dividends do not grow up effortlessly in reality and so historical **g** is merely a ballpark figure of the future payment development rate. This is a compelling argument and extreme measures ought to be taken when determining **g** by estimating the historic dividend growth rate that the sample of dividend payments utilized demonstrate an unwavering pattern (Denzil and Head, 2010).

b. The model implies that when **Do** is zero then in actual fact the share is valueless. This however is not by any means a hitch, seeing that, apparently, dividend payments will commence sooner or later. The dividend growth model can be applied to the future dividend stream and the ascertained future share price can be marked down to give a present share price.

c. It is frequently said that the dividend growth model neglects to consider capital gains into account. Again this is not by any means an issue subsequent to, if a share is sold, the charge paid will be the present value of its anticipated future dividends on the offering date. The dividend stream and consequently its present value, is not affected the by means of change in right of ownership.

d. It has been noticed that the dividend growth model makes no room or provision for individual or other levies. While this is true, the model can be tailored to have a feature such as tax effect.

CHAPTER THREE

METHODOLOGY AND COMPANY PROFILE

3.0 INTRODUCTION

This chapter emphasizes on the research design, and discusses into detail, the methodology employed in achieving the objectives of the study. This is discussed in relations to the questions of study design, the population, sampling size, sampling technique, and sources of data, data collection methods and the method for data analysis

3.1 RESEARCH DESIGN

The research design is the master plan or blue print that illustrates the step by step procedures and methods in collecting and analyzing data, and required information. It is a framework that is developed to address a specific research problem (Tustin et al 2005). An excellent research design is one that minimizes bias and maximizes the accuracy and reliability of the data collected and analyzed (Kothari, 2004). It involves the use of research paradigms- positivist, interpretive, and a combination of the former two.

The positivist approach involves the use of the rules and methods of study in the natural sciences- experimentation, identification, measurement and analysis of interrelationships of the variables identified, principally, using statistical tools (Golafshani, 2003; White, 2000).
The interpretative approach (O'Sullivan, 2005) is acclaimed to be good for studies involving human behavior and a prediction of human behavior in the future. A third approach, which is the combination of positivist and interpretative approaches (Bazeley, 2004) is used where one desires to eliminate the shortcomings of each of the mainstream approaches, using the principle of triangulation (Bryman, 2011). The researcher adopted a survey strategy.
There are several types of research design classification. The most common ones are the descriptive, the correlational, the semi-experimental, Meta- analysis and others. The design use in this study is involves the analysis of historical financial data of the target company as well as appraisal of projected performance, based on interviews with principal officers of the target company. It is, therefore, the considered opinion of the author to employ a combination methodology suggested by Denzin (1970) and Bryman (2011)

3.2 POPULATION OF THE STUDY

The population of a research is defined as elements from which a sample will be drawn (Wheather and Cook, 2000). A population is also the complete set of cases from which a sample is taken (Saunders et al, 2007). The population for this study consists of the management team of Rural Energy Resources limited Ghana (Runel Oil). The management team includes a shareholder/ CEO, the Finance manager, the Chief Accountant, the Internal Auditor, the Operations Manager, the Marketing manager, and the Human Relations manager.

3.3 SAMPLE AND SAMPLING TECHNIQUE

The sample size is the number of respondents chosen from the population to be a fair and unbiased representation of the population. The confidence level and margin of error is considered in selecting a sample size (Saunders et al 2009).The sample taken to be the fair representation of Rural Energy Resource Limited consist of the Chief Executive Officer, Internal Auditor, the Finance manager and, the Chief Accountant. This sample size is taken because these individual are directly involved in the major life changing decisions made in the firm, and their decisions cut across major functions such as the finance, management, marketing and production of the firm. The other members of the management team are, therefore, considered investment and financial decision input suppliers. The final decisions with regard to the finances of the company rely on the sample chosen for this study, from the experience of the author of this study.

Purposive or judgmental sampling was use in selecting this sample size. This form of sample is mostly used when working with relatively small samples that are case study inclined, and are particularly informative in nature (Neuman 2005)

3.4 TYPES OF SOURCES OF DATA

The type of data collected is qualitative and quantitative, as well as primary and secondary, in nature. Primary data refers to information provided to the researcher through direct face to face interviews. This primarily focuses on the reasoning behind some major financial decisions taken, such as the investment in the downstream petroleum business, the choice of business model and its implications on financial profitability and cash flow, the investment appraisal in use in decision making, company gearing options chosen, and dividend policies. These interviews will provide the qualitative data. Secondary data will be taken from the audited accounts of the company for a period of 5 years. These will also be deemed to provide the qualitative data, which will be analyzed to portray the effects of financial decisions taken on profitability, cash flow, dividend suitability and effectiveness of investments made. Secondary data will also include all publications and exiting literature used in writing this paper.

3.5 DATA COLLECTION INSTRUMENT CHOICES.

Face- to- face interviews and personal observations have been employed. This method is suited for this study because interviews solicit detailed information, which may be too sensitive or technical to express in a questionnaires. Secondly, it overcomes the issue of non return of questionnaires in information gathering. This becomes very important, when it is considered in the fact that the researcher had been a staff of the company, and thereby, has strong acquaintances with the sample members and the population as a whole.

Qualitative research interviews are classified into three types. They include the structured interview, semi structured and finally the unstructured interviews. The most frequently used type of interview is the semi structured interview (Kvale & Brinkman. 2008). This is the choice for this study, for the following reasons.

i. It is a guided interview that prevents the interview from veering off target because of the introduction of immaterial issues and discussions ii. It is easier to record answers to the questions because the interviewer can make simple notes, as reminders, quickly within the progress of the interview iii. Retrieval of answers, post interview, is also reported to be easier iv. It is easier to check main points desired to be covered in the interview before closure, so that they can be visited, same time, without having to go back to the same person again.

v. It provides a better platform to compare answers from different informants (Lindlof and Taylor, 2002)

3.6 DATA ANALYSIS

Due to the nature of the study, data collected will be carefully scrutinized for collusion and possible 'desire to look good' (Trochim, Donnelly and Arora, 2015). Financial data will be analyzed using financial ratios such as the profitability ratio, liquidity ratio and the efficiency ratios. Also there is further analysis of the financial statements using regression analysis. Data was entered and results generated using Statistical Package for Social Sciences (SPSS). This method helps present data in a qualitative manner.

3.7 RELIABILITY AND VALIDITY

Reliability, in research, implies the stature and quality of the research instruments that ensures that same results can be obtained by others, over time, when the instruments are used in similar situations (White, 2000). This does not, however, imply that different people will interpret same results obtained in the same way and make same deductions. The reasoning behind this caveat is that different researchers bring to the table their individual characteristics and viewpoints, even unto the same data (Smith et al. 2003).

To achieve the desired reliability, the structured questions for the interview have been peer reviewed by two colleagues in the MBA Finance program as well as Mr. Bartolomew Ahadzi, a Chartered Accountant and former Managing Director of Bank of Africa, East African Group.

3.8 THE COMPANY, RUNEL OIL LTD.

The following constitute some the major facts about Runel Oil Ltd, as discovered in the research process.

i. **Formation**.

Runel Oil Ltd was incorporated as a private Ghanaian company on the 4th of October, 2004. It, however, commenced operations on the 7th of July, 2007, when it was, officially, granted an Oil Marketing License by the Ghanaian oil industry regulator, National Petroleum Authority. Runel Oil Ltd has three shareholders, with an initial paid up capital of GHC580, 000.00 ii. **Mission**.

The company's mission statement aims at making the company one of the few Ghanaian companies that aims at filling the energy void of rural and peri-urban areas of Ghana, which are ignored by the industry giants.

iii. **Vision**.

It aims to blend innovation, people centered management and integrity to build a unique team of experts, and energy portfolio, that will deliver and satisfy energy needs of the niche market, at a predetermined profit. iv. **Products**.

The company is licensed to operate as a wholesaler, retailer and transporter of petroleum products in Ghana. It, therefore, operates in the downstream sector of the petroleum value chain. As such, it lifts bulk petroleum products such as Premium, Gasoil, Kerosene, Liquefied Petroleum Gas, Premix or Fisherman's Oil, as well Residual Fuel Oil from the Tema Oil Refinery, and other private depots in the country, for distribution within the country. Lubricants range is an added product and revenue generator.

v. **Distribution channel.**

The company has two parallel distribution channels. One of the channels is the direct bulk consumers. These are companies engaged in manufacturing and or transport, who take bulk deliveries into their storage facilities, to run their businesses. They enjoy reasonable margins, which enable them pay lower prices for the products per liter. Runel Oil Ltd has fifteen of these bulk consumers, who generally patronize gasoil and premix fuel. To these must be added 6 second cycle schools, who constitute bulk Liquefied Petroleum Gas bulk consumers. The second channel relates to direct retail sales to the general public. The company owns and runs 6 fuel service stations and 4 LPG retail outlets across the country.

vi. Contacts

Head office location is at No. 1A. Savanah Salt Road, Community 25, Tema East. Tema, Ghana.

3.9 ETHICAL ISSUES

Ethics in research, refers to morals, rules, and behaviors that are acceptable in a given socio political system. (Struwing & Stead, 2001; Nybakk and Panwar, 2015). The principal guideline to ethical behavior in research is defined as the principle of anonymity and confidentiality (University of Sheffield, 2015; Bless et al., 2006)

The author and the management of Rural Energy Resources Ltd have entered into agreements of confidentiality and anonymity with regards to company trade secrets as well as strategy. The data provided is to be used for academic purposes only, and kept on personal computers of researcher, her supervisor and the University Library only. The agreement also includes the delivery of a hard copy of the final report to the company's library, as a reference work.

3.9. Conclusion: It is believed that this study format will produce important reflections on the effectiveness of all aspects of financial management in the target company, or otherwise. After the study, recommendations on how to improve financial management decision making, will be provided as a plus, for the company.

CHAPTER FOUR

RESULTS AND ANALYSIS

4.0. INTRODUCTION

This chapter aims to highlight the main findings of the interviews held with the key officers of Runel Oil Ltd, in relation to its financial management choices, as well as how they impact on the performance of the company, over the last 6 years. These findings will then be compared to best practices found in literature, and a careful analysis of how alternate decision choices may impact the company differently, with reference to published data of another Oil Marketing Company. The findings and analysis are, thereafter, grouped under headings such as the company, outlook of the company on financial management, financing, investment and dividend choices made by the company. These are analyzed in relations to best practice in literature and the effect of these on company performance using financial ratios and regression analysis.

4.1 FINDINGS AND ANALYSIS 4.1.1. RUNEL OIL LTD PERSPECTIVE ON FINANCIAL MANAGEMENT PRACTICES.

All respondents interviewed confirm the importance of good financial management as a critical tool for company survival and growth. The researcher found an active finance department in the company that is staffed by a chartered accountant and other staff. A discussion with the finance manager reveals that inputs made by the department are highly rated in the decision making process in the company. The head of the department ranks at par with the deputy CEO of the company. This is a rare development in indigenous Ghanaian companies, which scarcely give substance to the role of financial management in the organizational hierarchy.

4.1.2 FINANCING DECISIONS IN RUNEL OIL LTD.

Myers and Majluf (1984) establish a clear link between the financing decision and the opportunities choices the investor or promoter of a business makes. The financing decision is related to where to get funds to execute an opportunity.

The researcher has found out that the primary decision to invest in the petroleum sector is informed by the quest for a steady flow of income that is devoid of cyclical and seasonal movements, such as is seen in the agriculture and agricultural processing, real estate and quarrying sectors of the Ghanaian economy. For an example, even though food is a necessity, the demand for agricultural products, and activity, are seasonal. However, the demand for petroleum products is constant in all seasons. Other considerations used in the investment matrix that have a direct bearing on the funding type decision include:

i. Concentration of activity of the company in rural and peri-urban areas.

ii. Choice of a unique business model iii. Desire to operate an aggressive working capital scheme

The normal location of petroleum service stations are in the major commercial centers like Accra and Kumasi. However, Runel Oil Ltd concentrates its business in rural district capitals as well as high agricultural and mining communities that are very far into the urban areas. These areas are traditionally not attractive to the larger multinational corporations in the oil industry, but they have relatively higher demands per location, due to lack of competition. Infrastructure development in these rural areas is also cheaper than in the cities, especially, the cost of land and land development. Lower labor costs are also attainable in the rural areas.
A clear case of futuristic investment is made by the company being the first brand to reach such rural areas with energy solutions, so as to build brand loyalty and social capital, just as Shell and Total have in the major cities. The clear disadvantages of this choice relate to higher administrative and energy costs, especially, in locations where national electricity grid has not covered. Absolute sales figures from some of these rural outlets, compared with those from only city outlet, suggest that management may have discovered a profitable niche market in the rural areas. It may also be that investment decisions into outlets are thoroughly researched.

In addition to the above, the investment decision influenced the business model choice in the company. Three main business models exist in the petroleum industry in Ghana. One is a purely commercial model that owns no fixed property, but sells products directly from a public warehouse (Tema Oil Refinery Ltd) to third parties, who own their retail outlets. They also outsource transport of products to the said outlets completely. The majority of indigenous OMCs opt for this investment portfolio. It is an easy concept to implement, but a highly risky one due to high default rates from retail outlet owners. Its advantage is a sudden growth in the number of outlets, increasing brand visibility. A second model informs part property ownership. It involves the Oil marketing company (OMC) going into partnership with prospective retail outlet developers, by part financing the outlets, and getting an assurance to trade in the partnership OMC products. They also outsource freight of products. Shell, Total and a handful of OMCs opt for this method. The main advantages of this approach are increased market presence and less burdensome working capital management. A third option is referred to as the closed circuit business model. This model is engineered by Runel Oil Ltd. It involves the sole ownership of retail outlets, the supply of products to such outlets exclusively, and ownership of the transport and delivery system, run by the company employees, who are empowered to take decisions, as far as their competences allow. The strengths involved, management argues, includes lack of financial leakages from third party dealerships, strict control over cash inflows due to the choice of aggressive working capital policy (Denzil and Head, 2010), increased profitability and efficiency, and growth that dovetails managerial competence and capability. The most argued case for the investment decision is the gradual creation and ownership of physical collateral that becomes a useful tool for accessing debt in later years. It is accepted by management that the policy choice makes physical growth and brand visibility painfully slow and non glamorous. Its critics argue further that it does not follow prudent financial management because it leads to missedout opportunities for brand and volume growth, shareholder wealth maximization, and specialization.

The above considerations, management agrees, have influenced the source of funding for the company, and the gearing policy. The initial source of funding for the business is equity. Thus, the company started operations with only one outlet and one fuel transport vehicle. It has grown to a company that completely owns six retail outlets, services 15 consumer and 10 LPG outlets. It also has a fleet of seven fuel and two LPG transport vehicles, with total assets worth GHC5 million. It today has a gearing ratio of 1:5. Details of financial performance are as shown in Tables below.

The funding implication then can therefore be described as relying on internally generated funds. Management explains this in two ways:

i. Use of retained earnings for additional investments or investments in fixed assets, as far as necessary. Leasing and hire purchase arrangements supplement retained earnings, as a recent addition to funding sources.
ii. Use of trade credit to finance working capital. Management argues that after some initial difficult times, suppliers built up confidence in the company and extended trade credit for 14 to 30 days to the company. What then matters is a quick turnaround of stock and prompt re-payment.
iii. Bootstrapping

These financial management practices are similar to the pecking order theory (Myers and Bajluf, 1984) and account for the healthy profit returns (Abor, 2007).

Even though shareholder wealth in this company has increased fivefold over the short period, the researcher considers the funding decision of the company rather narrow for the following reasons:

i. More growth and shareholder wealth can be achieved through the use of debt to finance operations. The more the outlets, and greater the volumes sold, the more profits that the company makes for shareholders.
ii. Management appears risk adverse beyond acceptable levels. A suggestion by the researcher to take more loans for expansion in 2015 was smartly argued out.

iii. There are missed opportunities. Management showed the researcher financial and market viability details of sites and projects that look impressive, but are shelved. These can be easily executed with debt financing now, before the competition. Longer waits for internally generated funding may cause competition to move to those sites.

4.1.3 INVESTMENT DECISION CHOICES AND PROCESSES IN RUNEL OIL LTD.

The Runel Oil Ltd concept of investment, apart from the general framework, such as product line and industry to invest in, that were determined by shareholders, involves the construction of new retail outlets, purchase of fuel transport vehicles as well as dispensers. These are long term investments. They carry a lot of risk, as well as benefits, that extend into the future. This also is financed mainly from retained profits. However, in 2014, asset leasing and hire purchase became a popular debt raising instrument to procure three new heavy duty vehicles.

This decision is reported to be based on the tradeoff theory (Frank and Goyal, 2011). Sourcing additional equity would have diluted ownership. Trade credit finance could not be used as it could create cash flow problems and insolvency. It will destroy supplier confidence, which may be a financial suicide. Debt instruments are a compromise alternative, as it lowers overall cost of capital through the accounting handling of taxation (Frank and Goyal, 2011)

An attempt was made to understand how the company attitude towards debt financing was changed. Management response indicates an exogenous impact from government policy. A directive from National Petroleum Authority requested the retirement of overage vehicles and purchase of new ones within three months. Management has no option than to raise debt financing through a hire purchase scheme, with the approval of the shareholders.

The decision to undertake fixed investment in Runel Oil involves a rigorous and complicated process. The risks are high (Bradley et al.2011). The projects involve huge initial capital outlays (Marx et al., 2010) Once a retail outlet is built, it cannot be easily sold out for profit in the short run, and very little can be done if the citing is not right, in terms of sales volumes, costs and profits. The proposal selection process is finally determined using the NPV method (Stangeland, 2015; Ross et al. 2011). The site with the highest NPV is chosen by top management, after different work groups, such as marketers, accountants, engineers etc have proved their cases. The investment policy choices made, it may be argued, have been largely successful, as per the profitability and other thresholds established for the company. Management is satisfied. Table1 shows the audited financial performance of the company.

In summary, it may be argued that the profit levels can be better if financing decisions making has allowed more growth through the use of debt. It becomes obvious that the financing policy choices made may have led to missed opportunities for exogenous rate of growth. On the other hand, the low gearing policy has made the company attractive to financial institutions and suppliers. This is evident in the short time and hassle-free processing of debt to finance transport vehicles, when it became a necessity due to legislation. Again, the healthy cash flow position, the lower cost of operation, and an empowered workforce suggest that the investment decisions made are the best, for the thresholds set.

4.1.4 DIVIDEND POLICY CHOICES IN RUNEL OIL LTD

It is found out that the company has not paid any dividend for eight years of its existence. It will therefore be said to pursue a zero dividend policy (Kaplan Financial, 2015). This has been explained by management as follows:

i. All shareholders are gainfully employed in the company. They take salaries as well as allowances. The urge to take a payback or personal dividend is not as strong as if shareholders were completely divorced from management.

ii. There is a strong desire to grow the company finance by keeping all profits earned in the company. In effect, it could be seen as a deferred dividend payment policy, with the hope that the stronger and more profitable company that results from current scarifies, will produce stronger and better dividends in the future.

While this option seems to support management reliance of retained profits and high risk aversion to risk associated with debt financing, this research is of the opinion that it is not be the best policy for the following reasons:

i. It is not sustainable in the long run, especially after succession planning, when the initial founders are no more there.

ii. It contravenes the bird in hand theory of dividend payment (Bhattacharya,1979) iii. It creates a condition for non-optimal investment by the shareholders. Each shareholder is unique, and can do other investments with his share of dividend payout in other ventures that may yield better results for him.

iv. It denies the right of the individual to choose.

v. Management is not challenged enough out of their comfort zones in seeking competitive financing sources, as any manager will do. This will bring complacency and mediocre investment decision making.

4.2. GENERAL EVALUATION OF RUNEL OIL LTD

A general evaluation was done with respect to the efficacy of the financial management of the company in terms of financial rations such as profitability index, return on fixed assets and others.

4.2.1 ANALYSIS AND INTERPRETATIONS OF RUNEL OIL LTD FINANCIAL PERFORMANCE FROM 2009 TO 2014

This financial analysis, interpretation and the study of the financial performance of Runel is but for the sole purpose of the academic exposition under which it's being observed, over period 2009 to 2015. The study seeks to interpret the operational activities, profitability and the stability of Runel using accounting ratios which are categorized into three main parts; Profitability, Liquidity and Activity & Efficiency Ratios.

4.2.1.1 FINANCIAL RATIOS

TABLE 4.1 PROFITABILITY RATIO

PROFITABILITY RATIOS		**2009**	**2010**	**Δ%**	**2011**	**2012**	**2013**	**2014**	**Δ%**
Gross Profit Margin	Profit (%)	4.91	4.70	-4	7.74	6.11	4.57	5.88	29
Net Profit Margin	Net Profit (%)	4.28	4.23	-1	4.19	4.21	3.82	0.46	-88
Expense to Sales	Expense (%)	2.72	4.51	66	5.20	4.67	4.05	7.14	76

INTERPRETATION OF PROFITABILITY RATIOS COMPUTED

The company recorded marginal levels of profit throughout the period, however, profit after Cost of Sales as a percentage of Revenue increased quite significantly by 29% between 2013 and 2014, after it saw a decline from 7.74% and 6.11% in 2011 and 2012 respectively. Net Profit Margin reduced rather steadily over the period and became even worse in 2014 recording 0.46%, which means that the increase in gross profit margin at best could be attributable to a relative increase in fuel ex-pump prices to cost of sales and fringe uplifts in sales volume. Total operating expenses maintained its high level over the period making a record 7.14% to total credit sales. The expenses to sales ratio increased by 66% between2009 to 2010 and from 4.05% in 2013 increased by 76% in 2014. The company could have dealt better with reducing the operating expenses in order to maximize profitability. It is important to note also that as sales increase, total overheads also increase and external macro-economic factors such as high inflation rates, high interest rates consequently in this case, interest on bank overdrafts could all contribute to the consistent fall in net profit. The absolute figure of profit earned is not in itself significant since the size of the business earning that profit may vary vastly.

Table 4.2 ROCE

Net Profit before Interest & Tax/Capital Employed	**2009**	**2010**	**Δ%**	**2011**	**2012**	**2013**	**2014**	**Δ%**
	24.67	22.23	-10	20.10	19.70	15.99	6.30	-61

INTERPRETATION OF ROCE COMPUTED

The Return on Capital Employed is the ratio which measures the size of the profit figure relative to the size of the business expressed in terms the quantity of capital employed, mostly shareholders' fund. Referring to the index, the year 2009 saw the highest return at 24.67% and year 2014 recorded lowest, standing at 6.30%. Surely, more work has to be done to up those figures pointing to the fact that profit before tax shirnked in that year.

Table 4.3 SHORT TERM SOLVENCY RATIO

RATIOS	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LIQUIDITY	1.36:1	4.27:1	2.31:1	20.87:1	7.80:1	0.41:1
ACID TEST	1.23:1	3.55:1	1.69:1	17.41:1	7.21:1	0.31:1

INTERPRETATION OF LIQUIDITY & SHORT TERM SOLVENCY RATIOS COMPUTED

The company per the liquidity ratios maintained sufficient working capital since 2009 but experienced some difficulties in year 2014 as it appears it could only settle just about 41% of short term liabilities, including trade payables. In spite of the efficient current ratio figures, it is apparent that the Runel held large piles of inventory and huge amounts of cash & cash equivalent in and around 2012 to 2013, boosting current asset figures, but should actually have been invested in trade. A possible reason for the stock of goods could be speculations about a possible upward adjustment of fuel prices in the early part of the following year, 2014 hence purchased more inventory to enjoy an arbitrage. The Acid test ratio examines situations where there's an emergent need to settle without waiting to sell current inventory, therefore eliminates stock to meet current obligations.

TABLE 4.4 EFFICIENCY RATIOS

Efficiency Ratios		**2009**	**2010**	**Δ%**	**2011**	**2012**	**2013**	**2014**	**Δ%**
Inventory Turnover Period	Average Inventory/COS*365	4	7	71	7	4	3	11	235
Receivables ' Collection Period	TAR/Credit Sales*365	29	36	25	4	11	23	27	15
Payables' Payment Period	TAP/Credit Purchases*365	30	9	-69	10.91	0.72	1.80	101.16	5509
Sales to Non-Current Assets	Sales/Non-Current Assets	12.20	8.21	-33	5.85	6.36	6.96	4.40	-37

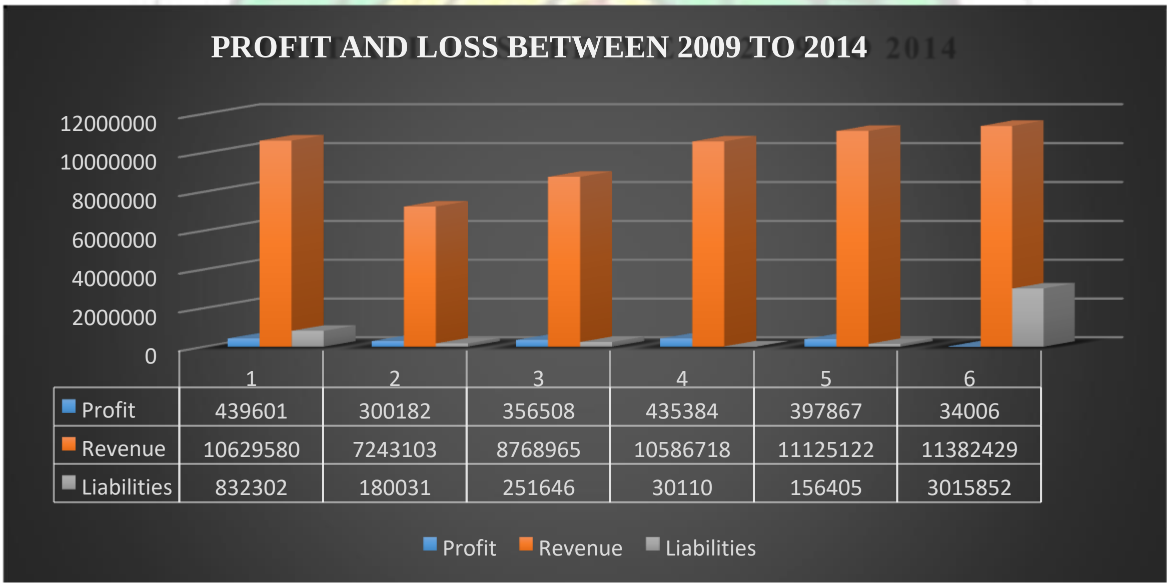
INTERPRETATION OF EFFICIENCY RATIOS COMPUTED

On the average, it takes Runel just 6 days to turnover its inventory over the period under review, but takes 11 days to sell and replenish its stocks in 2014.

Collection days look favorable in relation to payment days but, given the long stretch, suppliers might shy away from doing business with Runel in the future, should it continue in that vein. It took about a 100 days to be able to pay suppliers in 2014.While the Credit period was almost zero indicating a cash & carry system in 2012 and 2013, Customers took between 4 to 27 days in Creditor payment period seems very favorable to Runel, having a huge amount of time to turnover credit purchases so many times before paying its creditors.

The sales to Fixed Assets shows that the company is able to generate Ghc 4.40 of sales value per every Ghc 1.00 of non-current asset employed into the business. The year 2014 was not particularly a rewarding period for Runel but can improve. Cost reduction strategies and efficient controls would have to be implemented to progress.

4.3. REGRESSION ANALYSIS OF RUNEL OIL LTD FINANCIAL PERFORMANCE



	1	2	3	4	5	6
Profit	439601	300182	356508	435384	397867	34006
Revenue	10629580	7243103	8768965	10586718	11125122	11382429
Liabilities	832302	180031	251646	30110	156405	3015852

FIGURE 4.1 PROFIT AND LOSS FOR RUNEL OIL LTD BETWEEN 2009 TO 2014

As illustrated by the graph above the highest profit for Runel oil was in year 1 with a figure of GH 43, 960, 1 followed by year 4 and finally the least profit was made in year 2.

TABLE 4.5 PROFIT MEAN FOR RUNEL OIL LTD

	Mean	Std. Deviation
PROFIT	327258.00	152894.225
REVENUE	9955986.17	1613810.607
LIABILITY	744391.00	1147561.602

On the average it is observed the RUNEL receives a greater level of revenue compared to the other variables which affect its profit, however a point worth noting is the higher risk (deviation) involved in attaining such a higher revenue level. In other words, Runel oil make a large amount of revenue in each year under review but only a fraction of that value reflect into profit at the end of the day.

TABLE 4.6 PROFIT CORRELATIONS FOR RUNEL OIL LTD

		PROFIT	REVENUE	LIABILITY
Pearson Correlation	PROFIT	1.000	-0.124	-0.882
	REVENUE	-0.124	1.000	0.462
	LIABILITY	-0.882	0.462	1.000
Sig. (1-tailed)	PROFIT	.	0.407	0.010
	REVENUE	0.407	.	0.178
	LIABILITY	0.010	0.178	.

A positive correlation (0.462), interesting as it may be between RUNEL'S liability level and its revenue. This raises concerns about financing in the RUNEL establishment. Hence the significant that affect the company's revenue is liability.

TABLE 4.7 PROFIT MODEL SUMMARY FOR RUNEL OIL LTD. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Regression Model 1	0.939	0.881	0.801	68149.998

Also the developed model accounts 88.1% or more formally when adjusted, the model accounts for 80.1% of the variance in the profit reported in the study.

TABLE 4.8 PROFIT ANOVA FOR RUNEL OIL LTD ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
Profit Regression Model	Regression	102949953581.2	2	51474976790.60	11.083	0.041[b]
	Residual	13933266604.78	3	4644422201.595		
	Total	116883220186.0	5			

The overall model is deemed significant (0.041) with 95% confidence interval.

TABLE 4.9 PROFIT REGRESSION MODEL FOR RUNEL OIL LTD

Model	Un standardized Coefficients	T	Sig.	95.0% Confidence Interval for B

		B	Std. Error			Lower Bound	Upper Bound
Regression Model 1	(CONSTANT)	91375.054	204567.336	0.447	0.685	-559649.508	742399.615
	REVENUE	0.034	0.021	1.603	0.207	-0.034	0.102
	LIABILITY	-0.140	0.030	-4.667	0.019	-0.235	-0.044

The model developed given as:

y □ □□ □ □*ₒ* 1 1*x* □ 2 2*x*

profit □ □□ □*ₒ* 1*revenue*□□2*liability* *profit* □

91375.054□.034*revenue*□.140*liability*

This interprets as per unit change in profit will be as a result of a 0.34 increase in the revenue and a -.140 decrease in liability. This is of interest since liability is having a significant impact on RUNEL's profitability. Thus RUNEL will have to pay attention to its liability portfolio since it has a greater and more significant influence on their chances of making a profit or otherwise.

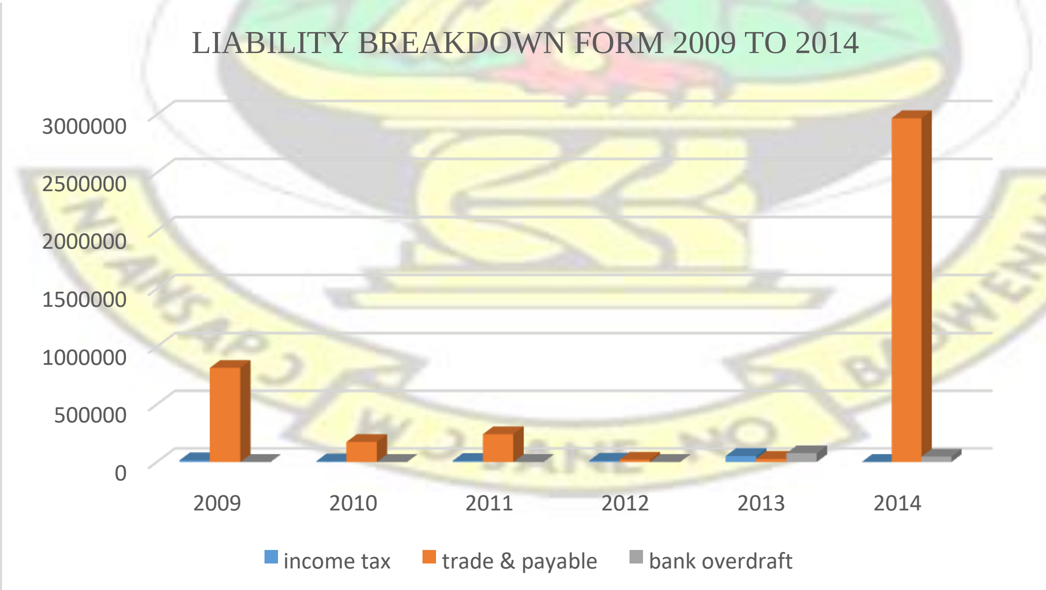


FIGURE 4.2 LIABILITY BREAKDOWN FOR RUNEL OIL LTD FROM 2009 TO 2014

Liability component stated from the graph above showed that trade and other payables constituted majority of the firm's liabilities and 2012 shows the lowest point for the company due to effective cost management but 2014 shows the company at its worst in liabilities. And information gathered described this scenario as occurring because the company bought some assets on credit so as to meet regulatory policies. Example Company bought two new 27000 capacity tankers in 2014. Income tax has been fairly consistent over the period. From the data analyzed the company in its previous years do not use bank overdraft until 2013.

4.4 REGRESSING BASED ON LIABILITY MODEL OF RUNEL OIL LTD

TABLE 4.10 LIABILITY CORRELATION OF RUNEL OLI LTD

	Total Liability	Bank Overdraft	Income Tax	Trade And Other Payables
Total Liability	1.000	0.322	-0.570	0.999
Bank Overdraft	0.322	1.000	0.449	0.291
Income Tax	-0.570	0.449	1.000	-0.593
Trade And Other Payables	0.999	0.291	-0.593	1.000
Total Liability	.	0.267	0.119	0.000
Bank Overdraft	0.267	.	0.186	0.288
Income Tax	0.119	0.186	.	0.107
Trade And Other Payables	0.000	0.288	0.107	.

The relationship between income tax and liability is negative (-.570) hence inversely related thus the higher the liability the lower income tax. The relationship between liability and trade payables on the other hand is positive .999 hence almost 100% therefore establishing a very song relationship between the two. From we can confidently state that the trade and other payables are the main culprit regarding the overall profitability of Runel Oil Ltd.

Table 4.11 LIABILITY MODEL SUMMARY OF RUNEL OIL LTD

R	R Square	Adjusted R Square	Std. Error of the Estimate
1.000[a]	1.000	1.000	0.116

The model accounts for 100% of the variance in liability of the study thus all variables used in the estimation of the model are adequate and hence precisely represents all the information available.

4.5 APPLICATION OF REGRESSION ANALYSIS MODEL OF RUNEL OIL LTD

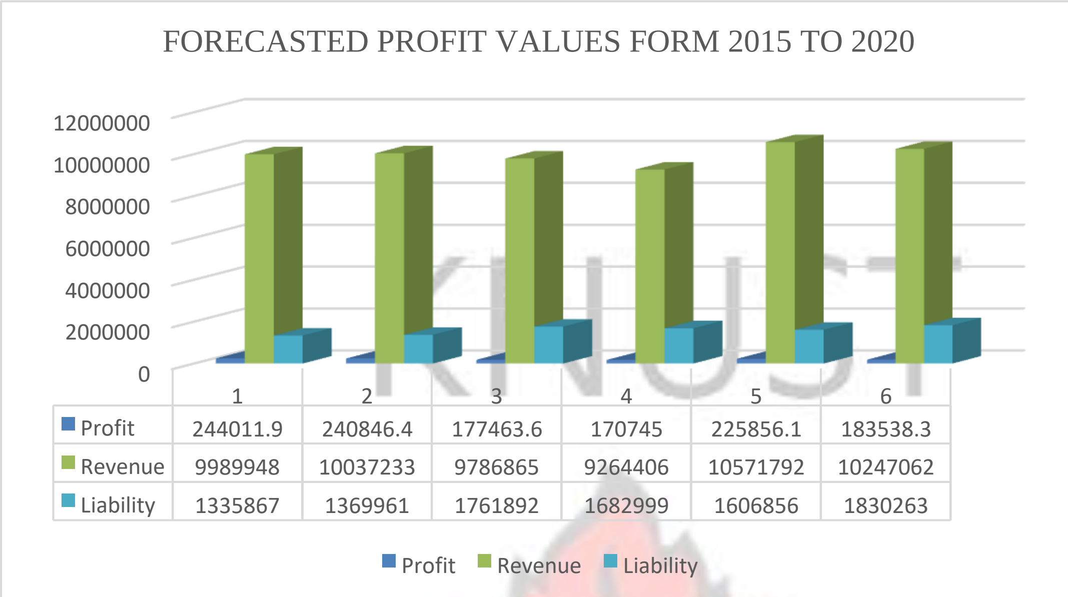


FIGURE 2.3 FORCASTED PROFIT OF RUNEL OIL LTD FROM 2015 TO 2020

The forecasted profit values have a mean of 207076.9 when compared with the mean of actual data (327258.00) indicates that profit levels for the next 6 years are going to on the average dip, and hence it will be prudent for the management of Runel Oil Ltd to reconsider their financing strategies

4.6. SUMMARY

From the foregoing, it is found that Runel Oil Ltd presents a strong case for proper financial management practice. Management decision with financial management has permeated the area of the economy to invest and the funding structure of the business. It is also evident in the appraisal methods for specific investments made in fixed assets and in the dividend policy chosen. These policies and practices have profound impact on the thresholds established by shareholders of the company.

The interpretation as illustrated above and per the appendix gives a vivid performance analysis of the affairs of Rural Energy Resources Ltd, however to make a final and conclusive judgment on the financial performance of the company, further investigation must be carried out. There is a need for additional qualitative information to completely give a comprehensive coverage useful to all stakeholders.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter highlights the main findings and conclusions derived from the research. It also offers recommendation to the management of Runel Oil Ltd and all other firms in the oil industry with similar financing strategies on how their financial management may be improved. Finally, it offers possible areas for future research to guide financial decision making in the company, and industry as a whole.

5.2. SUMMARY

The company operates in the petroleum sector. It has adapted the closed circuit business model to suit its unique needs as a firm in an already established industry, such that .It builds and runs its own distribution integrated business chain managed by the shareholders of the company, also additional professional and technical staffs are generally employed to enhance efficiency and effectiveness.

This choice gives the relatively young company two advantages:

A manageable size that is consistent with managerial capability and availability of human resources.

Relatively high return on investment in relation to the industry

Financial management to this company involves careful decision making on the sectors in which its investments portfolio is based, the sources of financing for such investments, as well as dividend payouts. A striking feature of this company is its heavy reliance on equity capital, retained profits and trade finance, as sources for additional investment, generally.
This argument is supported by its zero dividend payout policy, and low use of long term debt, over the first seven years of its existence. It, however, and suddenly, had to use debt to finance the acquisition of fixed assets, so as to comply with legislation from the industry regulator, National Petroleum Authority (NPA). This legislation was never anticipated in the industry.

The company shows reasonable levels of profitability and positive returns on investment. Company profitability shows the normal steady growth over the past four years but had a dip in 2014, as a result of challenges of finance and legislation in its trade area. While costs continue to rise generally, introduction of debt and its high interest costs are reported, by management, to account for the dip in profits in 2014

In the analysis made using regression as the tool, the company shows a large number of revenue but in the long run such revenue is not translated into profit. This is due to the high cost associated with liability; huge amount of revenue is eroded.

In further analysis, it is demonstrated by the model developed that there exist an inverse relationship between income tax and liability while there is a significant positive relationship between trade and other payables and liability.

The company appears, from the data available, to have high efficiency ratios as well as solvency indicators. One factor that needs attention is the risk involved in expanding sales in a bid to increase profitability. To Runel Oil Ltd, it will mean selling products outside its safe zone in the short term. This will expose it to bad debts, which are the bane of the industry. The Runel

Oil Ltd choice of a closed circuit business model choice is a prudent option even though there are alternative remedies to the issue can be explored, if the company so desires.

5.3. CONCLUSIONS

The author has arrived at the following conclusions, after the above analysis of the data collected from Runel Oil Ltd.

The position, thinking and practice of financial management in Runel Oil Ltd.

Management of Runel Oil Ltd accords financial management function a vital role in the scheme of management of the company. It is understandable because the shareholders are not finance specialists, but are sufficiently educated to appreciate the role of financial propriety, in the success of their business. The finance manager ranks at par with the Deputy Managing director, and his views carry weight in the board room. The above also underscores the rather clear finance policies thought through, adopted, and practiced, by the company over the period, which have produced reasonable results over the period. These are commendable.

Appropriateness of financial choices to vision.

The author concludes that financial management choices made seem a good fit for the vision of the founders of the company. The trajectory chosen at inception suggests a steady organic growth that matches managerial capability. It also shows a clear aversion to debt and bad debts, but appreciates a reasonable return on shareholder wealth, while pursuing an aggressive working capital policy. These seem to have informed the choices made in terms of financial management in the company.

Dynamic response to external pressure.

Per the findings of this study, Runel Oil Ltd is deemed dynamic, despite its focused on strict financial management policies. It was able to syndicate term debt easily, to keep the company afloat, when legislation could have brought the company to a dead end. This reflects the quality of financial management capability in the company. It is hoped this financial management dynamism will continue to shape the company's response to future unplanned environmental pressures.

Profitability, shareholder wealth and sustainability.

It is concluded that the company can remain profitable, but a higher risk over time and this is demonstrated by forecasting for the next 6 years using the regression analysis model developed and the company can indeed contribute to shareholder wealth creation, and become sustainable in the future. The financial results support this conclusion, depending on the thresholds the shareholders set for their company.

The impact of debt on profitability

Top management attributes unimpressive performance in 2014 to high interest costs paid. The author respects their view. However, it is concluded that the poor performance was due to many other factors, such as low sales as a result of product scarcity, introduction of cash and carry supply regime, as well as the accounting treatment of issues relating to first year depreciation, which produced larger than normal figures for 2014, as a result of introduction of new bulk vehicles.

5.4. RECOMMENDATIONS

5.4.1. The following are recommended to management.

The analysis for 2014 shows the role of liability in the survival and profit schema of the company. Without debt, the company could have been censored for non-compliance. It could also have resorted to outsourcing, which could have defeated the business model, and broken the value chain. Perhaps, it is time to relook at debt financing as a viable option, and measures put in place to mitigate the erosion of shareholder profits by interest payments.

It is still possible to expand sales through selected third party outlets without compromising cash flow and bad debt challenges especially through quality credit control management practices. This may involve a careful risk analysis of prospective clients, and a selection processes that provides a win-win arrangement for both parties. The author suggests securing collateral from such third party customers before supplying them. In return, higher than normal margins may be granted these outlets, as compensation. In addition, cash loss insurance can be taken as a hedge against defaults. In this case, brand visibility and incremental profits can be achieved without necessarily investing in fixed assets. It is appreciated this will be a departure from the business model, but it may improve profitability and reduce the incidence of interest payments.

It is also recommended that management studies other business models like the purely commercial model and the property ownership, and their impacts, as a means of modifying and or improving the Runel Oil Ltd choices.

5.4.2. RECOMMENDATIONS FOR FUTURE RESEARCH

It is important for Bulk Distribution Companies (BDC) to provide an up to date database for investor analysis in the petroleum sector. As such it may be necessary for researchers to study the financial management policies of other companies, who operate other business models, to compare results with the Runel Oil Ltd model. This will enable researchers to proffer advice as to the most viable business model for the petroleum sector in Ghana.

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APPENDIX A

Interview Guide

Interviews will be conducted with purposive sampling of three (3) members of management team of Runel oil being

1. The Chief Executive officer
2. Chief Accountant
3. Finance Manager

Questions will be asked using a predetermine format but with enough room for interactive questions. The questions listed below are suggestive guideline to follow.

Opening by Researcher

- Introductions
- Role of researcher
- Highlight the importance and reason for selecting the particular individual

Specify the rules

- NO right or wrong answers
- Confidentiality
- Anonymity
- Tape recorder if needed
- Duration of the interview section

Questions

Overview of topic

1. What is your opinion about financial management?
2. In your own words what entail quality financial management?
3. How will you grade financial management practices in Ghana today?
4. What do you think can be done to improve financial management practices in this modern era?

Financial management in Runel oil

1. Describe into detail financial management practice in Runel oil?
2. Will you assign the success of Runel oil to effective financial management?
3. What are the challenges faced in implementing financial management practices in Runel oil?

4. How were the challenges faced overcome?
5. How will you grade the financial management practice of Runel oil?
6. Will you say Runel oil is an accurate representation of quality financial management?

Financing decisions and policies in Runel oil

1. What are the major sources of finance available to Runel oil?
2. Which of these sources are mostly used?
3. What account to the decision on which source to use?
4. Among all the sources which is the most reliable and easily available to Runel oil?
5. What are the challenges faced by Runel oil in securing funds?
6. How are such challenges addressed?
7. What is the financing trend of the company over the last 10 years?

Investment decisions and policies

1. What investment opportunities are available to the company?
2. Which of these opportunities are undertaken by the company?
3. How are the decisions to undertake a particular investment made or what are the contributing factors to this particular investment decision?
4. What is the investment trend of the company over the last 10 years?
5. What are the challenges faced in undertaking investment opportunities?
6. What are some of the major risk faced by the company in undertaking such investments?
7. Will you say that all investment decisions made by the company reflect the basic finance principles of finance?
8. What are some of the finance principles use in the basic day to day investment decisions of the company?

9. How will you rate the performance of the company in investment decisions as compare to its competitors?

Dividend policy and decisions

1. What is the dividend policy of the company?
2. How effective is this policy?
3. What are the contributing factors to formulating this policy?
4. Is this policy the best option for the company?
5. How flexible is this policy to change?

Conclusion

1. Do all these policies fit the general mission and vision statement of the company?
2. Will you describe the company as a success story as compare to its competitors?
3. How will recent disaster even in Ghana affect the company's operations and petroleum industry as a whole?
4. Is there any comment you will like to share with me on financial management?

Thank you