CASH MANAGEMENT AND FINANCIAL PERFORMANCE: AN EMPIRICAL EXPOSITION OF NIGERIAN FIRMS.

1*Job-Olatunji Kehinde Asamu, 2Sanyaolu Wasiu Abiodun 1**Adedamola and Mohammed Akande

1Department of Accountancy, School of Management Sciences, D.S. Adegbenro ICT Polytechnic, Itori-Ewekoro, Ogun State, Nigeria, *kehindejobolatunji@gmail.com, *08033 190790, **Mohammedakande016@gmail.com

2College of Arts, Social and Management Sciences, Department of Accounting, Crescent University, Abeokuta, Ogun State, Nigeria, abbeysanyaolu15@yahoo.com, 08161750742

Abstract

Optimum management of financial resources of which cash management is an important element in the day to day running of affairs of a business enterprise is very key to the achievement of its overall goals and objectives. Many companies have failed as a result of non-optimum cash management practices. Against this backdrop, this study examined the effect of cash management on financial performance of listed manufacturing companies in Nigeria. The sample size for the study is fifteen listed manufacturing companies in Nigeria which were purposefully selected based on their size. The study adopted ex post facto research design. The data for the study were analyzed using regression analysis. The study found that cash ratio has no significant positive effect on profitability of listed manufacturing companies and that cash conversion cycle has no significant effect on profitability of listed manufacturing companies in Nigeria. Also the study found that cash management has no joint significant effect on the performance of manufacturing companies in Nigeria. Arising from the findings, the study recommended that firms should adopt optimum cash management practices so as to improve financial performance of the listed manufacturing companies in Nigeria.

Key words: Cash management, Liquidity, Performance, Profitability and Trade off model.

Introduction

One of the main parameters used in assessing the performance of a business by its shareholders and other stakeholder groups is profitability. Profitability in the world of Owolabi and Obida (2012) refers to firms’ ability to generate revenue from all their activities in excess of the cost of generating that revenue. For firms to maintain their going concern, they must make profit as only profitable companies can survive in the ever dynamic business environment (Oyedokun, Sanyaolu and Bamigbade, 2018). Has profitability been considered as paramount determinant of business survival, many parameters for measuring profitability have been identified; the common ones among those parameters are: returns on asset, return on equity, earnings per share, return on capital employed. They all measure the efficiency of the managers in using the resources at their dispositions to generate positive earnings. Profitability according to Khan and Ali, (2016) refers to the revenues earned by firms, against their operations and incurred expenses.
Business must operate on daily basis in order to make profit and daily operation cannot exist in isolation of working capital. Working capital refers to the resources used in the day to day running of affairs of a business. While working capital matters a lot for daily business operation, cash is the most liquid component of working capital. The operation of any business either profit or service oriented without cash is impossible. Every enterprise requires money for acquiring resources and converting the acquired resources to saleable goods and services (Ondiek, Fredrick and Busaka, 2013). Thus, a business must maintain an optimum cash management so as to fulfill its financial obligations and meet up with daily operational resources needs.

Optimum cash management according to Akinyomi (2014) is necessary for firm that wishes to meet up with its short term financial obligations. Cash management according to Olowe (2008) refers to the ability of a firm to manage its cash optimally so as to achieve optimal level of cash in its working capital.

Empirical studies devoted towards the effect of cash management on financial performance are enormous but the findings are mixed. In other words, agreeable variables on the subject have been scanty. The findings depend on so many reasons which include the industry which the study focused on, the kinds of variables the researcher considered, the methodologies employed as well as the scope or period of study. On the subject matter of this study which is the effect of cash management on financial performance, the findings are also mixed. There are ample of studies which concluded that cash management significantly increases profitability, Malik, Waseem and Kifayat (2011); while some concluded that cash management has negative effect on profitability such as, Onyemaobi (2014). Some authors like Akinyomi (2014) have exacerbated empirical argument in literature by finding that cash management has significant effect on profitability measured in terms of Return on equity while the reverse is the case for Return on Asset. Arising from these inconsistencies, the study conducted a research on cash management and performance of manufacturing firms in Nigeria.

**Objectives of the Study**

The main objective of the study is to examine the effect of cash management on financial performance of listed manufacturing companies in Nigeria.

Other specific objectives include:

i. To determine if cash ratio has any significant effect on profitability of listed manufacturing companies in Nigeria.

ii. To ascertain whether or not cash conversion cycle has significant effect on profitability of listed manufacturing companies in Nigeria.

**Research Hypothesis**

H1: There is no significant relationship between cash management and financial performance of listed manufacturing companies in Nigeria.

H2: There exists no significant effect between cash ratio and financial performance of listed manufacturing companies in Nigeria.

H3: There is no significant correlation between cash conversion cycle and profitability of listed manufacturing companies in Nigeria.
Research Questions

The study seeks to provide answers to the following questions:

i. What is the relationship between cash management and financial performance of listed manufacturing companies in Nigeria?

ii. Does cash ratio have any significant effect on profitability of listed manufacturing companies in Nigeria?

iii. Is there any correlation between cash conversion cycle and profitability of listed manufacturing companies in Nigeria?

Literature Review

Working capital management aims at optimum liquidity and profitability level which refers to matching of assets and liabilities movement over time (Pass & Pike, 1984 cited in Lamberg & Valming, 2009). So efficient working capital management of which cash is the most important aims at maintaining optimum level of liquidity that will translate to optimum returns with minimal risk.

The general claim in literature centers around liquidity/profitability tradeoff hypothesis which posit that these two financial terms pose conflicting ends to an organization, hence a pursuit of one will mean a tradeoff of the other (Dash & Hanuman, 2008). However, the other side of thinking holds that managers can pursue both liquidity and profitability goals as these two objectives have a direct relationship (Egbide, Uwuigbe & Uwalomwa 2013). These two views were observed by Chakraborty (2008) when evaluating the relationship between working capital and profitability of Indian pharmaceutical companies. He highlighted the existence of two distinct schools of thought on this Issue: first that liquidity and profitability cannot be pursued at the same time (negative relationship is opined between liquidity and profitability). Secondly, that investment in working capital plays a vital role to improve corporate profitability, which therefore suggests optimum level of working capital so as to improve profitability.

These two directions in literature are briefly reviewed. First, a number of studies had supported the liquidity/profitability trade-off theory. These include Onyeka, Nnado and Iroegbu (2018), Nwarogu, Iormbagah and Aondohemba (2017). Abioro (2013), Owolabi and Obida (2012), Malik, Waseem and Kifayat (2011).

Specifically, Onyeka, Nnado and Iroegbu (2018) which utilized multiple regression analysis on the data obtained from the annual reports and accounts of 36 listed manufacturing companies in Nigeria from the period of 2003-2017 found that there exists significant positive effect of cash management on profitability of the sampled companies. Also, study by Nwarogu, Iormbagah and Aondohemba (2017) which was achieved by carrying out regression analysis found that there exists significant positive effect of cash management proxies like cash conversion cycle and cash holding on return on asset in Nigeria. Similarly, a study by Abioro (2013) found significant positive effect of cash management on performance of manufacturing companies in Nigeria. Also, Owolabi and Obida (2012) examined the relationship between liquidity management and profitability of 12 manufacturing firms listed on NSE for a five-year period 2005 to 2009. Existence of strong relationships was depicted between credit policies, cash flow management and cash
conversion cycle and corporate profitability. In the same direction, Malik, Waseem and Kifayat (2011), carried out an investigation on working capital management and profitability in the textile industry of Pakistan. The population of the study was the textile industry of Pakistan. The study was based on secondary data collected from listed firms in Karachi Stock Exchange for the period of 2001-2006. The effect of working capital management on profitability was tested using panel data methodology. Data analysis was conducted using correlation and regression analysis. The results of the study revealed that a strong positive relationship existed between profitability and cash, accounts receivable and, inventory while a negative relationship was reported between profitability and accounts payable.

Secondly, a number of studies had opposed the liquidity/profitability trade-off theory. These include: Uwuigbe, Uwalomwa and Egibe (2011) and Falope and Ajilore (2009).

Specifically, Uwuigbe, Uwalomwa and Egibe (2011) conducted a study on cash management and corporate profitability in some selected listed manufacturing firms in Nigeria. The proxy for cash management was cash conversion cycle while, current ratio, debt ratio and sales growth were used as control variables. The data for the study were obtained from secondary source extracted from the annual reports and accounts of the sampled companies. Pearson’s correlation and regression analysis were used in analyzing the data for a sample of 15 listed manufacturing companies in Nigeria between 2005-2009. The results of the empirical findings showed that there is a strong negative relationship between cash conversion cycle and profitability of the firms. Similarly, Falope and Ajilore (2009) used a sample of 50 Nigerian quoted nonfinancial firms for the period 1996 - 2005. Their study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated. They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle.

A study by Akinyomi (2014) has not found either results and have thus exacerbated empirical argument in literature by finding that cash management and cash conversion cycle have positive and significant relationship between CCC and ROE on one hand and a non-significant negative relationship between CCC and ROA on the other hand.

From the reviews, it is conspicuous that there are conflicting findings in literature as to the exact effect of cash management on performance of companies and thus the need to conduct this study emerged. The differences in the findings may be attributed to factors such as: differences in the adopted methodology, periods covered by different researchers, the adopted variables as well as countries and industries of focus.

**Theoretical Review**

Theoretically, companies hold cash for reasons same as individuals. The reasons could be transactionary, precautionary and or speculative, the magnitude of which depends on the following factors, among others: the expected cash flow, the degree of variation between the expected and actual net cash flow, the maturity structures of the firms liabilities, the firm’s ability to borrow at a short notice in event of any emergency, the philosophy of management regarding liquidity...
and risk of insolvency and the efficient planning and control of cash, among possible others.

Firms hold cash for transactional motive where it’s held for the day-to-day conduct of business transactions with customers, suppliers for receipts and payments. When cash is held for precautionary motive, it’s for the purpose of taking care of future contingencies, serving as an insurance when compelling payments come up. Lastly, firms hold enough cash for speculative reason so as to take business advantage of investment opportunities as they arrive, especially when such are profitable to the firm in the face of competitions. (Igbinosun, 2002).

As the most essential current asset of business, cash management requires adequate planning, cash flow efficiency, investment of surplus and keeping of optimum level. Kesseven,(2006) & Pandey (2010) emphasized the need to be efficient in cash management for the effective performance of businesses. Firms in Nigeria are expected and required to manage cash to achieve the basic objectives of business and growth as may be peculiar to them.

**Methodology**

This study employed ex-post facto research design. The population of study consists of 53 listed manufacturing companies in Nigeria out of which 15 were randomly chosen to cover all the subsectors in the manufacturing sector. Data were collected from annual reports and accounts of the sampled companies for the period of ten years (10) years from 2007 – 2016.

**Model Specification**

\[
\text{LProfit}_it = \beta_0 + \beta_1 \text{CHR}_it + \beta_2 \text{LCCC}_it + \epsilon_it
\]

Where:

- \( \text{LPROFIT}_it = \) Log of profit of firm i in period t
- \( \text{CHR}_it = \) Cash ratio of firm i in period t
- \( \text{LCCC}_it = \) Log of Cash Conversion Cycle

<table>
<thead>
<tr>
<th>LEVIN, LIN AND CHUT</th>
<th>ADF FISHER CHI SQUARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOPC</td>
<td>0.001</td>
</tr>
<tr>
<td>LPROFIT</td>
<td>0.00</td>
</tr>
<tr>
<td>LCCC</td>
<td>0.18</td>
</tr>
<tr>
<td>CHR</td>
<td>0.00</td>
</tr>
</tbody>
</table>

- Adj R-Square=0.68
- \( F \text{ stat} 35.3 \)
- Prob > F= 0.00
- Hausman Statistic Prob (0.86)

Source: Authors computation (2018) using Eviews 9

<table>
<thead>
<tr>
<th>CO-EFFICIENT</th>
<th>STD ERROR</th>
<th>T-STAT</th>
<th>PROB</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHR</td>
<td>-0.2</td>
<td>0.70</td>
<td>-0.29</td>
</tr>
<tr>
<td>LCCC</td>
<td>-0.12</td>
<td>0.21</td>
<td>-0.54</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>4.18</td>
<td>1.47</td>
<td>2.84</td>
</tr>
</tbody>
</table>

Source: Authors computation (2018) using Eviews 9
The constant value of 4.18 implies that without cash management (cash ratio and cash conversion cycle) profitability will still increase by 418 units. The Adjusted R-Square of 0.68 implies that 68% variation in profit is caused by cash management.

**Concluding Remarks and Recommendations**

From the study, it has been established that cash management components like cash ratio and cash conversion cycle have no significant negative effect on profitability. The study investigated cash management and performance of listed manufacturing firms in Nigeria from 2007-2016. The effect of cash management on performance was established through regression model. It was discovered that none of cash management proxies affect financial performance significantly and that cash management has no significant joint effect on financial performance of listed manufacturing companies in Nigeria. Arising from the findings, it is therefore recommended that management should ensure optimum level of cash management in terms of optimum cash ratio and favorable cash conversion cycle so as to improve financial performance in terms of profitability.

**References**


Chakraborty (2008). Working Capital and Profitability: An Empirical Analysis of Their...
Relationship with Reference to Selected Companies in the Indian Pharmaceutical Industry, the Icfai Journal of Management Research, 34.


