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EFFECT OF CASH MANAGEMENT ON CORPORATE PERFORMANCE OF INDUSTRIAL FIRMS IN NIGERIA

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Abstract
This study examined the effect of cash management on the performance of industrial firms in Nigeria, using cash ratio for independent variable, while return on assets represent dependent variable. Ex post facto research design was employed for the study. The population consist of industrial goods firms in Nigeria. Data were generated from annual accounts of the firms. The hypothesis was tested with regression analysis and the study found that there is a significant effect between cash ratio and return on assets of industrial goods firms in Nigeria. Based on the finding, the study recommended that as the study found that cash ratio has significant effect; attention should be taken on management of current ratio as well as investment of excess liquidity in short-term assets such as treasury bills and give consideration to cash management which plays a critical role in increasing the financial performance of the company.

Keywords: Cash management, Cash ratio and Financial performance

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Introduction

Cash is about the most important current asset for the smooth operation of a business. Cash management, the step-by-step procedures of managing cash flows of a firm as well as managing risks and processes related to capital optimization and cash flow is also important. Efficient management of cash flow is necessary for companies' success. The aim of managing cash is to find the optimal cash level for creating the most efficient level of performance for an entity (Onyando, 2018). Cash management is imperative in every business, given that cash drives other activities. It refers to full exploitation of the liquid cash available, deriving maximum interest from the extra funds as well as reducing any holdups in transmission of funds (Wanjuki et al., 2021). Effective cash management allows the company to control its cash and manage its business economically efficiently and effectively. In this way the company can reduce business disruptions operate in a smooth and efficient manner and provide for its ongoing growth and financial performance (Wokeh & Nmehielle, 2023).

Cash management is concerned with the management of cash flow in and out of the enterprise, cash flows within the enterprises and cash balance held by the firm at any point in time will be used to finance deficits (Divinah et al., 2021). In essence, the obvious aims of any enterprise are to manage its cash affairs in a way that cash balance is kept at a minimal level and to invest surplus cash in profitable opportunities (Pandey, 2011). The adequacy of cash and other current assets, together with their efficient handling, determines survival or extinction of a business concern. Cash management is concerned with managing cash (inflows and outflows). Some sources of cash inflow include cash from operating activities, sale of business assets, and dividends received from other companies, while cash out flows include settling creditors, purchasing inventory, and payments for expenses (Festus, 2011). Cash and cash equivalents are a precondition to ensure that firms can meet their short-term obligations as they fall due while ensuring that profitability is not affected. Overall, cash management is crucial if corporations are to ensure sustained financial performance both in the short and long run.

The extant research on the issue of cash management measures (cash conversion cycle, creditor's payment period and cash flow margin) and firm profitability is still a very debatable and inconclusive area of research, and the findings of several studies in this area is still very much inconclusive and exhibits serious empirical disharmony indicating that the area is still very much an issue for consideration. For instance, Eta (2023) investigated the relationship between cash management and financial performance of listed construction companies on Nigerian Exchange Group and concluded that there is no significant relationship between cash management and financial performance. Duru, *et al* (2015) looked at how cash flow affected the performance of businesses in a Nigerian sub-sector. Major and Azali (2022) investigated the relationship between cash management practices and financial performance of listed deposit money banks in Nigeria between 2014 and 2020.

Most of the related studies were conducted in the banking industry, service firms, consumer goods, agricultural firms, telecommunication industry, breweries, pharmaceutical firms, Oil and Gas companies, food and beverages and construction companies in Nigeria. Despite the importance of cash management practices, the outcome seems not to be reflected on financial performance of entities, particularly in industrial goods firms. Besides, the prior studies recent research was on 2021 data, this created a periodical gap. Thus, in attempt to closing the earlier observed gaps in previous studies, this study seek to determine the extent cash ratio affected return on assets of industrial goods firms in Nigeria.

Conceptual Review

Cash Management

Cash refers to money that needs no further conversion for the settlement of debt and payment for exchanges. Cash is the most liquid asset of any company and the pivot of the daily management of the firm because operations of the firm are dependent on the availability of cash or near-cash resources. The availability of cash determines level of operation of the firm and its ultimate measure of the success or failure or even survival of any enterprise (Ngerebo-a, 2009).

Pandey (2011) defined cash as "money which a firm can disburse immediately without any restriction." Cash is needed to meet the following motive of a firm: Transaction motive requires a firm to hold cash to make payment for the acquisition of resources and services for the normal conduct of business. Precautionary motive: A firm keeps additional funds to meet any emergency in the future. Speculative motive relates to the holding of cash for investing in profit-making opportunities when they arise. Pandey (2011) and ICAN Study Pack (2009) outline four strategies or facets of cash management to include: cash planning (Cash inflows and outflows to be planned in such a way as to protect cash surplus or deficit for each of the periods), managing cash flows (the cash flows should be adequately managed in such a way that inflow will increase and outflows decreases), optimum cash level (the firm should be able to decide the appropriate level of cash balances to avoid holding excess cash or short of cash supply) and investing surplus cash (any surplus cash should be invested to generate income for the firm).

Cash management refers to the collection, concentration and disbursement of cash in an organization with a view to manage the cash balance of an enterprise in a way that maximizes the availability of cash not invested in fixed assets or inventories (Mutesi & Patrick, 2018). Cash Management is essential to new and existing businesses. Some organization suffers as a result of cash flow problem due to lack of margin of safety in anticipation of expenses. For this study cash and cash equivalent, cash turnover and cash conversion cycle are adopted as proxies of cash management practices because we believe that it will help in determining the objective of the study.

Cash Ratio

Gitman (2009) reported that it is objectively used to manage and determine the optimal level of cash required for business operation and the investment in marketable securities, which is suitable for the nature of the business operation cycle. The pattern of the cash and operating cycle varies per industry., but in general term, the pattern involves the provision of cash as capital for firm's initial outlay., the procurement of raw material in manufacturing companies and finished goods in marketing companies, distribution of the finished goods obtain immediate cash or create debtors when goods are sold on credit term (Akinbuli, 2009). Furthermore, the process of managing cash has become a major challenge for most of the companies, because of its significant impact on the results of a company (Ekwere, 1993). The success of any business venture is predicted on how the management has planned and controlled it cash flows (Akinsulire, 2003). Effective cash management is the fundamental standing point to ensure that the firm's finances are in strong position (Janaki, 2016).

Financial Performance

Financial performance is a monetary assessment of the result of organizations' approaches and exercises. This shows an organization's complete presentation as far as income and misfortune throughout a given time frame are concerned (Divinah et al., 2021). Financial performance has received significant attention from scholars in various areas of strategic

management. It has also been the primary concern of business practitioners in all types of organizations since financial performance because of its implications for organizational health and survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to country's economy at large (Mathuva, 2010). Financial performance measures the extent to which an enterprise generates profit from its operations; and analyses the relationship between revenues and expenses and the level of profit relative to the size of investments. The measures of financial performance are operating profit, net profit margin, return on assets and return on equity. Investor takes performance evaluation of firms into account to identify attractive investment opportunities. Satisfactory performance of an enterprise is a key factor that motivates investors to invest funds in the (Mehdi, 2013).

Performance evaluation is a necessity; and accepted measures are applied to consider different aspects in terms of limitation in operation and utilization of resources. The optimum operation of an enterprise is in the hand of managers; hence, incentivizing managers will lead to decisions that increase performance and accelerate achievement of an organizational goal (Reheman & Kiyayi, 2009). To improve overall corporate performance, appropriate level of cash should be determined to minimize risk and prepare for uncertainty. Financial performance improves with increase in efficient management.

Empirical Review

Eta (2023) investigated the relationship between cash management and financial performance of listed construction companies on Nigerian Exchange Group. The *Ex-Post Facto* research design was used. Data were generated through the annual report of listed construction companies for 2011-2020. Pearson correlation and multiple regressions were employed to analyze data via Stata12 software. The study showed that there is no association between cash management and earnings per share of listed construction companies on the Nigerian Exchange Group. There is no relationship significant between cash management and net profit of listed construction companies on the Nigerian Exchange Group. Oroniran, Abdullahi and Olanisebe (2023) determined the effect of cash management on profitability of Nigerian publicly traded consumer goods companies. Descriptive statistics, correlation analysis, and regression methods were employed to analyze the data. The findings revealed that the profitability of listed consumer products companies in Nigeria is adversely impacted by cash flow from operating activities. Chibuike and Celestine (2022) examined the effect of cash flow management on financial performance using data from Nigeria's pharmaceutical sector. Data were taken from the annual reports of the selected listed pharmaceutical companies from 2011 to 2020 via EViews10. Multiple regression analysis and the Pairwise Granger Causality tests were employed and the study showed that operating activities and investing activities have an insignificant and positive impact on liquidity, while financing activities has a negative but notable impact on the liquidity of Nigerian pharmaceutical companies. Kithinji et al. (2022) ascertained effect between cash management and financial performance of public universities in Kenya from 2016 to 2019. Quantitative research design was used in the study. Data were extracted from the auditor general's office. The study indicated that cash management affects financial performance of public universities in Kenya. The study revealed that student enrolment moderates the relationship between cash management and financial performance of public universities in Kenya. Attayi et al (2022) investigated the effect between cash management strategies and SMES sustainable growth in Nigeria. The study adopted a descriptive survey design and a data set of two hundred and ninety-seven (297) questionnaires that were conveniently collected. The data was analyzed using regression with the aid of SPSS. The findings indicated that cash management strategies

affect the sustainable growth of SMEs in Nigeria. The study also concludes that cash budgeting as a cash management strategy is a strong determinate to the productivity of SMEs in FCT-Abuja. Also, the study concludes that cash control plays a major role in the sustainable growth of SMEs in the FCT. Amini et al. (2021) determined the effect of cash management practices on financial performance of small and medium enterprises in Indonesia. Data were analyzed with regression analysis and the study found significant relationships between the variables. Also there was a significant relationship between cash management practices and ROA but a non-significant relationship between cash management practices and Gross Profit Margin (GPM). Wanjuki et al. (2021) investigated the relationship between cash management and financial performance of private hospitals in Nairobi County, Kenya. The study adopted a descriptive design. The target population for this study was 25 private hospitals in Nairobi County, using primary data from the respondents, and was analyzed via Statistical Package for Social Sciences (SPSSV18.0). Both descriptive and inferential analysis was conducted by the study revealed that cash conversion cycle and cash budgeting had a positive and significant effect on financial performance of private hospitals. Sam and Kollipara (2021) ascertained the effect of cash management on financial performance of the listed manufacturing companies in Muscat from 2014 to 2019. Descriptive and regression analysis were employed to analyze the data. The study revealed that cash management significantly impacts financial performance. Omopariola et al. (2021) studied the level of financial performance of selected construction companies in South Africa. The study used 32 construction companies in South Africa. Post hoc Turkey's honest significant differences (HSD) were used to run the analysis. In their result, they concluded that there is no consensus on the indicators that measure a construction company's financial performance projects undertaken and there is a shortage of concepts on the financial performance indicators for construction companies in South Africa and indeed, the entire Africa continent. Oluyemi and Chinyere (2021) studied the relationship between asset structure and financial performance of quoted construction companies in Nigeria. The study used secondary data from 2012 – 2018. The data were measured using correlation test, unit root test using the Augmented Dickey Fuller (ADF) and simple regression using (Eview 11). The result was that fixed asset has a profitable and significant impact on return on asset. It also showed that current asset has a positive and significant impact on earnings per share. Otali et al. (2020) examined the influence of construction firm size on the level of adoption of sustainability practices in Niger Delta, Nigeria**.** Survey design approach was employed. Data were obtained through interviews and one thousand one hundred and seventy-nine copies of structured questionnaire administered to representatives of the companies by researchers and research assistants. Data analysis was simple percentage and Spearman's rank correlation. The result reveals that small companies accounted for 84.7 %, medium-sized companies accounted for 11.61 % and large construction firms accounted for 3.73 %. Therefore, a majority of companies are small and medium-sized construction firms in Niger Delta. The work reveals that the firm size influenced the level of implementation of firm sustainability practices in the study area. Mutesi and Patrick, (2018) used regression analysis to investigated effect of cash management on performance of cooperative banks in Rwanda; and found a positive significant relationship between cash management and financial performance. The study concludes that cash management is a key to financial performance of cooperative banks. Nwarogu and Iormbagah (2017) determined the effect of cash management on corporate performance of Nigerian listed companies. Descriptive statistics, correlation matrix and pool ordinary least square regression were used in data analysis and it was reported that cash flow and firm size have a negative relationship with return on assets, but there is a significant positive relationship between cash conversion cycle, cash holding, and return on assets of firms. The variables of firm size, firm growth, and cash flow in the

return on equity model showed a negative correlation with the firm performance variable. Only the firm size variable, however, had significant and negative relationship with the dependent variable at 5% level of significance. Nimer and Munther (2017) examined the effect of cash flow management using the operating, investing, and financing activities on financial performance of Jordanian Insurance Companies (JICs). The JICs, which comprise of 23 companies that make up the population of the study under observation. The study used annual reports from each of the selected companies spanning from 2009–2013. The study found that the net cash flows from the operating activities affect the return on assets when it comes to the impact of each orientation of these activities and their effect on financial performance. In addition, it was discovered that the financial performance was significantly influenced by the net cash from investing activities.'' Niresh (2012) examined the relationship between working capital management and financial performances of listed firms in Sri Lanka. A sample of 30 companies listed on the Colombo Stock Exchange was used. Data were collected from annual reports of sampled companies from 2008 to 2011. Correlation and regression analysis was employed. The result shows that, there is no significant relationship between cash conversion cycle and performance measures. The researcher suggested that companies in Sri Lanka follow conservative working capital management policy.

Methodology

This study adopted *Ex-Post Facto* research design. The design is suitable because the researcher is interested in establishing the causal relationship among the dependent and independent variables. The population of the study comprised of twelve listed industrial goods firms in Nigeria. Since the population size is not too large, this study adopted the consensus sampling to adopt all the twelve (12) industrial goods firms for the study. Data were generated from from the annual reports and accounts of the sampled firms in Nigeria. The statement of financial position and comprehensive incomes provided data used in computing the selected ratios from 2013-2022.

Model Specification

For the purpose of examining the relationship between cash management and financial performance of listed industrial goods firms in Nigeria, the study adapts that of Muhammed (2015) which is presented below;

ROA = β0 + β1 CCC + β2 SIZE + β3 LEV + β4 GROWTH + β5 GDP + eit …….i

PMit = *f*(CCC, CPP CFM **),** ……. ii

The econometric model is presented thus;

$PMit=\beta_0+ \beta1\ CCCit + \beta2\ CPPit + \beta3\ CFMit + eit$ ……. ……..iii

Where, PM = profit margin

CCC = cash conversion cycle

CFM= Cash flow margin

CPP = creditors payment period

e = error term

i= ith firm

t= time

The study modified the model for the OLS regression analysis is stated below.

$ROA_{it} = \alpha_0 + \beta_1 CSR_{it} + \beta_2 FSZ_{it} + \varepsilon_{it}$ ……*i*

Where,

ROA_{it} = Return on Asset for firm i in period t.

CSR_{it} = Cash ratio for firm i in period t.

FSZ_{it} = Firm size i in period t.
ε_{it} = error term for firm i in period t.
α_0 = constant.
β_1 = coefficients of the predictors

Method of Data Analysis

Data were analysed comparatively via both descriptive and inferential analyse. The descriptive statistics was first conducted in order to gain understanding of the sample characteristics as regards the selected variables. Inferential statistical analysis was carried out with the aid of E-Views 9.0 statistical software. These include the following:

Panel Least Square (PLS) regression analysis was used to predict the value of a variable based on the value of the other variables;

Decision Rule

At a significance level of 5%, the statistical significance of the analysis was evaluated using P-values (with an alpha of 0.05). When the P-value is lower than 5%, the null hypothesis is rejected and the alternative hypothesis is accepted. On the other hand, if the P-value is equal to or greater than 5%, the null hypothesis is accepted and the alternative hypothesis is rejected.

Data Analysis

Table 1: Descriptive Statistics

	ROA	CSR	FSZ
Mean	-0.037621	0.023158	1712429.
Median	-0.033649	0.021366	1678897.
Maximum	0.003179	0.054407	2379017.
Minimum	-0.082990	0.004371	1302578.
Std. Dev.	0.028693	0.014757	308035.6
Skewness	-0.106853	0.644100	0.708281
Kurtosis	1.844243	2.694089	2.872811
Jarque-Bera	34.53610	43.82598	50.57060
Probability	0.000000	0.000000	0.000000
Sum	-22.57283	13.89484	1.03E+09
Sum Sq. Dev.	0.493138	0.130439	5.68E+13
Observations	120	120	120

Source: E-View output, 2024

Interpretation of Descriptive Statistics

The descriptive statistics in table 4.1 revealed that the return on assets of the sampled firms is 0.037; the maximum of 0.003 with a minimum of -0.083 with a standard deviation of 0.029. The mean of cash ratio (CSR) is at the average of 0.023; standard deviation of 0.015; a maximum observation of 0.054 with a minimum value of 0.004. The mean of firm size (FSZ) is at the average of 1712429; standard deviation of 308035.6; a maximum observation of 2379017.0 with a minimum value of 1302578.0. Skewness is the measure of how much the probability distribution of a random variable deviates from the normal distribution. Table 1 delineates that the probability distribution for CSR (0.000) and FSZ (0.000) are positively skewed distribution.

Test of Hypotheses

H_{O3}: There is no significant effect between cash ratio and return on assets of industrial goods firms in Nigeria.

Table 2: Panel Least Square Regression analysis testing the effect between ROA, CRS and FSZ

Dependent Variable: ROA
Method: Panel Least Squares
Date: 06/18/24 Time: 07:52
Sample: 2013 2022
Periods included: 10
Cross-sections included: 12
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.080025	0.007136	-11.21447	0.0000
CSR	0.429276	0.078450	5.471986	0.0000
FSZ	1.90E-08	3.76E-09	5.044138	0.0000

R-squared	0.371241	Mean dependent var	-0.037621
Adjusted R-squared	0.368129	S.D. dependent var	0.028693
S.E. of regression	0.027698	Akaike info criterion	-4.329925
Sum squared resid	0.658006	Schwarz criterion	-4.307940
Log likelihood	1301.978	Hannan-Quinn criter.	-4.321367
F-statistic	22.89644	Durbin-Watson stat	2.029588
Prob(F-statistic)	0.000000		

Source: E-Views 9.0 Correlation Output, 2024

Interpretation of Regression Result

In Table 2, R-squared and adjusted Squared values were (0.371) and (0.368) respectively. The indicates that all the independent variables jointly explain about 37% of the systematic variations in performance of our samples companies over the ten years periods (2013-2022). Table 2 revealed an adjusted R^2 value of 0.37. The adjusted R^2, which represents the coefficient of the determinations imply that 37% of the total variation in the dependent variable (return on assets) of quoted industrial goods firms in Nigeria is jointly explained by the explanatory variables cash turnover (CTO) and firm size (FSZ). The adjusted R^2 of 37% did not constitute a problem to the study because the F- statistics value of 22.89644 with an associated Prob.>F = 0.000 indicates that the model is fit to explain the effect expressed in the study model and further suggests that the explanatory variables are properly selected, combined and used. The value of adjusted R^2 of 37% also shows that 63% of the variation in the dependent variable is explained by other factors not captured in the study model.

Using Durbin-Waston (DW) statistics which we obtained from our regression result in table 4.5, it is observed that DW statistics is 2.029588 and an Akika Info Criterion and Schwarz Criterion which are 4.330 and 4.308 respectively also further confirms that our model is well specified. Table 4.5 indicates that cash ratio of firms have a positive significant effect on return on assets of listed industrial goods firms in Nigeria. This can be observed from the beta coefficient (β_1) of 0.429276 with p value of 0.000 which is highly statistically significant at 5% level of significance.

Since the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that there is a significant effect between cash ratio and return on assets of industrial goods firms in Nigeria. Thus, null hypothesis is Rejected and alternative hypothesis Accepted.

Discussion and Conclusion

This study examined the effect of cash management on the performance of industrial firms in Nigeria, using cash ratio for independent variable, while return on assets represent dependent

variable. Data were generated from annual accounts of the firms. The hypothesis was tested and the study found that the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that there is a significant effect between cash ratio and return on assets of industrial goods firms in Nigeria. Mmaduka et al. (2022) results showed that inventory turnover period, average collection period and average payment period have a significant effect while, John (2014) carried out research on cash conversion cycle considered as the independent variable with the proxies of cash ratio (CR), debt ratio (DR) and sales growth (SG); dependent variable is profitability with the proxies of Return on Assets (ROA) and Return on Equity (ROE), revealed a positive and significant relationship between Cash Conversion Cycle (CCC) and ROE. The study therefore concludes that cash management has significant effect on corporate performance of industrial firms in Nigeria.

Based on the finding, the study recommended that as the study found that cash ratio has significant effect; attention should be taken on management of current ratio as well as investment of excess liquidity in short-term assets such as treasury bills and give consideration to cash management which plays a critical role in increasing the financial performance of the company.

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