
CASH POSITIONING AND FINANCIAL PERFORMANCE OF TELECOMMUNICATION FIRMS IN NIGERIA

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ABSTRACT

This study examined the influence of cash positioning on performance of telecommunication firms in Nigerian. The study relied on secondary data sourced from the financial statements of four telecommunication firms from 2010 to 2020. A total 44 observations were made. The study employed unit root to test for variable stationarity, the Hausman test to check for explanatory variable independence from random effects, and the Fixed Panel Ordinary Least Square for the influence of the predictor variable on the criterion variable at 5% level. The panel unit root test reveals that all variables are integrated at the level. The Hausman test demonstrates that random effects are correlated with explanatory elements. The Fixed Panel OLS shows that the ratios of cash and its equivalent to sales and current liabilities have a negative and insignificant impact on ROE, whereas the ratio of cash and its equivalent to total assets has a positive but insignificant impact on ROE. The study thus concludes that cash positioning in terms of total asset positively affects return of equity; and recommends that telecommunication firms that aspire to achieve improved financial performance should delay payments to suppliers so that these payables can serve as a source of financing. Telecommunication firms must however, be minded that non-payment of debt obligations as at when due may send erroneous signals to investors about their liquidity position.

Keywords: Cash positioning, financial performance, ratio of cash, telecommunication firms

INTRODUCTION

The time is the supremacy of cash is axiom that has dominated finance literature over the decades, based on the assumption that cash is the most important asset required for business operations (Olowe, 1998). Idamoyibo, Abner, Akpan, Orugun, Emmanuel, and Udo (2021) posit that cash is a firm's vascular system; that is, the hub around which business activities revolves. This means that no business exists in insolation of cash (Randall & Farris, 2009). Pandey (2004) sees cash as a means of starting a business and liquidating for breakup value. This means that it keeps the company liquid in order to ensure timely payment of obligations and avoid bankruptcy due to insolvency (Moyer, Macguigan & Kretlow, 1995). The extent to which a firm's cash and cash equivalents covers its liabilities and assets is measured as cash positioning; and is determined by the inflow and outflow of cash within a company.

The Nigerian telecommunications industry is highly capital intensive, hence requires sufficient cash flow to keep it running. Firms in the telecommunications industry use cash flow as a standard parameter when making investments. Thus, Nwankwo (2015) observed that users of firms' financial statements prefer cash flow statements than accounting standards when making investment decisions because accounting standards are manipulated and misused by managers. Further, a decrease in cash flow indicates management inefficiency, therefore, the survival, solvency, and optimal use of cash become critical factors in determining telecommunication firms' cash positioning.

Financial managers all over the world are constantly faced with the issue of sourcing funds, either for newly launched investments or for running capital (Gakure, Cheluget, Onyango, & Keraro, 2012). This means that they must constantly monitor their cash position to ensure that it does not fall below optimal levels. However, this comes at a cost, as having too much cash can reduce profitability because idle funds do not add value to firms. According to Padachi (2006), this forces managers to choose between profitability and liquidity in order to maximize firm value. Finding a balance between profitability and liquidity has however, been a core challenge for firms (Pandey, 2010; Olowe, 1998; Ekwere, 1993).

Previous studies on the relationship between cash flow and firm's financial performance (Nangih, Ofor & Onuorah, 2020; Onyeka, Nnado & Iroegbu, 2018; Konak, 2018; Kamran, Zhao & Ambreen, 2017; Soet, Muturi & Oluoch, 2018); exist. However, most of them are alien to the Nigerian business environment. The present study thus focuses on how cash flow from investing, financing, and operating activities affect financial performance of telecommunication firms in Nigeria. The rest of this report is rendered in the following order: theoretical and empirical literature was highlighted in the second section; methodology was discussed in the third section; results and discussions is in the fourth section; and conclusion and recommendations is in the fifth section.

THEORETICAL FRAMEWORK

This study is anchored on the free cash flow hypothesis (Jensen, 1986) and the signaling effect theory (Spence, 1973). The free cash flow hypothesis postulate that managers of firms are more prone to invest in project with negative net present value when they tend to act in their own interest thereby creating conflict of interest between them and shareholders (Jensen, 1986). This is because of managers' desire for more cash in their hands as against shareholders' appetite for more capital gains and dividends based on profitable investment. This mismatch in expectation creates agency problems between them. Dechow, Richardson and Sloan (2008) affirm that excess free cash flow is an indication of declining future performance. Therefore, if performance is to increase, then managers should be put under control. Park and Jung (2013) opine that in order to reduce agency cost and increase a firm's worth; free cash flow must be reduced and or controlled. Jensen (1986) view issuing of debt and payment of dividend as key to controlling agency problems associated with free cash flow. Thus, investors should be rational in diversifying their investment portfolios by exchanging shares for bonds that will produce a constant return to their portfolio; as it forces managers to meet up their loan covenants (Jensen, 1986). Furthermore, managers will not be willing to invest in negative NPV project because there is a possibility of going bankrupt.

This is in line with conviction of Kadioglu and Yilmaz (2017) that interest payments is one way of reducing free cash flow; and Christie and Zimmerman (1994) on the payment of dividends. Contrarily, the irrelevance of dividend payment (Miller & Modigliani, 1961) is strongly championed by Gill (2010) and Agyei and Marfo-Yiadom (2011).

The signaling theory on the other hand postulate that firms' financial decisions are signals to investors on whether they should invest in their shares or not. Thus, dividend payments, share buy backs and debt payments are proof of how healthy a firm is. Dividends act as signpost for the supposed existence and future cash flow position of a firm. This means that it gives information to investors about the likely future health of a firm (Dirman, 2020). With this, investors' preference for dividend and capital appreciation can easily be reconciled; although, Watson and Head (2010) notes increment in dividend distribution as a bad sign for investors who sees it as distributing earnings that would have been reinvested in viable projects. Benartzi, Michaely, and Thaler (1997) also observed that firms that pay dividend experience earlier growth in earnings but later becomes static whereas firms that pay no dividend experience no substantial growth in earnings in early periods but experience substantial growth in later years.

EMPIRICAL REVIEW

To better understand the link between cash positioning and firms' performance, a look at the literature is inevitable. Idamoyibo et al. (2021) study how liquidity affects 13 non-financial sector firms in Nigeria during the period 1999-2020. Employing panel regression technique, the study reports that liquidity when represented as current ratio influences return on equity significantly but produced significant influence when proxy with cash flow ratio. Elahi, Ahmad, Shamas-Ul-Haq and Saleem (2021) analyze the influence of operating cash flow on banks stability in Pakistan from 2011-2019. Using 20 banks and applying the random panel OLS, it was discovered that operating cash flows substantially affect banks positively while cost to income and advances net of provisions to total assets ratios significantly affect banks negatively. Nangih, Ofor and Onuorah (2020) in their study of cash flow management and financial performance of 5 listed oil and gas firms in Nigeria from 2013-2018 confirm the presence of negative and insignificant nexus from cash flow of investing and operating activities to financial performance; but substantial positive link from cash flow of financing activities to financial performance.

Relatedly, Onyeka, Nnado, and Iroegbu (2018) assess the relationship between cash financial performance of 36 listed manufacturing firms from 2003-2017. Engaging the fixed effect panel OLS, the result showed positive and significant influence between cash and financial performance. Konak (2018) appraised the influence of cash flows on financial performance of Borsa Industrial index from 2008-2017; and found a significant link between them. In another study in Karachi Stock Exchange, Kamran, Zhao and Ambreen (2017) affirm that free cash flows is positively significant to financial performance. Similarly, Soet, Muturi and Oluoch (2018) employed 22 mutual funds in Kenya from 2011-2016 and found substantial impact of cash flow on return on assets. Kajanathan and Velnampy (2014) on their part studied how cash positioning affects financial performance of telecommunication firms in Sri Lanka from 2005 to 2011. The study reported a positive result. In Nigeria, Amah, Micheal and Ihendinihu (2016) found substantial relationship between cash flow

and financial performance; just as Nwakaego, Ikechukwu and Ifunanya (2015) affirm significant relationship between cash flows and financial performance in the beverage sector. Also, Frank and James (2014) hold that cash flow impact financial performance positively and significantly. However, in a study of 102 firms quoted on the Tehran stock exchange, Sharifi and Asadi (2016) found an indirect link between stock prices and cash flow. Also, in an Iranian study, Ali, Alireza, and Jalal (2013) found substantial negative association between amidst cash flow measures and earnings from 2003-2011.

In view of these mixed reports from previous studies, the current study hypothesizes that:

H₁: Cash position does not significantly influence financial performance of telecommunication firms.

METHODOLOGY

The data for this study is hitch-free because the ex-post facto research design was adopted. Annual financial statements of 4 telecommunication firms in Nigeria was sourced from 2010-2020; totaling 44 observations. There are 7 telecommunication firms in Nigeria (NCC, 2021); out of which only the big 4 (MTN, 9mobile, Airtel and Glo) were selected using purposive sampling. Adopting the Kajanathan and Velnampy (2014) approach, this study used ratio of cash flow to sales; cash flow to total assets; and cash flow to current liabilities as proxies of cash positioning; while return on equity was used to measure financial performance; in line with the free cash flow hypothesis and signaling effect theory. Return on equity (ROE) was utilized as a measure of performance because it gives an explicit understanding on how shareholders' funds are managed by way of the income statement and balance sheet. This helps to throw more light on corporate strength, efficiency and overall profitability (net income). A descriptive test was conducted to describe the series. Similarly, the stationarity test was employed to check for the order at which the variables are integrated; Hausman test estimated the independence of the explanatory terms from individual effect; and the Panel OLS test for the nature of the influence of the criterion variable on the predictor variable. The study's functional model is expressed as:

$$ROE = f(CCS, CCTA, CCCL) \quad 1$$

The econometric form is expressed as:

$$ROE_{it} = \beta_0 + \beta_1 CCS_{it} + \beta_2 CCTA_{it} + \beta_3 CCCL + \delta_{it} \quad 2$$

Where:

ROE = Return On Equity

CCS = Cash and its equivalent to Sales

CCTA = Cash and its equivalent to Total Assets

CCCL = Cash and its equivalent to Current Liabilities,

β_1, β_2 and β_3 = Constant parameters

β_0 = Intercept,

it = different firm I in year t ,

δ_{it} = Stochastic term,

Apriori, the following relationship is expected: β_1, β_2 and $\beta_3 < 0$

RESULTS AND DISCUSSION

Table 1: Descriptive Outcome

	ROE	CCS	CCTA	CCCL
Mean	0.208636	57.28550	39.23207	5.985506
Std. Dev.	0.088622	13.68084	9.303501	0.734779
Skewness	-0.509351	0.130300	-0.251766	-0.306790
Kurtosis	2.171935	2.794260	1.775889	1.453997
Jarque-Bera	3.159649	0.202109	3.211987	5.072110
Probability	0.206011	0.903884	0.200690	0.079178

Source: E-views 10 output of data analyses on cash position and financial performance of telecommunication (2022).

From Table 1, the annual individual mean values of ROE, CCS, CCTA and CCCL are 0.208636, 57.28550, 39.23207 and 5.985506 respectively. Their level of variability is low compared to their mean values (0.088622%, 13.68084%, 9.303501% and 0.734779%). ROE, CCTA, and CCCL are negatively skewed while CCS is skewed to the right. From the Jarque Bera statistics, all the variables are normally distributed as their probability values are more than 5% significance level.

Table 2: Levin, Lin & Chu (LLC) Stationary test

Variables	LLC Statistics	P-value	Remark
ROE	-2.98934	0.0014	I(0)
CCS	-1.76318	0.0389	I(0)
CCTA	-4.81998	0.0000	I(0)
CCCL	-2.22046	0.0132	I(0)

Source: E-views 10 output of data analyses on cash position and financial performance of telecommunication (2022).

The panel LLC test in table 4.2 portrays that at 5% level of significance, all the variables are integrated at level i.e. I(0). This prompts the application of the Panel regression methods. But first, the Hausman test was conducted to know if individual effects in the model are correlated or not with all the explanatory variables. This is to enable the choice of the most suitable panel regression to adopt; either the fixed effect or the random effect.

Table 3: Hausman Test

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.376721	3	0.0004

Source: E-views 10 output of data analyses on cash position and financial performance of telecommunication (2022).

The Hausman test results displayed in Table 3 indicates that the individual s in the model are correlated with the explanatory elements with a probability value of 0.0004 which is below the 5% level. This, necessitates the choice of the Fixed effect Panel OLS.

Table 4: Fixed Effect Panel OLS

Dependent Variable: ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.280468	0.173323	1.618182	0.1141
CCS	-0.000443	0.000803	-0.551853	0.5844
CCTA	0.000189	0.002169	0.087235	0.9310
CCCL	-0.008998	0.026134	-0.344312	0.7326
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.660941	F-statistic		12.02090
Adjusted R-squared	0.605958	Prob(F-statistic)		0.000000
Durbin-Watson stat	1.726651			

Source: E-views 10 output of data analyses on cash position and financial performance of telecommunication (2022).

From Table 4, CCS and CCCL are negative (-0.000443 and -0.008998) and insignificant (0.5844 and 0.7326) to ROE of TCFs in Nigeria respectively. This portrays that if CCS and CCCL rises by a unit, ROE will decline by 0.000443 and 0.008998 units respectively. However, CCTA is positive (0.000189) but insignificant to ROE of TCFs in Nigeria. This indicates that if CCTA rises by a unit, ROE will increase by 0.000189 units. The Adjusted R-sq (0.605958) illustrates that cash positioning explains 60.6% changes in ROE; while the remaining 39.4% are captured by other factors not included in the model. The F-stat. value 12.02090 indicates that the model has a good fit and thus can be used for decision making. In addition, the Durbin-Watson statistic of 1.726651 is greater than the critical value of 1.67 (from a 44 sample period alongside 3 independent variables). Consequently, there is absence of positive first-order serial-correlation among the variables.

DISCUSSION OF FINDINGS

From the findings, ratio of cash and its equivalent to total assets promotes financial performance of telecommunication firms in Nigeria. However, this is not significant. This finding is in agreement with the reports of Idamoyibo *et al.* (2021), Nangih *et al.* (2020); and Sharifi and Asadi (2016). Accordingly, this may be attributed to the insufficient cash levels of most telecommunication firms due to their constant need for innovations which result in

most assets being held up in the form of acquired technology. However, Elahi *et al.* (2021); Onyeka *et al.* (2018), Konak (2018), Mohammed *et al.* (2017), and Soet, Muturi and Oluoch (2018) gave a divergent view that cash flow promotes financial performance of firms.

Also, the ratio of cash and its equivalent to current liabilities is negative and insignificant. This means that telecommunication firms in Nigeria do not generate sufficient cash to meet their short-term liabilities. This may be attributed to high debt obligations, prompt payment of account payables, and relative uneasiness in the collection of account receivables. This finding agrees that of Idamoyibo *et al.* (2021), Nangih *et al.* (2020); and Ali *et al.* (2013) that cash position does not affect financial performance of firms. However, the finding diverges from that of Amah *et al.* (2016); and Kajanathan and Velnampy (2014) that cash position affect performance of firms. Furthermore, the ratio of cash and its equivalent to sales is negative and not significant. This indicates that most of the sales of telecommunication firms in Nigeria have been on credit. This may be likened to the high proportion of credit sales to cash sales, incremental payment duration from trade receivables, and increment in overhead cost. This is also in support with Idamoyibo *et al.* (2021), Nangih *et al.* (2020), and Ali *et al.* (2013) that cash position does not affect financial performance of firms. However, it disagrees with Kajanathan and Velnampy (2014) that cash position affects financial performance of TCFs.

LIMITATIONS

The study was restricted to only 4 TCFs in Nigeria which are considered the largest in the industry and based on data availability. Thus, the addition of more firms might influence the outcome of the study. Another limitation of the study is the use of financial statements of the telecommunication firms in Nigeria which may be subject to distortions by management.

CONCLUSION AND RECOMMENDATIONS

This study applied the free cash flow hypothesis and signaling theory to analyze the impact of cash positioning on financial performance of telecommunication firms in Nigeria, from 2010-2020; making a total of 44 observations. Cash positioning was cash positioning was represented as ratio of cash and its equivalent to sales, total assets and current liabilities. The study found that cash and its equivalent to sales, and current liabilities affect ROE negatively while cash and its equivalent to total asset affects ROE positively. Consequently, the study concludes that cash positioning in terms of total asset positively affects return of equity; and recommends that telecommunication firms that aspire to achieve improved financial performance should delay payments to suppliers so that these payables can serve as a source of financing. Telecommunication firms must however, be minded that non-payment of debt obligations as at when due may send erroneous signals to investors about their liquidity position.

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