CASH MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF LISTED BREWERY COMPANIES IN NIGERIA

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ABSTRACT

The study examined the relationship between cash management practices and financial performance of listed Breweries in Nigeria. The study adopted the use of secondary panel data of 4 Breweries in the Nigeria Stock Exchange for a period of ten years (2012-2021). The study used ex-post facto research design. The study was anchored on the cost trade-off theory of liquidity. The analysis was done using least square regression aided by Statistical Package for Social Sciences (SPSS) Version 22.0. The results revealed a positive relationship between the cash conversion cycle and financial performance variables (NPM and ROCE) in listed Breweries in Nigeria. The study also found that creditor's payment period had a negative significant relationship with net profit margin and no relationship with return on capital employed. The study concluded that a significant relationship exists between cash management practices and financial performance of listed Breweries in Nigeria; and recommends that managers of Breweries can create value for the wealth of shareholders by reducing cash conversion cycle to a minimum level.

Keywords: Cash management practices, financial performance, creditors' payment period, cash conversion cycle, net profit margin, return on capital employed

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 optimisation 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).

For a business to run continuously, it must keep sufficient cash, neither more nor less, since cash shortage disrupt operations while excess cash will remain idle, and not contribute to the firm's profitability (ICAN study pack, 2009). Cash is the basic input required to keep a business afloat. A business might make profit, but may be forced to shutter, if it does not have sufficient cash to meet operational obligations.

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.

Joseph (2016) opine that effective cash management ensures timely provision of cash resources necessary to support operations. As such, the use of cash management tools and techniques, becomes a corporate asset that contributes directly to bottom line. Financial performance assesses efficiency and profitability of operations and judges how effectively, resources of a business are being used. Improper management of organization's cash not only constitute a threat to performance, but expose the firm to dangers of insolvency, especially in situations where banks suspend overdraft facilities or creditors demand payment on delivery.

Anthonia (2014) opined that cash management is a significant determinant of a firm's probability and performance. Dibie (2022) opines that cash is the life wire of any organization and if not prudently managed may affect the organization’s operations. Successful cash management involve tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection, and adhering to budgetary parameters because cash flow can be a problem for the business organization.

Many organizations operate at a profit, but still run into financial problems resulting from inadequate capital to provide cash needed to pay debts as they fall due because of over-trading. To avoid a situation of cash shortage when cash is highly needed or cash surplus when there is little or no need for cash, this study is undertaken to examine the cash management practice and financial performance of listed breweries in Nigeria. The specific objectives of the study are to:

1) Examine the relationship between cash conversion cycle and net profit margin of listed Breweries in Nigeria.
2) Examine the relationship between creditors’ payment period and net profit margin of listed Breweries in Nigeria.
3) Examine the relationship between cash conversion cycle and return on capital employed of listed Breweries in Nigeria.
4) Examine the relationship between creditors’ payment period and return on capital employed of listed Breweries in Nigeria.

This study is guided by the following hypotheses formulated in the null form:

Ho_1: There is no significant relationship between cash conversion cycle and net profit margin of listed Brewery companies in Nigeria.

Ho_2: There is no significant relationship between creditors’ payment period and net profit margin of listed Brewery companies in Nigeria.

Ho_3: There is a no significant relationship between cash conversion cycle and return on capital employed of listed Brewery companies in Nigeria.

Ho_4: There is no significant relationship between creditors’ payment period and return on capital employed of listed Brewery companies in Nigeria.

THEORETICAL FRAMEWORK

This study is based on the cost trade-off theory which postulates that if a firm’s level of current assets is very high, it will result in excessive liquidity and its return on assets will be low because funds are tied up in idle cash and stock earns nothing while high levels of trade receivables reduce profitability. On the contrary insufficient current assets make the firm not honour its obligation if it holds too little cash, which may force the firm to borrow at a high-interest rate that may adversely affect the firm credit-worthiness and eventually lead to insolvency (Pandey, 2011).

The theory also provides that if investment in current assets falls at a certain level, it may lead to an inability to pay bills on time and may also result in shortage leading to the halting of production activities. It may also lead to a loss of sales due to a restrictive credit policy by the firm (Polycarp & Tabitha, 2016). This theory is relevant to the study as it emphasizes the need for the firm to maintain a working capital level that minimizes the cost of liquidity and illiquidity associated with cash management practices for the firm to optimize its performance.

CONCEPT OF 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) define 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 organisation 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 suffer as a result of cash flow problem due to lack of margin of safety in anticipation of expenses (Mutesi, et al 2018). For this study cash conversion cycle and creditor payment period are adopted as proxies of cash management practices because we believe that it will help in determining the objective of the study.

FINANCIAL PERFORMANCE

Financial performance is a monetary assessment of the result of organisations’ approaches and exercises. This shows an organisation'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 take 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 improve with increase in efficient management of cash. In this study we employ, net profit margin and return on capital as measures of financial performance based on popularity, ease of computation as well as relative availability of data.

EMPIRICAL REVIEW

Gitau et al (2014) investigated the influence of cash management practices on financial performance of agribusinesses in Kenya. The finding of the study depicted that agribusinesses lacked adequate knowledge of financial resources management; and concluded that cash management practice is inefficient in Kenyan agribusinesses. Similarly, Dibie (2022) examine cash management and financial performance of listed manufacturing firms in Nigeria; and reports that cash conversion cycle, creditors' payment period and cash flow margin had positive significant impact on financial performance. The study concluded that cash management impact financial performance of listed manufacturing companies.

Onyando (2018) investigated cash management and financial performance of small and medium business enterprises in Kenya, using pecking order theory, trade-off theory and Keynes liquidity theory as baseline theories. The finding revealed a positive correlation between cash management and financial performance, likewise, cash planning and credit management showed a significant relationship with financial performance. The study concluded that cash management impact financial performance of small and medium business enterprises Kenya; and recommends that staff and management need to be trained on financial performance metrics for effective decision-making.

Divinah et al (2021) examined cash management on financial performance of non-financial firms listed on the Nairobi securities exchange. Cash management was proxied by cash conversion cycle while financial performance was proxied by return on asset and net profit margin. The finding of the study reveals that cash management significantly impact company's financial performance. In addition, Mutesi and Patrick, (2018) 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, and recommends that cooperative banks should develop policies towards efficient cash management.

Furthermore, Amini et al. (2021) evaluated the impact of cash management practices on financial performance of small and medium enterprises in Indonesia. The finding of the study revealed a significant relationship between cash management practices and return on asset, while a non-significant relationship between cash management practice and gross profit margin. In other studies, Joseph (2016) investigated impact of cash management practices on performance of SMEs in Kenya and reports that a significant positive relationship between cash management practice and the performance of SMEs in Kenya. The study concluded that proper cash management is a panacea for the success of SMEs. Sam and Kollipara (2021) investigated impact of cash management on financial performance of the listed manufacturing companies in Muscat from 2014 to 2019 was used. The finding of the study revealed that cash management significantly impacts financial performance.

Mathuva (2010) asserts that cash conversion cycle might have both positive and negative influences on company profitability; a company with a long cash conversion cycle may have higher sales due to long credit terms to customers, and a high cost of investment in working capital may decrease profitability. This is even as Anthonia (2014) studied the impact of cash management on financial performance of manufacturing firms in Nigeria and discovered a significant relationship between cash conversion cycle and profitability. This implies that the profitability of manufacturing firms increases with a shorter cash conversion cycle. It was suggested that to increase profitability, manufacturing firms in Nigeria should avoid under-capitalization and under-trading. Hanza et al. (2015) on their part, revealed that small and medium enterprise financial performance positively relates to the efficiency of cash management.

METHODOLOGY

Ex-post-facto research design was adopted in this study. The population of the study consist all listed Breweries on the Nigerian stock exchange. Four listed Breweries were selected based on convenience sampling technique and availability of required data covering the period of 2012 to 2021 financial year. The collected data were analysed using ordinary least square regression aided by a statistical package for social sciences version 22.0

Model specification

The functional relationship between the independent variables otherwise known as predictor variables and dependent variables known as criterion variables of this study is stated under:

FP=F (CMP)

FP=a,-a, CMP + e

NPM=F (CCC, CPP)

$NPM=B_o+B_1$ CCC $+B_2$ CPP+ e

ROCE = B_o+B_1, CCC $+B_2$ CPP +e

ROCE = F (CCC, CPP)

Where

Fp= financial performance

Npm = net profit margin

Roce= return in capital employee

Cmp= cash management

CCC= cash conversion cycle

Cpp= creditor payment period

B_1-b_2 = regression coefficient

B_o= intercept or regression constant

e= error term

DATA ANALYSIS AND INTERPRETATION

Table 1 and 2: Summary of regression statistic on Cash Conversion Cycle, Creditor Payment Period and Net Profit Margin

Model Summary[b]

		Model 1
R		.695[a]
R Square		.483
Adjusted R Square		.455
Std. Error of the Estimate		12.68353
Change Statistics	R Square Change	.483
	F Change	17.251
	df1	2
	df2	37
	Sig. F Change	.000
Durbin-Watson		1.868

a. Predictors: (Constant), CCC, CPP

b. Dependent Variable: NPM

Source: SPSS version 22.0 output 2023

Coefficients[a]

		Model 1 (Constant)	CPP	CCC
Unstandardized Coefficients	B	12.156	-.136	.100
	Std. Error	3.425	.037	.026
Standardized Coefficients	Beta		-.447	.460
T		3.549	-3.722	3.832
Sig.		.001	.001	.000
95.0% Confidence Interval for B	Lower Bound	5.217	-.210	.047
	Upper Bound	19.095	-.062	.153

a. Dependent Variable: NPM

Source: SPSS version 22.0 output 2023

From Tables 1 and 2, a positive correlation coefficient (R) of 0.695 was observed which indicates a strong relationship between the regressors and net profit margin. The coefficient of determination (R2) of 0.483 suggests that a 48.3% variation in net profit margin is described by changes in the regressors while a 57.7% variation in net profit margin is described by factors other than those used in the model. The f-calculated value of |17.251| had a corresponding probability value of 0.000<0.05 which indicated a significant relationship. Also, the table showed Durbin Watson in the statistic of 1.868 which is above the minimum value of 1.50 for autocorrelation as such the utility of the model was upheld by the researchers.

Creditor payment period had a negative t-value of |3.722| and a probability value of 0.001< 0.05 indicating a significant negative relationship between the creditor payment period and net profit margin. This implies that an increase in the creditor payment period will improve the net profit of the company. This study disagrees with Dibie (2022) who observed a positive relationship between creditor payment period and financial performance.

Cash conversion cycle had a positive t-value of 3.832 and a probability value of 0.000<0.05 indicating a significant negative relationship between the cash conversion period and the net profit margin of the organization. This implies that a decrease in the cash conversion cycle will improve the net profit of the organization. This study is in agreement with Dibie (2022), Mutesi and Patrick (2018), who observed a positive relationship between cash inversion cycle and financial performance.

Table 3 and 4: Summary of regression statistics on Cash Conversion Cycle, Creditor Payment Period and Return on Capital Employed

Model Summary[b]

		Model 1
R		.531[a]
R Square		.282
Adjusted R Square		.243
Std. Error of the Estimate		16.34562
Change Statistics	R Square Change	.282
	F Change	7.259
	df1	2
	df2	37
	Sig. F Change	.002
Durbin-Watson		2.400

a. Predictors: (Constant), CCC, CPP

b. Dependent Variable: ROCE

Source: SPSS version 22.0 output 2023

Coefficients[a]

		Model		
		1		
		(Constant)	CPP	CCC
Unstandardized Coefficients	B	3.539	.051	.115
	Std. Error	4.414	.047	.034
Standardized Coefficients	Beta		.152	.483
T		.802	1.074	3.415
Sig.		.428	.290	.002
95.0% Confidence Interval for B	Lower Bound	5.404	-.045	.183
	Upper Bound	12.482	.146	.047

a. Dependent Variable: ROCE

Source: SPSS version 22.0 output 2023

From Tables 4 and 5, a positive correlation coefficient (R) of 0.531 indicating a moderate relationship between the regressors and return on capital employed was observed. The coefficient of determination (R2) of 0.282 suggests that 28.2% variance in return on capital employed is described by changes in the regressors while 71.8% variance in return on capital employed is described by factors other than those used in the model. The f. calculated value of |7.259| had a corresponding p-value of 0.002<0.05 indicating a significant relationship. Likewise, the Durbin-Watson statistics of 2.400 which is below the maximum value of 2.50 and it is within the acceptable limit, and indicate the absence of auto-correlation; hence the usefulness of the model was upheld by the researchers.

Creditors payment period had a positive t-value of /1.074/ and a p-value of 0.290>0.05 indicating no relationship between the creditor payment period and return on capital employed. The finding was at variance with that of Dibie (2022) that observed a positive significant relationship with financial performance.

Cash conversion cycle had a positive t-value of 3.415 and a corresponding probability value of 0.002<0.05 which indicated a significant relationship between the cash conversion period and return on capital employed. This implies that a decrease in the cash conversion cycle will improve the return on capital employed. This study concord with the work of Onyando (2018), Dibie (2022) and Divinah et al (2021) that observed a positive relationship between the cash conversion cycle and financial performance.

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATION

The result of the analysis carried out indicates that the cash conversion cycle had a positive significant relationship with net profit margin and return on capital employed. This study agreed with prior studies as claimed by Dibie (2022) and Onyando (2018) that the cash conversion cycle positively relates to financial performance likewise the result and analysis of creditor payment period and net profit margin showed a negative relationship and no relationship with return on capital employed. The finding of the study partly agreed with that of Dibie (2022).

The need to achieve the right balance between too much cash and too little cash in an organisation give rise to management Concern for effective and efficient cash management because cash is the lifeblood of any business. The study concluded a significant relationship between cash management and the financial performance of listed brewery companies in Nigeria. Therefore management should endeavour to maintain the optimum balance between too much cash and too little cash in an organization to ensure its smooth operation and performance. The study recommended that managers of listed brewery companies in Nigeria can create positive value for the wealth of shareholders by reducing the cash conversation cycle ratio to a minimum level. This can be done by improving the inventory control process and account receivable should be collected in line with the company debt policy.

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