IMPERATIVES OF CASH FLOW MANAGEMENT AS A TOOL FOR BUSINESS SUCCESS: AN EMPIRICAL SURVEY OF SELECTED FIRMS IN DELTA STATE NIGERIA

Okoroyibo Eloho Elizabeth
Department of Accountancy, Delta State Polytechnic Ozoro
E Mail: eloholizzybetty@gmail.com GSM: 08036687563, 08059020739

Abstract
This study was carried out to investigate the imperatives of cash flow management as a tool for business success: An empirical survey of selected firms in Delta State, Nigeria. A set of structured questionnaire was used as the instrument for data collection and administered on 60 respondents of the firms under study randomly selected using Yaro Yemane formula. Applying this formula, the sample size from a population of 70 is 60 respondents at 95% confidence level. Data analysis was made and the hypotheses formulated were tested using Kruskal Wallis one-way analysis of variance by rank. The findings revealed that positive and significant relationship exists between effective cash flow management and business survival and also positive and significant relationship exists between cash flow management and managing cash collections and payments in the firms under study. It was concluded that effective cash flow management is necessary for the success of firms. The study, however, recommended cash planning, cash monitoring, cash budgeting, optimum cash level, investment of surplus cash and cash flow management and a host of others for effective cash management by firms.

Keywords: Imperatives; Cash Flow; Management; Tool; Business Success.

Introduction
The importance of cash to a business cannot be over-emphasized. It is the most important current asset for the smooth operation of a business. For a business to run on a continuous basis, it should keep sufficient cash neither more or less, since cash shortages disrupts the firm’s operation while excessive cash will simply remain idle without contributing anything towards the firm’s profitability. For these reasons, the major function of the finance manager will be to maintain a sound cash position. The term cash includes; coins, currency and cheques held by the firm and balances in its bank accounts. Sometimes near-cash items such as marketable securities or time deposits are also included. Excess cash of the firm are invested in marketable securities which attracts some profits to the firm. Cash management is concerned with the planning and controlling of cash flows into and out of the firm (cash flows within the firm and cash balances held by the firm at a point in time for financing deficit or investing surplus of it). When a firm makes it sales, it generates cash which has to be disbursed out. The surplus cash has to be invested while deficit cash has to be borrowed. A good cash manager should develop
appropriate strategies for cash management. The strategies should be formulated to resolve the uncertainty about cash flow prediction and lack of synchronization between receipts and repayments.

Thus, this study is therefore aimed at carrying out an empirical survey of the imperatives of cash flow management as a tool for business success – A Survey of selected firms in Delta State, Nigeria.

**Statement of the Problem**
Managing cash flow is one of the most important aspects of financial management. Without adequate availability of cash flow from day-to-day, even the most successful company could fail. As bills become due, it is essential that there are sufficient funds to pay them. If a company delays paying its suppliers, they may be reluctant to deliver further supplies. Workers will be very unlikely to tolerate not being paid. If bills remain unpaid, then the creditors of the business may take the company to court. This could result in the company being made insolvent. A sole trader could be made bankrupt.

Cash flow problems are the common reasons for business failure. This is particular true of a new business. This study tries to explore how this relationship can be managed to ensure smooth functioning of organization so that its objectives can be realized.

**Objectives of the Study**
The two main objectives of the study are:

i. To identify the extent to which effective cash flow management contributes to business survival.

ii. To find out whether effective cash flow management contribute significantly in managing cash collections and payments.

**Research Questions**
The following two research questions were raised to guide the study;

i. To what extent does effective cash flow management contributes to business survival?

ii. Does effective cash flow management contribute significantly in managing cash collections and payments?

**Research Hypotheses**
For the purpose of this study the following hypotheses were considered relevant.

i. Effective cash flow management contributes significantly to business survival.

ii. Effective cash flow management contributes significantly in managing cash collections and payments.

**Scope of the Study**
The scope of the study comprised of selected manufacturing firms in Delta State located in warri, Sapele and Ughelli. The task of this study was on the imperatives of cash flow management as a tool for business success.

**Literature Review**

**Conceptual Framework**
Cash flow management is concerned with the planning and controlling of cash flows into and out of the firm, cash flows within the firm and cash balances held by the firm at a point in time for financing deficit or investing surplus of it (Orjih, 2013).

Higson (2012) opines that cash flow is the flow of money into and out of a business in a given period of time period. The importance of proper cash management cannot be over-emphasized. A highly profitable project can be seriously impeded if cash is not available at the appropriate time to pay for necessary supplies. On the other hand, if the business is carrying too much cash balance,
that is an indication that the resources of the business are being wasted. Ultimately, such business will not earn sufficient return relative to the capital employed or its resources (Ovwielefuoma, 2013).

In order to ascertain when the business will be faced with deficiency of cash as to arrange for appropriate source of finance or when there will be surplus cash and then plan in advance for its efficient deployment requires the preparation of a cash budget. The cash budget will show on monthly basis the receipts and payments of cash.

**Motives for Holding Cash**

Firms need to hold cash may be attributed to the following reasons (Kalu, 2012).

i. **Transactions motive:** This requires a firm to hold cash to conduct its business in the ordinary course. Normally, the firm needs cash primarily to pay for purchases, salaries and wages, taxes, etc. However, the need to hold cash would not arise if there were perfect synchronization between cash receipts and cash payments, that is, enough cash is received or available, when payments are to be made. But since cash receipts and payments are not perfectly synchronized, the firm should maintain some cash balance to be able to make required payments when cash payments exceed cash receipts.

ii. **Precautionary motive:** This is the firms need to hold cash to meet future contingencies. It provides a cushion or buffer to withstand some unexpected emergency. The amount required for this purpose depends upon the predictability of cash flows and is also influenced by the firm’s ability to borrow at short notice when the need arises.

iii. **Speculative motive:** The speculative motive relates to the holding of cash for investment in profit making opportunities as and when they arise. The opportunity to make profit may arise when the security prices changes. The firm may hold cash when it is expected that interest rates will rise and security prices will fall or when it is expected that materials prices will fall.

**Characteristics of Cash**

Shiro (2012) listed the following characteristics of cash.

i. The east productive asset
ii. The most liquid asset.
iii. Is easily realizable.
iv. The ultimate output expected to be realized by selling the products of a firm.
v. The predictability of cash flow is very difficult.

According to Jhingan (2013), the objectives of effective cash management are as follows;

i. To ensure that the firm has adequate cash at all times to sustain its daily operation.
ii. To ensure that excess holdings or shortages of cash do not occur, and when they occur, to map out the appropriate course of action to take.

Cash flow problems can arise in several ways such as;

i. When business is continually making losses.
ii. When there is inflation.
iii. When a business growing fixed assets and increased working capital.
iv. When a business has seasonal or cyclical sales, and
v. One-off items of expenditure (Aborode, 2013).

The management of cash is vital because it is difficult to predict with certainty cash inflows and cash outflows regularly. These days business tend to manage its cash affairs in such a ways as to keep cash balances at a minimum level and to invest the released cash funds into profitability alternative investments (Davidson, 2011).
Methodology

All the manufacturing firms in Nigeria constituted the population of the study. The number is somewhat infinite. Therefore, the researcher decided to limit the target population to selected manufacturing firms in Delta State, namely: Warri, Sapele, Ughelli and Asaba. A sample size of 60 was selected from a population of 70 using the Yaro Yamene’s formula which is given as:

\[
n = \frac{N}{1 + N(e)^2}
\]

where:
- \( n \) = Sample size sought
- \( e \) = Level of significance = 0.05 or 95%
- \( N \) = Population size = 70

\[
n = \frac{70}{1 + 70(0.05)^2} = \frac{70}{1.25} = 60 \text{ respondents}
\]

Applying the formula, the sample size from a population of 70 is 60 respondents at 5% confidence level.

The simple random sampling method was used to select the respondents. The study was conducted using the survey research design. Survey research design according to Olaitan, Ali, Eyo and Sowande (2014) is a plan, strategy, structure, that the investigator wants to adopt in order to obtain solution to the research problems using questionnaire in collecting, analyzing and interpreting the data. The design is suitable, for the study because it uses questionnaire to seek information from respondents. The data used in this study were obtained from both primary and secondary sources of data. The instrument of primary data collected was the questionnaire and face-to-face interview. The instruments were validated by experts in financial management to authenticate the relevance of the instruments. Secondary data were collected from textbooks and publications on cash flows and publications on cash flow management. Data collected were collated and analyzed using percentages. In addition, the hypotheses formulated were tested using Kruskal Wallis one-way analysis of variance by rank.

Findings and Discussion

Hypotheses one (1) was tested using Kruskal Wallis one-way analysis of variance by rank. Test statistics: Kruskal Wallis one-way analysis of variance by rank.

Degree of freedom = \( K - 1 = 2 - 1 = 1 \)

Table value of \( X^2 \) = 0.05 = 3.841

Level of significance = 0.05

Decision rule: Reject \( H_0 \) if \( H \) calculated > \( X_{\text{tab}} \).

Sampling Distribution

\[
H = \frac{12}{N(N+1)} \sum \frac{R^2}{n_k} - 3(N + 1)
\]

Where; \( K \) = Number of samples
- \( N_j \) = Number of cases in \( j \)th sample
- \( N = \sum n_j \), the number of cases in all samples combined
- \( R_j \) = Sum of \( K \) of ranks in \( j \)th sample (column)
Computation

Table 1: Effective cash flow management and business survival

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>29</td>
<td>48.33</td>
</tr>
<tr>
<td>Agree</td>
<td>25</td>
<td>41.67</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>5.00</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>1.67</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Field Survey, 2016

Table 2: Ranking of groups

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>

**Total R\textsubscript{1} = 23**

**R\textsubscript{2} 32**

**Source:** Computation from Table 1

\[
\begin{align*}
R_1 &= \text{Sum of } 1^{st} \text{ column of rank} \\
&= 8 + 7 + 4 + 1 + 3 = 23 \\
R_2 &= 10 + 9 + 6 + 2 + 5 = 32 \\
H &= \frac{12}{N(N+1)} \sum_{n<k} \frac{R_i^2}{n(k-n)} - 3(N + 1) \\
&= \frac{12}{10(10+1)} \left[ \frac{23^2}{5} + \frac{32^2}{5} - 3(10 + 1) \right] \\
&= \frac{12}{110} \left[ \frac{529}{5} + \frac{1024}{5} - 33 \right] \\
&= 0.10909 (105.8 + 204.8) - 33 \\
&= 31.3197
\end{align*}
\]

**Decision**

Since the calculated value of 31.3197 > \(X^2\) table 3.841 we reject the null hypothesis and accept \(H_1\), the alternative hypothesis. This implies that effective cash management contributes significantly to business survival of the manufacturing firms under study. This finding was supported by the view of Akinsulire (2014) who stressed that no business can survive without adequate funding i.e cash. The success of any business venture is therefore predicated on how the management has planned and controlled its cash flows.

Table 3: Cash flow management and its contribution in managing cash collections and payments

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1.67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Field Survey, 2016
Table 4: Ranking of groups

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total R₁ = 23</strong></td>
<td><strong>R₂ 32</strong></td>
</tr>
</tbody>
</table>

Source: Computation from Table 3

\[
\frac{12}{10(10+1)} \cdot \frac{23^2}{5} + \frac{32^2}{5} - 3 (10 + 1) \\
= 0.1090 (105.8 + 204.8) - 33 \\
= 95.123.
\]

Decision
Since the calculated value of 95.123 > X² table 3.841 we reject the null hypothesis and accept H₁, the alternative hypothesis. This implies that effective cash flow management contribute significantly or has positive relationship with managing cash collections and payments on the firms under study. This is supported by the view of Orjih (2013) who stressed that once the cash budget prepared and appropriate cash flow established, the financial management should ensure that there is no significant variance between the projected cash flows and the actual cash flows. To be able to achieve this requires an efficient cash management through paper control of cash collection and disbursement. The objective should be accelerate cash collection as much as possible and do accelerate or delay cash disbursements as much as possible.

Conclusion
The study examined the imperatives of effective cash flow management as a tool for business success: An empirical survey of selected firms in Delta State, Nigeria.
The study revealed that there is positive and significant relationship between effective cash management and business survival and also effective cash flow management contribute significantly in managing cash collections and payments in the firms under study.

Recommendations
In view of the findings and conclusion of the study, the following recommendations were proposed for effective cash flow management in Nigeria manufacturing firms;

1. **Cash planning:** For each plan period cash inflows and outflows should be planned to project cash surplus or deficit.
2. **Optimum cash level:** The firm should determine the appropriate cash balances it should hold. To determine the optimum cash balance, the firm should consider cost excess cash and the risk associated with cash deficiency and should match them.
3. **Investing surplus cash:** The surplus cash balance should be properly invested to earn profit. The firm should decide about the distribution of cash balance between alternative short-term investment opportunities.
4. **Cash flow management:** A good cash flow management should accelerate cash inflows and decelerate cash outflows.
References