JOURNAL OF GLOBAL ACCOUNTING
9 (4) December, 2023.
ISSN: 1118 – 6828
https://journals.unizik.edu.ng/joga

EFFECT OF CASH FLOWS MANAGEMENT ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

Paper Type: *Original Research Paper.*
Correspondence: *cu.uchegbu@unizik.edu.ng*
Key words: *Abnormal Cash Flow, Abnormal Production Cost, Cash Value Added, Financial Performance*

CITATION: Uchegbu, C.U., Egbunike, P.A. & John-Akamelu, C.R. (2023). Effect of cash flows management on financial performance of listed manufacturing companies in Nigeria, *Journal of Global Accounting*, 9(4), 314 – 327.

Available:https://journals.unizik.edu.ng/joga

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ABSTRACT:

This study examined the effect of cash flow management on financial performance of listed manufacturing firms in Nigeria for a period of ten (10) years covering from 2013-2022. There is lack of consensus among scholars and practitioners about the relationship between cash flows management on financial performance. Panel data were used in this study, which were obtained from the annual reports and accounts of twenty (21) sampled listed manufacturing firms for the period 2013-2022. Ex-Post Facto research design was employed. Inferential statistics using Pearson correlation coefficient, Multicollinearity test, Panel Least Square (PLS) regression analysis and Hausman test were applied to test the hypotheses of the study. The results revealed that abnormal cash flow has a significant and positive effect on cash value added (β_1=0.242867; p-value = 0.0000); abnormal production cost has a significant and positive effect on cash value added (β_2=0.043125; p-value = 0.0000); of listed manufacturing firms in Nigeria at 5% level of significance respectively. In conclusion, the study found that manipulated cash flows and cost of sales has a significant effect on financial performance of listed manufacturing firms at 5% level of significance. The study recommended amongst others that since cash flows and cost of sales appears to be successful in persuading shareholders to assign higher value to firms with more positive accruals, firms should discretionally utilize them to improve and sustain performance.

1. INTRODUCTION

Cash flow management simply implies planning and controlling the cash inflows and outflows of a business, it involves analyzing and monitoring cash flow (Ruparelia, 2023), forecasting future cash flows and taking action to ensure that that business has sufficient cash flow to meet its needs. Departure from normal operational practices, motivated by managers desire to mislead at least some stake holders into believing certain financial reporting goals have been met in the normal

course of operations. This is an act of real earnings management. Real earning management includes but not limited to, over production designed to decrease the cost of goods and cutting of research and development to boost current period earning. Manipulated cash flows and cost of sales disguises the true performance of the firm and weakens the usefulness of accounting members as an evaluation and monitoring tools, for example Roychowdhurry (2006) documents that opportunistic use of aggressive price discount to increase sales volumes heightens customers expectation of discount in future periods as well and, eventually detrimental to long term cash flow. As a result manipulating cash flows and cost of sales increases information risk and reduces the quality of the overall information environment and thus results to significant negative consequences.

The paper ascertains the effect of manipulated cash flows and cost of sales on financial performance of listed manufacturing firms in Nigeria over the period 2013 to 2022. Real earning management has been observed in a variety of issuances of equity such as initial public offerings (IPO) and seasoned equity offering (SEC). Many scholars have contributed to the literature of cash flows /earning manipulations in terms of its relationship to a firm's performance in the year following the offering. Some boost their cash flows upwards around the time of listing events so as to get listed thereby misleading their investors. However manufacturing Company performance is a complex concept. Firm performance literatures offers two stands related to performance measures; Market performance and Accounting performance. This study will explore cash value added in measuring the financial performances. There is lack of consensus among scholars and practitioners about the relationship between manipulated cash flows and cost of sales on listed manufacturing firms. Some argue that it is beneficial for financial performance, while others argue that it is detrimental. There is a need for further research due to this conflicting perspectives.

1.1 Objectives of the Study

The main objective of this study is to ascertain the effect of cash flows management on financial performance of listed manufacturing firm. The specific objectives are:

1. to determine the effect of abnormal cash flow on cash value added of listed manufacturing firms in Nigeria.
2. to examine the effect of production cost on cash value added of the listed manufacturing firms in Nigeriaevaluate the effect of employees abnormal benefit on cash value added of listed manufacturing firms in Nigeria

1.2 Research Hypotheses

The following research hypotheses were formulated:

Ho_1: Abnormal cash flow has no significant effect on cash value added of listed manufacturing firms in Nigeria.

Ho_2: Abnormal production cost has no significant effect on cash value added of a listed manufacturing firm in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Cash flow management

Cash flow management is the process of planning and controlling the cash inflows and outflows of a business. It involves analyzing and monitoring cash flows, forecasting future cash flows and taking actions to ensure that the business has sufficient cash flow to meet its needs. There are a numberof techniques and tools that can be used for cash flow management, including cash statements, cash flows budgets and working capital management. The goal of cash flow management is to ensure that the business has enough cash on hand to cover its operating expenses and meets its financial obligations by effectively managing cash

2.1.2 Abnormal cash flow

Abnormal cash flow refers to a situation in which a company's cash flow deviates from its historical or expected trends. In other words it's when a company's cash flow is usually high or low compared to what is expected. There are several factors that can cause abnormal cash flow including changes in the economy, changes in customers demand, or changes in company's operations. (Matsuura, 2008; Zang, 2012). Operating cash flow is used to determine whether the operation of the company is sufficient to repay short-term debt and to pay the costs related to the operation of the company. Operating cash flow shows cash receipts and expenditures of the company's operations (Güleç & Bektaş, 2019). Management boosts sales by giving discounts and credit term payment for goods sold, which will improve on sales, as well as profits generated by the company, but will affect the cash flow statement of operational activities (Brown, 2020). The analysts' propensity to produce cash flows forecast increases with the magnitude of accruals, heterogeneity of accounting method, earnings volatility, capital intensity, and financial distress. Analysts are more likely to issue cash flow forecast in countries where investor protection is poor and earnings are of a lower quality and analysts from bigger brokerage houses, who have less accurate prior earnings forecast, are more likely to provide cash flow forecast. (Defond & Hung, 2007). The cash flow of operational activities of the company will be lower than if the company

is selling normally. The company receives this small cash because of an increase in accounts receivable due to the company selling on credit and the discounted price that requires the company to cut the price of the sale (Li, 2019).

2.1.2. Abnormal Production Cost.

Abnormal production cost is refers to a situation in which a company's production costs deviate from their historical or expected trends (Olaniyi & Abubakar, 2018). It could be due to changes in the cost of raw materials, changes in labor costs, or even disruption in the supply chain.in other words, it is when a company's production costs areunusully high or low compared to what is expected. (Sun & Lan, 2014; Olaniyi & Abubakar, 2018). In managing the production costs, the firm increases the volume of production more than normal levels. The activity causes production costs to increase but the fixed cost per item reduces because it is spread to the larger volume of productions. Consequently, the COGS per unit decreases and profit margin per sale item increases (Hsueh-Li, Liang, Chang & Hsu, 2021). However, overproduction will lead to higher total production costs than normal production costs for a given level of sales, by so doing, firms succeed in improving their profitability margins but at the same time incur production costs to be abnormally high. Healthy firms have less intention to manipulate earnings compared to unhealthy firms. Since it is argued that firms will engage in financial statement fraud to achieve targeted earnings, financial statement fraud firms are likely to report higher production cost overall (Elrazaz, Elmassri & Ahmed, 2021).

2.1.3 Financial Performance

The financial performance of publicly traded corporations on the capital market is important; it is also seen as a platform for attracting capital and lowering a company's cost of capital. A corporation with a very high-pitched financial performance will, in reality, gain a favorable reputation among Investors. At the same time, the capital market, managers, and investors rely on audited financial reports to make decisions about a company's business efficiency. As a result, better financial reporting will have a favorable impact on the company's financial performance. The term financial performance is described as multifaceted (Santos & Brito, 2012). Many scholars have used a variety of ways to quantify financial performance. The financial performance of the organization will be examined in this study based on its profitability. Profitability is always calculated as the ratio of pre-tax income to shareholder equity (Chen & Chen, 2011). Profitability is quantified in a variety of ways, including Return on Assets (ROA), Price Earnings Ratio (PER), and Return on Equity (ROE). The key metric of financial performance used in this study is cash value added which is a contemporary accounting measure

Financial Performance is a measure of how well a firm can use assets from its primary mode of business to generate revenues (Abakasanga, Ogbonna, & Umobong, 2019). It is used to describe thestate of affairs of a firm. The term is also used as a general measure of a firm's overall financial health over a given period (Abakasanga, Ogbonna, & Umobong, 2019).According to Abraham, Zhang, Joseph, Agyemang and Ofori (2021) financial performance are measured in various ways, such as shareholders' wealth maximization, profitability, and components of financial statements including sales, assets, liability and equity.

2.1.4 Cash Value Added

Value added is the extra value created over and above the original value of something. It can apply to products, services, companies, management, and other areas of business. In other words, it is an enhancement made by a company/individual to a product or service before offering it for sale to the end customer (Kvilhaug, 2022). Value can be added to a product, service, process, or an entire business. Value can be added by providing better or extra services in the form of after-sales services and better customer support. Value can also be added by improving a product in some way, or by including extras with the product. For example, a retail seller of computers can add value by including software or computer accessories with the basic product – the computer. Companies with strong branding can add value to their products or services simply by using the company's logo to sell a product (Leigh, 2023). Cash value added is a measure of company performance that looks at how much money a company generates through its operations (Bloomenthal, 2022). Cash value added (CVA) is a measure of a company's ability to generate cash flow above and beyond the required return to its investors. A high CVA indicates a company's ability to produce liquid profits from one financial period to another (Richards, 2023).

CVA = gross cash flow - depreciation - capital charge

2.2 Theoretical Review

2.2.1 Signaling Theory

This theory came to being in the 1973 based on the contributions of Arrow and Spencer. The theory is based on the signals that a firm sends to its users. According to Signaling theory, companies or individuals use signals to communicate their qualities to others, these signals can take the form of actions, words, or other forms of communication Signaling theory has been used to explain a variety of phenominom, such as why companies engage in costly advertising or why job applicants spend time acquiring credentials. It tends to imply that the most profitable companies provide more and better financial information to its users in order to acquire more

capital. Through financial reports, firms are able to send signals to different stakeholders about the financial health, performance and its future prospects. Stakeholders use the information presented in the financial reports to make decisions regarding the returns on their investment. Since financial reporting carries such an enormous weigh with regards to the investment decisions of the shareholders, managers may then make use of this situation to manipulate their cash flows and production cost in order to get the investors to act in a preferred manner (Bjurman&Weihagen, 2013). It is simply put that when a firm reports lower profitability and performance, it sends negative signals to prospective investors and if they report higher profitability and performance, they send positive signals that attract prospective investors; managers therefore may find it necessary to engage in earnings management due to the signaling effect that financial reports have on the financial performance of a firm.

2.3 Empirical Review

Manipulation is not new to the research world and so a lot of research has been carried out on it. The review of other works done on this subject matter includes: Ghozali, Harto and Yuyutta (2018) investigated the free cash flow, investment inefficiency and earnings management, secondary data was used and the result shows that free cash flow is positively related to earnings management

Chakroun and Amar (2021) investigated the impacts which Real earnings management has on financial performance and also used corporate social responsibility to moderate the effects of the variables. Data were obtained from quoted French firms. Analysis of data was done using Feasible Generalized Least Square Regression method. Results showed the independent variable significantly and negatively affects the dependent variable.

Alrjoub, Almomani, Al-Hosban and Allahham (2021) assessed the relationship between financial performance of Jordanian financial firms and their earnings management practices behaviors. Finding revealed a statistically significant correlation between financial performance and earnings management practice.

Nelwin, Mambu and Tansuria (2021) studied "audit reputation, financial performance and Real earnings management" Nineteen quoted Indonesian manufacturing firms were sampled and analysis of data was done using structural equation modeling. The outcome showed that the mediating variable does not have any mediation on the effects of the independent variable on the dependent variable.

Phylice, Robert, and Ondiek (2021) examined the Influence of Real Earnings management on financial performance of Agricultural Firms listed in Nairobi Securities Exchange, Kenya. The

study Adopted descriptive survey research design. The sample size comprises of all the 6 companies listed inNairobi Securities Exchange as at July 2014 to July 2019. Data collected was analyzed using descriptive statistics, correlation and multiple regression. The study found out that Real earnings management has a positive significant effect on financial performance. Real Earnings management has a positive relationship with the Return on Investment (ROI) of the firms under study. The study recommended that agricultural firms listed at the NSE should put more emphasis on Real Earnings management so as to improve the financial performance of agricultural firms listed on NSE and also that Performance reviews on the senior management should also focus on earnings management for improved financial performance. Meryana and Erna Setiany (2021) indicate that the financial struggles of robust companies are influenced by their free cash flows and interest coverage ratio, while investment and earnings management do not have a considerable impact on their financial difficulties.

Akintoye et al. (2021) investigated how sustainability reporting affected abnormal operating cash flows in multinational companies operating in Sub-Saharan Africa. The study focused on five multinational companies from each of the ten countries, covering the period between 2010 and 2019. The results showed that sustainability disclosure had a significant impact on abnormal operating cash flows in these corporations, suggesting that it also influenced their earnings management. The authors suggested that management of international companies in Sub-Saharan Africa should strictly adhere to sustainability reporting practices to improve their earnings quality and reduce the need for earnings management practices.

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a positive relationship with the Return on Investment (ROI) of the firms under study. The study recommended that agricultural firms listed at the NSE should put more emphasis on Earnings management so as to improve the financial performance of agricultural firms listed on NSE and also that Performance reviews on the senior management should also focus on earnings management for improved financial performance.

3. MATERIAL AND METHOD

The research work employed *ex-post facto* research design using secondary data. It covered the period of ten (10) years. The justification using this type of methodology is that the statistical relationship of interest is thought to be causal, but the researcher cannot manipulate the independent variable because it is impossible, impractical, or unethical (Kurawa& Ahmed, 2020). The population is 59 listed manufacturing companies in Nigeria, Sample size is 21 which was selected using purposive Sampling techniques. Panel least square regression analysis was used to test the hypothesis. The independent variables are: abnormal cash flow and abnormal production cost while cash value added is the variable for measuring the dependent variable.

Table 1 Operationalization of Variables

Variable Type	**Indicators**	**Variable Symbols**	**Definition and Measurement**
Independent Variable *Cash Flow Management*	Abnormal Cash Flow Operation	ACFO	(1/log.At-1)+ (St/At-1) + (ΔSt/At-1)
	Abnormal Production Costs	APC	(1/Log. At-1) + (St/At-1) + (ΔSt/At-1) + (ΔSt -1/ At-1)
Dependent Variable *Financial Performance*	Cash Value Added	CVA	Gross Cash Flow - Depreciation - Capital Charge

Where:

A t-1 = total assets at end of year t-1

S t = Sales of the company in the end of t

ΔS t = Changes in the company's sales in year t compared to sales at the end of the year t-1

ΔS t-1 = change the company's sales in year t-1 as compared with sales at the end of year t-2

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

Table 2: Effect of abnormal ACF and APC **on CVA**

Dependent Variable: CVA

Method: Panel Least Squares

Date: 08/18/23 Time: 16:26

Sample: 2013 2022

Periods included: 10

Cross-sections included: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.020584	0.006648	3.096200	0.0022
ACFO	0.277670	0.029759	9.330527	0.0000
APC	0.068224	0.012475	5.468803	0.0000

R-squared	0.618604	Mean dependent var	0.082000
Adjusted R-squared	0.608681	S.D. dependent var	0.031951
S.E. of regression	0.026566	Akaike info criterion	-4.399521
Sum squared resid	0.145383	Schwarz criterion	-4.335767
Log likelihood	465.9497	Hannan-Quinn criter.	-4.373748
F-statistic	32.10686	Durbin-Watson stat	1.821902
Prob(F-statistic)	0.000000		

Source: E-Views 10 Regression Output, 2023

The following regression equation was obtained from table 4.2:

CVA = 0.020584 + 0.277670ACFO + 0.068224APC + 0.785603ADE

Using the above model, it is possible to determine the relationship between abnormal cash flow/abnormal production cost and Financial Performance of listed manufacturing firms. Holding all other factors constant, an increase in one unit of the independent variables; ACFO and APC results into a corresponding increase in one unit of CVA to the tone of 27.77% and 6.82% respectively. This means that a positive relationship exists between ACFO, APC, and CVA. The slope coefficient shows that that the probability value; P(x_1=0.0000<0.05; x_2=0.0000<0.05;) is less than the critical P-value of 0.05. This implies that ACFO and APC have a positive significant relationship with CVA. Results in table 4.2 indicate that the adjusted R-squared for the model is

0.608681, meaning that the regression model used for this study is a good predictor. The independent variables explained 60.87% of the variation in CVA of listed manufacturing firms. Only 39.13% of variation in CVA of listed manufacturing companies is not explained by the regression model. The Durbin-Watson value of 1.821902 indicates the absence of serial correlation in the model. From the test of coefficients result in table 4.2, the probability value of the F-statistics = 0.000000 implies that the regression model is significant in predicting the relationship between the independent variables (ACFO and APC) and the dependent variable (CVA). The degree of significance between the variables is less than α=0.05, therefore, the result indicates that the overall regression model is statistically significant and is useful for prediction purposes at 5% significance level.

4.2 Test of Hypotheses

4.2.1 Hypothesis One

Ho_1: Abnormal cash flow has no significant effect on cash value added of listed manufacturing firms in Nigeria.

Table 2 above reveals that while the outcome of the t-statistics (9.330527) indicated a positive and strong effect of abnormal cash flow on financial performance of the sampled manufacturing firms, herein proxied with cash added value, the p-value indicator of 0.0000 further lend credence to the earlier observation made that such effect is statistically significant.

4.2.1.1 Decision

Since the p-value obtained (0.0000) is less than 0.05, the alternate hypothesis is accepted, and this implies that abnormal cash flow has a significant and positive effect on cash value added of listed manufacturing firms in Nigeria at 5% level of significance (t-statistics = 9.330527; p-value = 0.0000).

4.2.2 Hypothesis Two

Ho_2: Abnormal production cost has no significant effect on cash value added of a listed manufacturing firm in Nigeria.

Table 2 above reveals that while the outcome of the t-statistics (5.468803) indicated a positive and strong effect of abnormal production cost on the financial performance of the sampled manufacturing firms, herein proxied with cash added value, the p-value indicator of 0.0000 further lend credence to the earlier observation made that such effect is statistically significant.

4.2.2.1 Decision

Since the p-value obtained (0.0000) is less than 0.05, the alternate hypothesis is accepted, and this implies that abnormal production cost has a significant and positive effect on cash value added of listed manufacturing firms in Nigeria at 5% level of significance (t-statistics = 5.468803; p-value = 0.0000).

CONCLUSION AND RECOMMENDATIONS

In conclusion, the study found that abnormal cash flow and abnormal production cost has a significant and positive effect on financial performance of listed manufacturing firms at 5% level of significance. Based on the findings of this study, the following recommendations were made:

1. Firms should discretionally utilize abnormal cash flow to sustain their cash value added.
2. Firms' management should decrease the cost of goods sold and reduce the research and development investment to boost the cash value added for the period.

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