Financial Management Practices and Profitability of Listed Deposit Money Banks in Nigeria

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Abstract
This paper examined the effect of financial management on profitability of commercial banks in Nigeria. Specifically, the paper examined the effect of equity capital management practices, debt capital management practices and current assets management practices on the return on equity of quoted commercial banks in Nigeria. Also, the study introduced financial leverage as control variable. The study focuses on fourteen (10) quoted commercial banks as of 31st December, 2022. Data were obtained from the annual reports of the sampled commercial banks within the reviewed periods. The study confirmed that, equity capital management and current asset management both exerted positive significant effect on financial performance of sampled commercial banks within the periods under review. However, debt management practices exerted negative significant effect on financial performance of sampled commercial banks within the periods under review. Hence, the paper concludes that, equity capital management, current ratio and optimal debt management are highly instrumental to the financial performance of sampled commercial banks in Nigeria. Hence, the paper submits that, for sampled commercial banks to enjoy trading on equity, the management of sampled commercial banks must ensure that, they are equity intensive. Also, to optimize current asset, management of sampled commercial banks must as a matter of prominence reduce toxic assets resulting from high non-performing loans.

Keywords: *Financial management, profitability equity capital management practices, debt capital management practices and current assets management practices*

Introduction

The corporate sector plays a vital role in the economic outlook of any country. Financial literature suggests that capital structure has a greater impact on the economic system. (Babar, Zaheer & Kashif, 2021). There are always critical parts of a system that must be maintained for it to function properly. The same holds true for the financial system as a whole. Since banks provide a very effective institutional framework for the mobilization and redistribution of resources from less vital purposes to more productive investments, they have made important contributions to the overall efficiency of the financial system (Wilner, 2015). Banks and other financial organizations are vital to the economy because they provide much-needed funding for things like construction, new technology, and new jobs. According to Agbada & Osuji (2018), banks serve a crucial role in modern society, one that has an impact not only on individual spending habits but also on the economy as a whole.

Financial management in banks has faced many challenges beginning with the 1980s and 1990s' "distress era," and continuing through 2005's "re-capitalization phase," during which banks in Nigeria were required to have a capital base increase from N2 billion to the staggering N25 billion. However, financial management has been receiving plenty of attention presently, especially due to the current financial climate along with the health of the economy on a global scale. The need to optimise performance, maintain a substantial degree of solvency in order to ensure safety, and achieve the maximum quality of owner's net worth while also achieving other corporate goals are just a few of the eye-catching organisational objectives. Thus, Nahum & Amarjit (2016) remarked that achieving the required trade-off between liquidity and performance is an ongoing challenge in financial management. Edom (2019) argued that the weaknesses in the banking sector's financial management have been exposed by the recent disruption in the global economy.

According to Edem (2017) several banks experienced an acute shortage of liquidity during the course of the 2009 banking crisis, leading some to issue money at a steep discount as a means to keep up with the escalating demand for immediate cash. As a result of vulnerabilities to market as well as liquidity risks, many organisations, both financial and otherwise, modified their corporate governance practices. Bassey & Udoh (2022) noted that during the period, bank performance was negatively impacted by a number of economic factors, including but not limited to fluctuations in stock and currency markets, commodity prices, interest rates, and credit spreads. Some banks were unable to meet their commitments as they become due while others can only afford to do so at prohibitive cost because so many assets have lost value. As a result, the bank's ability to stimulate the economy was hampered, and real GDP began to decline. Since no part of any economy can function properly in the absence of sufficient funds, financial management problems have always been a major worry for all of a country's stakeholders everywhere.

Over time, specifically since 1958, the Central Bank of Nigeria has developed great policy thrusts to restructure the Nigerian financial system in order to promote long-term economic growth. Re-capitalization, mergers and acquisitions, and consolidation were all part of the policy that was implemented to fortify the financial system, but they paid scant attention to improving the effectiveness of financial management(Egugbo, 2018).For example, in 1986, innovations in the

financial sector were required due to the unprecedented amount of distress experienced by banks in the 1980s, as demonstrated by a high number of nonperforming loans, insolvency, liquidity problems, and a failure to pay depositor and inter-bank commitments. Poor execution or a quick end to the reforms have prevented these and other banking innovations in Nigeria from bringing about the desired stabilisation of the banking industry (Atoi, 2018).

Egugbo (2018) stated that a government order to transfer government and other public sector organisations' deposits from deposit money banks to the Central Bank of Nigeria in 1989 and multiple previous banking sector crises are examples of the financial management issues the Nigerian banking system have experienced overtime. However, in order to help banks hedge against possible financial issues, banking regulators have made explicit steps towards guaranteeing that banks keep more financial assets than before. A recent modification of Basel II, for instance, added a capital buffer to protect against the fragility of hedge funds and standardised the measurement of risk associated with operations (Egugbo, 2018).

According to Onyekwelu, Chukwuani, & Onyeka (2018), deposit money banks like other financial institutions are businesses whose primary goal is to make a profit. It is crucial to maximise both solvency and bank performance. Over time, numerous techniques, including accounting ratios and econometric methods, have emerged for evaluating financial institution efficiency. Return on investment and return on assets are the two most frequent approaches employed. Therefore, from the point of view of domestic and international financial regulations, such important empirical evidence is essential for standardisation. Although regulations can strengthen the capacity of the financial system to withstand liquidity shocks, standardisation should account for any costs to the efficiency of financial intermediation that may be incurred as a result.

There have been a plethora of academic literature discussing the connection between good financial management and the performance of deposit money banks in Nigeria. From the study of Olowookere, Kolawole, Jimoh, & Olaniyan (2022), it was observed that returns on equity and the market value of the firm is enhanced by the adoption of financial management practice, they further noted that this improved the overall performance of the organization. Based on their research, Raza, Farhan, & Akran (2011) concluded that ROA is not significantly impacted by changes in financial strategy. The study on financial management practice and the performance of banks in Nigeria by Adeyemi & Asaolu (2018) revealed that the practice of financial management led to the stability of the performance variables. In a comparative analysis of quoted firms in Nigeria, by Fijabi, Owolabi, & Ajibade, (2022) the result indicated that debt financial management was insignificant in influencing return on asset across sectors, total asset turnover and working capital was found to have negative effect on return on asset of manufacturing firms but positive effect on the return of asset of oil firms.
According to research by Graham and Bordeleau (2010), there appears to be a nonlinear relationship in which, up to a certain degree, storing more liquid assets increases the performance of deposit money bank. In light of the foregoing, this research examined the effect of financial management practices on profitability of quoted deposit money banks in Nigeria.

The challenge for financial institutions is to create wealth for their shareholders while continuing to operate in accordance with worldwide standards and applicable laws and rules to be used to achieve that objective by the banks. Financial management practices are expected to boost banks' performance in their financial intermediation role. Financial management practices helped to improve profit. However, banks have not really provided their shareholders with st

Adejuyigbe, Mogaji, & Adesida (2020) claim that during the past two decade, the banking system in Nigeria has undergone substantial transformation, largely as a consequence of the financial sector structural adjustment effort as part of the economic recovery strategy.Vos & Roulston (2018) showed that globalisation, mergers and acquisitions, and the rise of new financial technologies all greatly boosted competition and placed more pressures on banks' financial performance. In addition, competition in Nigeria's banking industry has grown recently. This is partly a result of both domestic and foreign new entrants as well as the application of Nigerian banking laws (Oyebode, 2009). Superior service quality is therefore required to set offers apart in the competitive landscape. Hence, customers of the bank are the sole arbiters of how well the bank performs in terms of service to customers (Olunuga & Akinrodoye, 2022).
In recent decade, it was alleged that the reason for low profit generation is attributed to lack of financial management practices, hence, the need for further study. Prior literature provides evidence of a positive relationship between financial management practices and firm profitability as follows.
Ibrahim and Mustapha (2019) examined the impact of financial control mechanisms on profitability of performance; A case of manufacturing firms in Nigeria. They find a significant positive relationship between financial control mechanisms and firms profitability. Odongo (2018) conducted a study effects of financial management practices on financial performance of large construction companies in Nairobi Kenya. The study revealed that financial reporting, working capital management, internal control and financial planning positively affect the financial performance of construction companies in kenya. Musah, Gakpetor and Pomaa (2018) conducted a study financial management practices, firm growth and profitability of small and medium scale enterprises (SMEs), the results revealed a positive association between the four components of financial management practices (working capital management practices, capital structure management, accounting information and financial reporting practice and the use of capital budgeting techniques have significant and positive effect on the profitability and growth of SMEs. Mwaura (2013) conducted a study on effect of financial planning on the financial performance of automobile firms in Kenya. The results showed that financial planning measures such as earnings before interest and tax and the capital employed which comprises fixed assets and working capital had an impact on the financial performance proxied as return on capital employed. In spite the purported advantages of financial management practices, Okafor & Onebunne (2019) claim that there is a lack of information concerning the adoption rates of different financial management strategies in Nigeria and the effect they have on the general performance of deposit money banks. Financial management practices of Nigeria's commercial banks, according to Lucky & Nwosi (2020) corroborated with the assertion of Okafor & Onebunne (2019), still have room for improvement.

The uniqueness of this research over other prior studies is the combination of independent variables such as, debt capital management practices, equity capital management practices and current assets management practices to investigate the effect of financial management practices on profitability of quoted deposit money banks in Nigeria. The focus of the sector of this study is another gap filled as none of the studies reviewed considered deposit money banks but this study investigated effect of financial management practices on profitability of quoted money banks, to know how financial management practices influence profitability of deposit money banks in Nigeria. The study covered ten (10) years period spanning from 2012 to 2022. This study also filled the existing research gap by ascertaining the current data and results on the effect of financial management practices on profitability of deposit money banks in Nigeria. The specific objectives of the study are:

1. To ascertain the effect of equity capital management practices on the return on equity of quoted Deposit Money Banks in Nigeria.
2. To examine the effect of debt capital management practices on return on equity of quoted Deposit Money Banks in Nigeria.
3. To evaluate the effect of current assets management practices on the return on equity of quoted Deposit Money Banks in Nigeria.

Literature Review

Conceptual Review

Financial Management

Financial management is used to represent the management of funds and how the funds are used to achieve the objectives of the organization and shareholders' value maximization (Muiruri & Mutswenje, 2022). Financial management refers to a series of actions geared towards creating, allocating and utilizing financial resources to facilitate business activities and causing an effective cash flow management of business firms. It consists of a set of underlying processes that are intended to manage the financial resources of an organization to create a more positive outcome for a company. Financial management is therefore at the very core of corporate financial planning and affects the operational efficiency of banks. Financial management practices is the method for organizing, directing, and controlling financial activities, such as the acquisition and effective use of the company's resources (Gamlath, 2022; Zada, Yukun, &Zada, 2021).

Financial management is regarded as being essential to the growth and success of any company. The activities aimed at controlling a business's finances to meet its financial goals are included in financial management. Financial management is defined based on mobilisation and the use of funding sources (Zada, Yukun, &Zada, 2021).The financial management practices that an organization uses have a significant impact on its ability to succeed, whereas poor and ineffective financial management contributes to an organisation's failure (Kapitsinis 2019; Jayasinghe & Sugathadasa, 2022).

Firm Profitability

Firm profitability is mainly used to evaluate the ability of a firm to generate profits. Profitability is the result of the subtraction of the cost of goods sold from sales revenue. Profitability can either be gross or net (Martínez-Romero, Martínez-Alonso, Rojo-Ramírez, &Diéguez-Soto, 2020). The question of firm profitability is a significant and never-ending phenomenon that draws the attention of many researchers and practitioners, despite the fact that various theories have attempted to explain why some firms are more profitable than others, and a significant amount of research has considered and explored various factors that may have an impact on firm performance. Profitability is affected by a plethora of factors in the current environment of market liberalisation, globalisation, and greater competition (Pervan, Pervan, &Ćurak, 2019).
A basic proposition of economic theory is that, under perfect competition, the profit rates of all firms tend to be equal (Hall & Weiss, 1967). However, when imperfect markets are taken into consideration, the size of a firm becomes an important factor in producing profits (Yadav, Pahi, & Gangakhedkar, 2022). Maximisation of profit is a very crucial objective for a firm to remain in business and to withstand competition from firms operating in similar industries. It is a major pre-requisite for the long-term survival and success of a firm, while also being a key pre-condition for the achievement of other financial goals of a business entity (Gitman & Zutter, 2012).

Profitable firms create value, hire people, tend to be more innovative, are more socially responsible and are beneficial to the entire economy through the payment of taxes (Odusanya, Yinusa, Ilo, 2018). The literature identifies three broad categories of determinants that affect firm profitability. The first category, firm-specific determinants, encompasses different firm characteristics such as the firm's age, firm size, liquidity and labour costs. The second category of determinants embodies industry-specific determinants that capture the market structure within which firms operate. In this category, industrial concentration and capital intensity of the industry are included. The final category of determinants is macroeconomic indices, such as the inflation rate and GDP growth rate.

Equity Capital Management Practices

Equity capital is a type of capital that a company raises from its owners and other shareholders in exchange for a portion of ownership in the company. A company's capital structure refers to the combination of its various sources of funding. Capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Most companies are funded by a mix of debt and equity, including short-term debt, long-term debt, some shares of common stock, and perhaps shares of preferred stock. Baker and Martin (2011), opined that it is the mixture of debt and equity that the firm employs to finance its productive assets, operations and future growth. It is a direct determinant of the overall costs of capital and contributes to the firm's total level of risk (Dao & Ta, 2020). Equity capital is one of the primary sources through which businesses obtain capital to finance their operations and overall development. Equity capital is not a debt and the company is not liable to repay the fund raised through equity financing. It is generally classified into private and public equity capital.

Equity capital is raised by issuing shares to shareholders. Shareholders are the owners of a business, and bring in capital, take risks and directly or indirectly run the business. Equity capital is an essential component for managing business operations and growth. Equity is different from debt, which is borrowed money that must be repaid with interest. Firms need to effectively manage debt and equity components, where appropriate management of each element affects the profitability of companies (Ehrhardt & Brigham, 2011). There are two sources available to firms to obtain funds. Funds can be assessed by businesses either through internal or external sources. The internal sources of funds consist of reserved incomes, whereas external sources consist of loans from financial institutions, issuing loan stock, and issuing equity shares. Weak capital structure management can result in the creation of poor leverage, and such sub-optimal decisions can eventually lead to business failure (Zada, Yukun, &Zada, 2021).

Debt Capital Management Practices

Debt capital refers to borrowed funds that must be repaid at a later date (Hardi, 2009). It is a valuable source of funding for businesses and can be used for various purposes, including expansion, acquisition, and working capital. Companies borrow debt capital in the form of short- and long-term loans and repay them with interest. Debt capital differs from equity or share capital because subscribers to debt capital do not become part owners of the business, but are merely creditors. The suppliers of debt capital usually receive a contractually fixed annual percentage return on their loan, which is known as the coupon rate. Debt capital ranks higher than equity capital for the repayment of annual returns, meaning that legally, and the interest on debt capital must be repaid in full before any dividends are paid to any suppliers of equity. Debt capital can be cumbersome to pay back, especially when interest rates are rising. However, it is a type of short-term financing that can be useful for businesses (Bouazza, Ardjouman, &Abada, 2015).

Debt capital management can provide a convenient and appropriate level of liquidity for enabling companies to cover their short-term financial obligations to ensure the continuity of the companies' business and maximize their profitability. Thus, establishing a reasonable debt capital policy will enable companies to increase profitability and create value for investors (Nguyen, Pham, & Nguyen, 2020). The choice of different proportions of debt among mixed financing resources can impose major influences on the firm value, and thus on the wealth of the shareholders (Baker & Martin, 2011). Debt capital management structure involves the choice of the right mix of debt and equity capital that will maximize the profitability of the firm (Romney, 2009). The management of debt capital is very critical and one of the fundamental decisions with serious implications for the financial performance of every firm (Musah, 2017).

Current Asset Management Practices

This management of current assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business's profitability, liquidity and total performance. Current asset management is the handling of the current assets of a company. Current asset management is the process of administration of current company assets that are the equivalent of cash or can be liquidated into cash in a period of a year. The purpose of current asset management is to keep the flow of a company's income and liability in balance. Any assets that a

company or business has that are the equivalent of cash or can be liquidated into cash in the period of a year is considered current asset. Typically, current assets are the inventory, as well as the accounts receivables and any short-term investments. Managers can make the right judgements using the data from the income statement and balance sheet. Additionally, it is asserted that with the aid of effectively managed resources, investors can contemplate committing funds to the activities of an organisation.
There are several inclusions of the current assets, such as inventory, short-term investments, accounts or bills receivable, etc. Another major component of the current asset is cash itself. Anything (assets) that can be quickly converted into cash within a year is under the category of current assets. Scholars opined that the current ratio is key in figuring out the proper balance for current asset management. The current ratio is the company's current assets divided by its current liabilities. Current liabilities are defined as what a business needs to pay off in a specific cycle of time, either a financial year or a cycle of time particular to a business, whichever is longer. The current Ratio is an indication of a company to meet market liquidity and ability to meet the demands of the creditor (Rochim & Ghoniyah, 2017).The acceptable current ratio varies from industry to industry. If the current ratio of the company is within this range, then it is generally considered to have good short-term financial strength. If current liabilities exceed current assets where the current ratio is below 1, then the company may have problems in fulfilling its short-term liabilities. Current Ratio is too high, then the company cannot efficiently use current assets or a short-term financing facility. It can also point to problems in working capital management. A low ratio value (value less than 1) indicates that the company is experiencing financial difficulties in meeting its current obligations especially Short-term Liabilities (Rochim & Ghoniyah, 2017).

Theoretical Framework

Agency Theory

Agency theory originated from the works of Jensen and Meckling (1976). According to Jensen and Meckling (1976), an agency relationship is a "contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". Agency costs are the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent, and the residual loss (Jensen &Meckling, 1976). In the business context, agents correspond to managers, whereas principals correspond to shareholders. In the modern-day corporation, DeFond (1992) identified two features of the agency problem; first, divergence in preferences of the manager and owner with respect to the manager's actions; and the imperfect observability of the managers' actions by the owner (DeFond, 1992). Two problems usually occur when one party (the principal) delegates work to another (the agent). First, is the conflict of goals between the two parties and costs associated with the minimisation of such discrepancy; and, second, the problem of risk sharing especially as the risk preference of both parties differs (Eisenhardt, 1989).

The theory provides "a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system" (Davis, Schoorman, & Donaldson, 1997). Agency theory may be applied to any contractual relationships in which the principal and agent have partly differing goals and

risk preferences, for example, compensation, regulation, leadership, impression management, whistle-blowing, vertical integration, merge & acquisition, and transfer pricing (Eisenhardt, 1989).

Assumptions of the theory:

1. There is a divergence of interest between shareholders (principals) and mangers (agents).
2. The presence of information asymmetry, as mangers have inside access to information about the entity's position. This implies that agents have private information which the principal cannot gain access to without cost.
3. The agent is usually assumed to be work and risk-averse.

Relevance of the theory:

The agency theory is relevant to this study because, from an agency perspective, the agent is responsible for financial management practices which involve equity capital management practices, debt capital management practices, noncurrent assets management and current assets management practices of quoted Deposit Money Banks in Nigeria. This financial management practice, therefore, determines the returns which are available to the shareholders. Agency theory suggests that managers that do not optimise financial management would provide shareholders with lower returns.

Empirical Review

Eton, Mwosi, and Mpora (2022) conducted a study titled 'Financial management practices and small-scale businesses' profitability, from the viewpoint of Kabale Municipality, Uganda'. The study adopted descriptive and correlational research designs and the sample size comprised 390 small-scale businesses. The study used a multi-regression analysis to estimate how financial management practices impact profitability. The research showed that working capital management had a positive effect on profitability; while cash management had a positive non-significant effect on the profitability of small-scale businesses in Uganda.

Okeyo and Kaplelach (2022) studied 'Financial management practices and financial performance of selected small and medium enterprises in Mombasa County, Kenya'. The study employed a survey research design and a random sample size of 62 respondents studied. The study utilised questionnaires for collecting quantitative primary data from respondents. The data were analysed using descriptive statistics with the aid of SPSS. The results showed that the SMEs have incorporated financial management practices into their operation. Financing practices and liquidity practices had positive effects on the financial performance of SMEs while investment practices had negative effects on financial performance.

Jayasinghe and Sugathadasa (2022) examined 'The impact of financial planning and control on the financial performance of small and medium-scale businesses in the Badulla District'. The study employed a survey research design and a random sample size of 200 SMEs utilised. The study utilised questionnaires for collecting quantitative primary data from respondents. The data were analysed using the Pearson correlation coefficient and multiple regression. The results showed a positive significant effect of risk management, cash control and cash budgeting on ROA and ROE.

Muiruri and Mutswenje (2022) assessed the 'Financial management practices and financial performance of dairy firms in Kiambu County, Kenya'. The study specifically examined the

impact of budgeting practices, fixed assets management, credit management practices and managerial capabilities on dairy firms' financial performance. The study adopted the descriptive research design. The sample comprised 74 staff from the finance department of 17 dairy firms operating in Kiambu County. The study relied on primary data from a structured questionnaire. The data were analysed using correlational and multiple regression analysis. The results showed that budgeting practices, fixed assets management practices, and credit management practices had a significant influence on the financial performance of dairy firms in Kiambu Country. However, the latter had a negative influence on firm performance.

Mang'ana, Ndyetabula, and Hokororo (2022) undertook a study titled 'Financial management practices and performance of Agri-SMEs in Tanzania: A Structural Equation Modeling Analysis'. The study employed the survey research design. The sample comprised 427 SMEs in Tanzania's agricultural sector. The study relied on primary data which were analysed using Structural Equation Modeling (SEM). The findings from the empirical analysis revealed that working capital management practices and financing management practices have a significant positive influence on financial and organizational performance, while the accounting, financial reporting practices and capital budgeting management practices have insignificant influence on the performance agri-SMEs performance.

Gamlath (2022) examined 'The impact of financial management practices on financial performance of small and medium plantation companies in the Kalutara District, Sri Lanka'. The study utilised the survey research design data and the sample comprised 40 SMEs selected using a purposive convenience sampling method. The data for the study was generated from a questionnaire. The data were analyzed using correlation and regression analysis. The results revealed that working capital management practices, capital structure, management practices, and financial reporting and analysis practices significantly affected financial performance.

Harrison (2021) conducted a study 'Effects of selected financial management practices on financial performance of commercial banks in Kenya'. The study employed a descriptive research design. The census sampling technique was employed and 43 commercial banks were chosen. The study relied on secondary data obtained from audited annual financial reports. The data were analysed using Pearson correlation and regression analysis to examine the relationship between the financial management practices and the financial performance of the commercial banks. The study found a positive relationship between liquidity and financial performance; a positive link between capital structure management and financial performance; and, a positive influence of credit risk management on financial performance. Similarly, working capital management had a positive on financial performance. In conclusion, all the variables had a statistically significant positive effect on financial performance.

Nyakundi (2021) conducted a study titled 'Financial planning practices and financial performance of manufacturing companies listed in Nairobi Security Exchange, Kenya'. The study adopted a causal research design. The sample comprised nine (9) manufacturing companies. The study used secondary data from published financial statements of the firms. The study period spanned from 2015 to 2019. The data were analyzed using the Pearson correlation coefficient and multiple

regression techniques. The results showed that debt management had a weak negative insignificant relationship with financial performance. The study finds that long-term investment and net worth had a significant positive effect on financial performance.

Ochi, Idiege, and Bassey (2021) undertook a study titled 'Contemporary financial practices and going concern of manufacturing corporations in Nigeria'. The study utilised a cross-sectional survey research design. The sample comprised 123accounting and finance employees. The study relied on primary data obtained from a structured questionnaire. The data were analysed using multiple regression techniques. The results revealed that the two main financial management practices adopted by manufacturing companies hada significant effect on sales.

Hussain and Stanikzai (2021) examined 'The effects of financial management practices on SMEs financial performance: Evidence of Nangarhar, Afghanistan'. The study adopted the survey approach and a final useable sample of 287 respondents from small and medium enterprises of the service sector. The study relied on primary data which were analysed using descriptive, correlation and regression analyses. The results revealed that financial management practices such as Accounting Information Systems (AIS) and Working Capital Management (WCM) have a positive significant effect on financial performance (FP); while Financial Information Systems (FIS) did not.

Ariyo, Onileowo, and Oke (2020) conducted a study titled 'The impact of financial planning on the financial performance of small-scale business firms in Ekiti state'. The financial planning variables were risk management, cash budgeting and cash control. The study employed a survey research design. The sample comprised 150 respondents from 15 SMEs. The data collection instrument was a questionnaire. The data were analysed using descriptive statistics and multiple linear regression. The results showed that the variables of risk management, cash budgeting and cash control were positively associated with financial performance.

Somathilake and Pathirawasam (2020) conducted a study titled 'The effect of financial management practices on performance of SMEs in Sri Lanka'. The study specifically examined the influence of working capital management practices, investment appraisal practices, capital structure management practices, financial reporting & analysis practices and accounting information system practices on the performance of SMEs. The sample comprised 245 SMEs across the manufacturing, service and trade sectors. The study relied on primary data from a structured questionnaire. The data were analysed using Pearson correlation and multiple regression techniques. The results of the study revealed a positive relationship between financial management practices and the performance of SMEs.

Sa'eed, Gambo, Inuwa, and Musonda (2020) conducted a study on the 'Effects of financial management practices on technical performance of building contractors in northeast Nigeria'. The purpose of this study is to assess the effects of financial management practices of small-scale building contractors on the technical performance of the contractors. The study adopted the survey research design and the sample of contractors in northern Nigeria utilised for the study. The primary data were analysed using multiple regression techniques. The results showed a positive effect of financial management practices on technical performance.

Ali (2019) examined 'The impact of financial planning and financial performance-Case study commercial banks Mogadishu Somalia'. The variables in the study were focused on organization goals, allocation of resources and risk management effect on the financial performance of banks. The study employed the descriptive survey research design. The author utilised a census-sampling technique and the entire target population of one-hundred forty-three (143) finance managers was drawn as the sample. The study used questionnaires to collect data and analysed using the Pearson correlation technique. The results showed a positive relationship between organizational goals and financial performance; a positive relationship between resource allocation and financial performance and finally a positive relationship between risk management and financial performance.

Uduwaka and Dedunu (2019) conducted a study titled 'The effect of financial management practices on financial performances of small and medium enterprises in Sri Lanka (with special reference to Gampaha district)'. The study focused on the following financial management practices: working capital management practices, investment management practices, financial planning practices, financial reporting and analysis practices and accounting information systems. The financial performance was measured through return on assets and return on investment. The study sample comprised 60 SMEs and the study relied on primary data obtained from a structured questionnaire distributed among SME owners. The data were analysed using correlation and multiple linear regression techniques. The result showed a significant positive effect of working capital management practices on financial performance.

Ibrahim and Mustapha (2019) examined the 'Impact of financial control mechanisms on profitability performance: A case of manufacturing firms in Nigeria'. The study employed the survey (cross-sectional) design and the sample comprised 5 employees randomly from twenty-five firms. The study relied on primary data obtained from a structured questionnaire. The data were analyzed using a one-sample t-test and Pearson's Product Moment Correlation. They find a significant positive relationship between financial control mechanisms and firms' profitability performance.

Odongo (2018) conducted a study titled 'Effects of financial management practices on financial performance of large construction companies in Nairobi County, Kenya'. The study adopted the descriptive research design. The sample comprised one hundred and thirty-nine construction companies. The study utilised primary data from a questionnaire. The data were analysed using multiple regression techniques. The results revealed that financial reporting, working capital management, internal control and financial planning positively affect the financial performance of construction companies in Kenya.

Musah, Gakpetor, and Pomaa (2018) conducted a study titled 'Financial management practices, firm growth and profitability of small and medium scale enterprises (SMEs)'. The study employed a survey research design and the sample comprised 100 SMEs in Accra, Ghana. The study utilised primary data collected through the administration of a questionnaire. The data were analysed using descriptive statistics and Pearson correlation analysis. The results revealed a positive association between the four components of financial management practices (working capital management

practices, capital structure management, accounting information and financial reporting practice, and the use of capital budgeting techniques and fixed assets management) and the profitability and growth of SMEs.

Cheluget and Morogo (2017) investigated the 'Effect of financial management practices and project performance in UasinGishu Country, Kenya'. The study adopted the ex post facto research design. The sample comprised 87 top management employees from 31 projects in UasinGishu County. The study utilised primary data collected using a structured questionnaire. Multiple regression analysis was used to analyse the data. The results showed a positive influence of budgeting and financial reporting on project performance.

Muneer, Ahmad, and Ali (2017) conducted a study titled 'Impact of financial management practices on SMEs profitability with moderating role of agency cost'.The study employed a survey research design and the sample comprised two hundred SMEs from Faisalabad Pakistan. The study used primary data predominantly which were analysed using descriptive analysis and Partial Least Square (PLS) Structural Equation Model (SEM) for hypothesis testing. The study finds a positive relationship between financial management practices and SMEs' profitability; however, agency cost as a moderator does not affect this relationship.

Omoboga and Okibo (2016) conducted a study on the 'Effects of financial planning practices on the growth of small manufacturing firms in Kisii County, Kenya'. The study specifically examined the level to which cash processing, cash control and cash budgeting affect the growth of small manufacturing firms in Kenya. The study employed a descriptive survey design. The study relied on primary data from the respondents obtained via questionnaires. The data were analysed using the Pearson correlation coefficient and the result showed that cash control, cash budgeting and cash processing exert a significant influence on the growth of small manufacturing firms.

Rauf (2016) conducted a study on the 'Financial management practices in small and medium-sized enterprises: Empirical evidence from the district of Ampara in Sri Lanka'. The study specifically examined the extent to which working capital management is practised in the SMEs; evaluated the extent of adoption of financial planning and control measures in the SMEs and assessed the level of application of total quality management system in SMEs. The study relied on primary data gathered from a questionnaire from six owners of SMEs purposively chosen for the study. The data were analyzed using correlation and regression analysis. The study finds that financial planning and control had a negative significant relationship with financial management practices while working capital management and total quality management system had a positive significant relationship with financial management practices.

Selvanayaki, Sivakumar, Rohini, and Mani (2016) conducted a study titled 'Financial management practices and profitability of modern rice milling firms in Kangayam Cluster, Tamil Nadu'. The sample comprised 40 firms selected using a simple random sampling method and primary data were collected. The data on the financial performance were obtained from the records maintained by the firms for three financial years, from 2011-12 to 2013-14. The data were analysed using factor analysis and multiple regression analysis. the results showed significant differences among the fully and partially modernized rice milling firms in the preparation of cash budgets, setting-up

credit policies, preparation of inventory budgets and review of inventory turnover, and capital budgeting in investment analysis and accounting practices.

Yensu, Yiadom, and Awatey (2016) conducted a study titled ‘Financial management practices and profitability of business enterprises in Obuasi Municipality, Ghana’. They employed a survey research design and data collected from ninety-eight enterprises in the Obuasi Municipality (Ghana). The study focused on two financial management practices, namely; working capital and capital budgeting management. The primary data were analysed using descriptive statistics and multiple regression techniques. The results revealed that working capital management has a positive and significant effect on the profitability of business enterprises but capital budgeting management has a negative relationship with the enterprise's profitability.

Methodology

The study adopted the use of an *ex-post facto* research design. *Ex post facto* research design is a scientific approach to deductive research which does not allow a researcher the ability to manipulate the variables, as their occurrences have already been recorded. Alternatively, it can be viewed as a quasi-experimental study examining how an independent variable, present before the study, affects a dependent variable. The area of the study is Nigeria, as the study focuses on quoted Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX) as of 1st June 2022. The Deposit Money Banks (DMBs) belong to the financial services sector of the Nigerian Exchange Group (NGX). The focus on banks coincides with the need to ascertain such evidence from DMBs operational in the country. The population of the study comprises fourteen (14) Deposit Money Banks (DMBs) quoted on the Nigerian Exchange Group (NGX) as of 31st December, 2022. Deposit Money Banks (DMBs) previously Commercial Banks by the Central Bank of Nigeria. Additionally, Jaiz Bank and Ecobank Transnational Incorporated were excluded for its dissimilarity from others while Unity Bank was excluded due to the inappropriate behaviour of its dataset. The sampling technique employed in the study is the purposive sampling technique, 11 deposit money banks were selected using the sampling technique from the total population for the period of 10 years.

Operationalization of Variables

The measurement of variables used in the model

Variable	Proxy	Measurements	Source
Return on Equity	ROE	The ratio of net income to shareholders equity	Zulfikar and Sasongko (2016)
Equity capital management practices	ECMP	Equity to total assets ratio	Lee, Glasscock, and Park (2017)
Debt capital management practices	DCMP	Debt to total assets ratio	Odusanya, Yinusa, and Ilo (2018)

Current assets management practices	CAMP	Current assets to total assets	Aldhamari, Nor, Boudiab, and Mas' ud (2020); Odusanya, Yinusa, and Ilo (2018)
Firm size	FSIZE	Firm size is measured by the natural logarithm of total assets (SIZE).	Ames, Hines, and Sankara (2018); Elamer and Benyazid (2018)
Firm leverage	FLEV	Leverage is measured by total debt over total assets (LEV).	Ames, Hines, and Sankara (2018); Elamer and Benyazid (2018)

Source: Researcher's Compilation (2023)

3.2 Model Specification

The researcher in this study adapted the model of Yameen, et al. (2019) which is specified below as follows:

$$ROA_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 SIZ_{it} + \beta_3 LEV_{it} + \beta_4 AGE_{it} + \mu_{it} \quad (1)$$

Where:
ROA = Return on Assets
CR = Current Ratio
SIZ = Size
LEV = Leverage
Age = Age

The researcher therefore, modified the above model. The model can then be specified as follow:

$$LROE_{it} = \beta_0 + \beta_1 LECMP_{it} + \beta_2 LDCMP_{it} + \beta_3 LCAMP_{it} + \beta_4 LLEVG_{it} + \varepsilon_{it} \quad (2)$$

Where:
LROE = Log of Return on Equity
LECMP = Log of Equity Capital Management Practices
LDCMP = Log of Debt Capital Management Practices
LCAMP = Log of Current Asset Management Practices
LEVG = Log of Firm Leverage
β_0 = Intercept
$\beta_1 - \beta_4$ = Coefficients of the independent variables
ε = Error term

Note that return on equity (ROE) was used instead of return on asset (ROA) due to the fact it give a better outcome when used in measuring profitability compared to ROA. Similarly, Firm Leverage was brought in as a control variable into the model.

4. Results and Discussions

4.1. Data Analysis- Pre-estimation Tests

This section began first with descriptive statistics, correlation analysis, and other diagnostic tests. Each of the results and summarized and discussed as follows:

Table 2: Summary Statistics

	ROE	ECMP	DCMP	CAMP	LEVG
Mean	2.63	97.41	12.62	87.46	13.16
Maximum	4.91	99.72	23.75	94.03	32.08
Minimum	1.04	95.09	3.04	76.25	2.62
Standard Deviation	0.91	0.99	3.54	3.60	6.94

Source: E-Views Version 9.0 (2024)

Table 2 presents various summary statistics of the three regressors, one control variable and one regressed spanning from 2013 to 2022. Accordingly, ROE reported an average value of 13.16% but deviated by 6.94% suggesting that, ROE clustered around its average value. Similarly, the highest ROE recorded was 32.08% while the least ROE was 2.62%. This suggests that, the sampled banks reported highest ROE value of 32.08% throughout the periods under review. Similarly, the average leverage value for the sampled commercial banks was 8.76:1 but deviated sharply by 6.94:1 suggesting that, LEVG clustered around its average value.

Additionally, equity capital management practices (logged form), debt capital management practices (logged form) and current asset management practices (logged form) reported average values of 97.41, 12.62 and 87.46 but deviated by 0.99, 3.54 and 3.60. This suggests that, equity capital management practices (logged form), debt capital management practices (logged form) and current asset management practices (logged form) clustered around their mean values. It further indicates that, the series are normally distributed and thus feasible for policy formulation.

Table 3: Correlation Analysis

	ROE	ECMP	DCMP	CAMP	LEVG
ROE	1.0000				
ECMP	0.4181	1.0000			
DCMP	-0.3552	-0.0016	1.0000		
CAMP	0.1099	0.7552	-0.3013	1.0000	
LEVG	-0.4090	0.1053	0.1099	-0.3013	1.0000

Source: E-Views Version 9.0 (2024)

Table 3 revealed that, equity capital management practices and current assets management practices are positively related with ROE of quoted commercial banks in Nigeria. Also, such relationship was moderate. Meanwhile, debt capital management practices and financial leverage exhibited an inverse moderate negative association with ROE of quoted commercial banks in Nigeria. Nevertheless, it could however be observed that pairs of coefficients obtained for all the explanatory variables displayed no sign of multicollinearity haven obtained values less than 0.8 as affirmed by Ighosewe (2021). However, the model was further tested using multi-collinearity test.

Table 4: Multi-collinearity Tests

Multi-collinearity Tests	ECMP	DCMP	CAMP	FSIZE	LEVG	Average
Variance Inflation Factors	3.1506	1.1731	2.0585	1.2791	2.3678	2.0058
Tolerance Value=1/VIF	0.3174	0.8525	0.4858	0.7818	0.4223	0.5720

Source: E-Views version 9.0 (2024)

Table 4 clearly evidenced a VIF value which ranges between 1.1731 and 3.1506 with an average VIF value of 2.0058. Idowu and Ighosewe (2020) evidenced that, a VIF value less than equals 5 suggests that, the regressors are free from multicollinearity problems. To further authenticate this, the mean value of the tolerance value is far above 0.10 suggesting that, the series are free from multi-collinearity problems. The other preliminary tests conducted are presented herein:

Table 5: Other Preliminary tests

Other Diagnostic Tests	F-statistic	P-value	Decision
Heteroskedasticity Test	1.0455	0.4006	Homoskedastic
Serial Correlation Test	2.7207	0.0991	No Auto-correlation
Ramsey Reset Test	1.2811	0.3210	Well-specified

Source: Econometric Views version (2024)

To further ensure that, regression results are okay, Ighosewe, Uyagu, and Iyere (2020) suggests that, other preliminary analysis such as Ramsey Reset test (model specification test), Heteroskedasticity Test and Serial Correlation Tests should be conducted having done multi-collinearity test. Accordingly, tbe Heteroskedastic test as presented in table 4 reported an F-value of 1.0455 and associated p-value of 0.4006 suggesting that the series are spreads equally. When tested further, both the serial correlation and the Ramsey Reset test confirmed that, the series are not auto-correlated and that, the series are well-specified. This further confirmed our findings as presented in the next sub-section are okay for policy formulation.

4.2. Regression Result

Having affirmed that, the model is well-specified, Homoskedastic, free from multi-collinearity problems, and is free from serial correlation, the study proceeded to the main regression result. The summarized Panel regression estimate alongside Hausman tests are presented in table 5:

Table 6: Random Effect Model Estimate

Variable	Dependent Variable: Return on Equity		Observations: 120	
	Coefficient	**Std. Error**	**t-Statistic**	**Prob.**
C	-1.1991	0.0810	-14.8066	0.0000*
CSIC	0.1131	0.0473	2.3908	0.0481**
CSDC	-0.2635	0.0350	-7.5384	0.0003*
CSTC	0.4052	0.0611	6.6303	0.0002*
CSMC	-0.0340	0.0924	-0.3677	0.7136

Model Fitness Estimates			
R-squared	0.795482	Mean dependent var	27.58000
Adj. R-squared	0.631868	Durbin-Watson stat	1.5175
F-statistic	84.7470	Prob.(F-statistic)	0.0000*

Panel Model Estimation Test: Hausman Test			
Test Summary	**Statistic Chi-Square**	**Chi-Square d.f**	**Probability**
Cross-Section Random	0.1480	4	0.9855

Note: * denotes 1% level; 5% level of significance.

Source: Author's Computation using E-views 9.0 (2024)

The Hausman test suggest that the null hypothesis of cross-section random effect model hold true at the 5% significance level (Chi-square=0.1480, p-value=0.9855). This indicates that the appropriate estimating technique for the dataset is the random effect model. The findings from the regression analysis, reported in Table 6, reveal that the adjusted R-squared value is approximately 79.54%. This suggests that around 79.54% of the systematic variations in return on equity of the selected commercial banks can be explained by the regressors suggesting that, the model has a high predictive power. This was further confirmed by the adjusted R-Squared. The F-statistic=84.7470, p=0.000<1%) indicates that the regression model is significant at the 1% level, demonstrating cloud accounting system costs on the overall exerted high significant effect on ROE of sampled commercial banks within the periods under review. Meanwhile, the intercept term is estimated to be 1.4314 and its p-value of 0.0000 <1% suggests that, even if all the explanatory variables under review are held constant, the return on equity is still positive and highly statistically significant.

First, the logarithm of equity capital management practices and current asset management practice have positive and significant effect on ROE of sampled commercial banks in Nigeria at the 5% level. On this note, both null hypotheses one and three stated earlier are rejected. The implication of the positive that, 1% increases in equity capital management practices and current asset management practice return on equity of sampled commercial banks to increase by a significant value of 11.31% and 40.52%, respectively. Meanwhile, the high significance report suggests that, equity capital management practices and current asset management practice are highly instrumental to ROE determination. This conform with Eton, Mwosi, and Mpora (2022); Harrison (2021); Gamlath (2022); Okeyo and Kaplelach (2022); Muiruri and Mutswenje (2022) findings but contradict the findings of Mang'ana, Ndyetabula, and Hokororo (2022).

Conversely, the estimated coefficient of debt capital management practices is negatively signed, with a coefficient of -0.2635. This conform the Aprioiri expectation of the research. This suggests that, 1% increase in debt capital management practices; return on equity of sampled commercial banks will decrease by a significant value of 26.35%. This suggests that, debt capital management practices reduce ROE of sampled commercial banks. Meanwhile, in terms of degree of statistical significant, debt capital management practices is highly significant. Eton, This result deviates from the findings of Mwosi, and Mpora (2022); Harrison (2021); Gamlath (2022); Okeyo and Kaplelach (2022); Muiruri and Mutswenje (2022); Nyakundi (2021).

5. Conclusions and Recommendations

This paper examined the effect of financial management on profitability of commercial banks in Nigeria. Specifically, the paper examined the effect of equity capital management practices, debt capital management practices and current assets management practices on the return on equity of quoted commercial banks in Nigeria. Also, the study introduced financial leverage as control variable. The study focuses on fourteen (14) quoted commercial banks as of 31st December, 2022. Data were obtained from the annual reports of the sampled commercial banks within the reviewed periods. The study confirmed that, equity capital management and current asset management both exerted positive significant effect on financial performance of sampled commercial banks within the periods under review. However, debt management practices exerted negative significant effect on financial performance of sampled commercial banks within the periods under review. Hence, the paper concludes that, equity capital management, current ratio and optimal debt management are highly instrumental to the financial performance of sampled commercial banks in Nigeria. Hence, the following submissions were made:

1. To enjoy trading on equity, the management of sampled commercial banks must ensure that, they are equity intensive.
2. To optimize current asset, management of sampled commercial banks must as a matter of prominence must reduce toxic assets resulting from high non-performing loans.
3. To reduce the negative risk associated with high gearing, management of the sampled commercial banks should seek for optimal debt holding.

The study contributed to extant body of knowledge by developing a robust model that captures equity capital management, current ratio and optimal debt management are highly instrumental to

the financial performance of sampled commercial banks in Nigeria. However, the study limited in scope as it only focused on three financial management practices. Hence, future studies should consider the following financial managerial practices: budgeting practices, fixed assets management practices, and credit management practices; financial reporting and analysis practices, contemporary financial practices against going concern of manufacturing corporations in Nigeria.

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