Cash Management and Financial Performance Listed Construction Companies in Nigeria

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ABSTRACT

This study investigated the relationship between cash management and financial performance of listed construction companies on Nigerian Exchange Group. Specifically, the objectives of the study are to examine the relationship between cash management and earning per share, ascertain the relationship between cash management and net profit. The ex-post facto research design was used. The study population comprised Six (6) listed construction companies as listed on the Nigeria Exchange Group in 2021. The entire population was used as the sample size, using the census approach. Data was source through the annual report of listed construction companies for 2011-2020. Pearson correlation and multiple regression was used in data analysis with the aid of Stata12 software. The study revealed that there is no relationship between cash management and earnings per share of listed construction companies on the Nigerian Exchange Group. There is no relationship significant between cash management and net profit of listed construction companies on the Nigerian Exchange Group. The study concluded that there is no significant relationship between cash management and financial performance. The study recommended that management should give consideration to cash management which play a critical role in increasing the financial performance of the company; Attention should be taken on management of current ratio as well as investment of excess liquidity in short-term assets such as treasury bills for an enhanced net profit.

Key Words: *Cash Management, Financial Performance, Earning Per share, Net Profit.*

INTRODUCTION

The construction industry is very important in Nigeria social and economic growth. Apart from the construction sector ability to generate employment, there are many activities undertaken by the construction industries which are very necessary towards enhancing effective sectorial linkages, as well as maintaining economic growth. The effort of ensuring strong and sustainable national and economic development cannot neglect the relevance of infrastructural development such as (rail, sea modes, air, and road transport); industrial development such as (factories, parks, and functional construction industries) as well as construction of institutional and residential buildings. Adeagbo (2014) viewed these as a sector that is indispensable. Construction sector is important in the development of the Nigerian economy being one of the highest providers of labour (skilled and unskilled) which engage in different construction activities in Federal Capital Territory; Abuja, Lagos, Kaduna, Port Harcourt and other cities in across Nigeria. The construction sector is the direct pivotal of sectorial linkage because its operations have multiplier effect on the development of other sectors such as manufacturing industries and the built environment (architects, engineers, surveyors, estate valuers, town planners, plumbers, electricians etc). Nigeria is moving towards achieving the goals and objectives of the Economic Development Plan 2021 – 2025, interestingly the blueprint has its focus on construction industry as the pivotal factor towards achieving economic transformation such as transportation, housing, power, rail and industrial sectors.

Osemenan (1987) said that Nigeria has become "World's Junkyard of abandoned and failed projects worth billions of naira and it is greatly unthinkable that Nigeria is blessed with so great potentials in the building and construction industries can experienced such degree of failure and abandonment. However, the construction industry has been facing criticism because of the increasing rate of failed or abandoned construction projects across the country (Aibinu and Jagboro, 2002). Project failure can be considered as the inability to achieve success in an endeavor (Zoufa & Ochieng, 2014). Most regularly projects are considered a failure when they fail to deliver on schedule and work within the allocated budget and scope (Ojedengbe & Adesopo, 2003). There are many reasons that can make a project sink, such as failure to carry out proper assessment before embarking on the project, poor/slow decision making, lack of good project management, gaps in communication, poor contract management, unclear project objectives, change in site condition, shortage of building materials, poor financing of projects and other issue of scope creep (Nweze 2016). Although some projects may be completed within the scheduled time, budget or scope, they can still be considered as failed projects for reasons such as failure to meet client's satisfaction, inability to meet quality specifications as well as failure to serve its purpose (Ogedengbe & Adesopo, 2003). When projects are being delayed in their execution, they usually have their duration extended which will incur some cost consequences (Aibinu & Jagboro, 2002).

Objectives of the Study

1. Ascertain the effect of cash management on Earning Per share.
2. Ascertain the effect of Cash Management on Net Profit.

Research Questions

The study intends to specifically question current asset management and financial performance of listed construction companies in Nigeria based on their consistent winding-up, abandoned/failed projects and moribund syndrome, with some specific questions such as:

1. What is the effect of cash management on earnings per share of listed construction companies in Nigeria?

2. What is the effect of cash management on net profit of listed construction companies in Nigeria?

Research Hypotheses

The following null hypotheses are to be tested:

Ho_1: The effect of cash management and earnings per share is not significant.

Ho_2: The effect of cash management and net profit is not significant

Conceptual Review:

Cash management

This is defined as the efficient collection, disbursement and investment of the organization's cash while meeting the firm's liquidity requirement. It is the company's ability to invest its financial resources efficiently in an effort to cover operating expenses, make investments, repay shareholders and ensure that the firm has enough reserves to run the company. Interestingly, cash management is a broad term that refers to the collection, concentration and disbursement of cash because cash management is the measure of the firm ability to plan their liquidity preference. Therefore, effective and efficient cash management is crucial for survival of the firm. Army et al. (2021) defined cash management as the process of collecting and managing cash flows. Cash management is important to both individuals and organizations. In business organization, cash management is the vital component of a business financial stability. Cash management is also vital for individuals' financial stability because it is basically considered as part of a total wealth portfolio.

Businessmen organization and business have a long range of offerings available across the financial marketplace to enable all types of cash management necessities. Banks are basically a primary financial service provider for the custody of cash assets. Many types of cash management solution for individuals are business yearning to obtain good return in cash asset or efficient use of cash comprehensively.

Interestingly, cash is the basic asset companies and individuals use to pay their obligations in daily basics. Companies and business organizations have many of cash inflows and out flows that should be effectively controlled and managed in order to meet payment obligation to plan for the future payments and sustain adequate business stability. Individual concerns also maintain cash balance also earn a return on their idle cash should be their major concerns. In corporate cash management (treasury management), chief financial officers, business managers and corporate treasurers are typically the key people responsible for overall cash management strategies, cash-related responsibilities and stability analysis. Though, many companies delegate their cash management responsibility to banks and other financial service providers (e.g. KPMG) regardless that there many vital metrics that should be monitored and analysed by their cash management team on a daily, monthly, quarterly and annual basis.

The cash flow statement is a cardinal component of corporate cash flow management. Though, it is usually reported to the stakeholders in a quarterly basis, part of it are often maintained and traced internally on a daily basis. Interestingly, the cash flow statement have all the comprehensive records of the company transactions as thus: Cash paid for accounts payable, cash paid for investing, cash received from account receivable and cash paid for financing. The key factor of the cash flow statement reports is that it shows how much cash a company has readily as cash balance. More so, the cash flow statement is itemized into three parts: operating, financing, and investing. The operating part of cash activities will vary based strongly on net working capital which is reported on the cash flow statement as a company's current asset minus current liabilities.

Collins and Jarvis (2000). Cash management means the management of liquidity in order to meet their day-to-day commitment. There are many companies that do not emphasis more on their liquidity management. The persistent results of abandoned or failed projects, moribund and wind-up of companies can be as a result of poor focus on cash management which could bound their financial assets. In Sweden, researchers found out that small scale business have a poor cash management attention (Denver, 2005). Having effective and efficient liquidity management is essential for the sustainability of business (Sardakis & Kevin, 2017).

Liquidity is defined as the level of cash and near cash assets, together with cash in and outflows of the assets (Ekanem, 2010). Liquidity management is not new in Nigeria, but cash management concept is becoming the modern concept of doing things. Cash management does not rest in getting the most profit in sales or reduce the cost in order to save cash (Soenen, 1993). It is about earning extra money "between the lines", by dealing smartly and effectively with the payment routines. Knowing when, and where to invest the money and which of the accounts to be used to foster earning extra money through interest. Unarguably, companies may earn cash on cash (Pengar pa Pengar). Furthermore, many companies in Sweden have commercial banks as their cash management administrators (Larsson, 2000). Trying to be efficient in cash management involved a lot of factors based on the company's nature and type (Ekanem, 2010).

IR media (2022) defined cash management as the process of collecting and managing cash flows from the operating, investing and financing activities of an organization. They identify cash management as the most vital aspect of company's financial stability due to the recent Covid-19 pandemic which helps opened up the extreme importance of preserving liquidity during turbulent times. Due to the pandemic shock, it becomes very clear that those companies who have developed an effective cash management system will be best positioned to navigate through economic disruptions and emerge in a stronger position. They made this assertion in view that, in many companies, cash is the key to being competitive, pursuing potential growth opportunities and maintaining financial flexibility. Though, markets trends are rapidly changing, and investor's preferences and demand are constantly shifting, but cash still remains constant. In lieu of these challengers RI media suggested a robust cash management system while having in mind an adopted firmer working capital strategy, established appropriate Knowledge Investment Program (KIP) and metrics, deploying applications to accurately capture data, analytics and insights, and communicating clear cash management policies across the organization. They suggest that without this key component cash management system a company could be missing out on opportunities to maintain free cash targets, increase shareholders return, reduce costs and fund business development.

Aurora (2019) identified the following goals of cash management, to satisfy day-to-day business requirement, provide for schedules payments, face unexpected cash drains, seize potential opportunities for profitable long-term investments, meet requirement of bank relationship, meet images of credit worthiness, earn on cash balance, build reservoir for new cash inflow till the availability of better use of funds by consumers and maximize the operating cost of cash management. Though many organizations have different strategies of managing their cash, some organizations adopt Miller-orr model because Miller-orr cash management model suit many businesses organization that have uncertain cash out-flow and in-flow stream. This approach permits cash balance to be set and determine the return point (target cash balance). Baumol model is similar to Economic Order Quantity (EOQ). Cloudfront.net (2007) identified some basic strategy for efficient and effective cash management a company must employ as thus; measurements of the cash flow time lag, improve the level of liquidity with interest bearing accounts, using appropriate mailing policy using available schedules on cheque clearance, zero-balance account, taking advantage of prime tax break, letter of credit, commercial factoring, sell of unneeded items and speeding up the collection with Electronic Depository Transfer (EDT). Cloud (2007) also explain the benefit of cash management as a great process that saves time, cut down on leakages, and cash flow optimization

Financial Performance

Financial performance is the achievement of the company's financial performance for a certain period covering the collection and allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Interestingly. There are different performance such as operational, market and financial performance, but this study will focus on financial performance management. The term is also used as a general measure of a firm's overall financial health over a given period. Thus, financial performance identifies how well a company generates revenues and manage its assets, liabilities, and the financial interest of its stakeholders. It is obvious that financial management reflects the effectiveness of the management strategy.

Analyst and investors used financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. There are many ways to measure financial performance, but all measures should be taken in aggregate. Line items, such as revenue from operations, operating income, or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investors may wish to look deeper into the financial statements and seek out margin growth rate or any declining debt. The most comprehensive source of financial performance made available to investors annually includes the three financial statements (annual report): the balance sheet, the income statement, these three are used in measuring a firm financial performance.

Earnings Per Share (EPS)

Earnings per share is the major factor used in determining share price and company value. The earning per share signified the portion of a company's earnings, net of taxes and preferred stock dividends that is allotted to each share of common stock. The figure can be calculated by simply dividing net income earned in a given reporting period (usually quarterly and annually) by the total number of shares outstanding during the same term. This is because the number of shares outstanding can fluctuate, a weighted average is typically used (Besely 2006). Calculated as:

$$= \frac{\textbf{Net income – Dividends on preferred stock}}{\textbf{Average outstanding shares}}$$

International Accounting Standard (IAS 33) set out how to calculate both basic earnings per share (EPS) and diluted EPS. The calculation of Basic EPS is based on the weighted average number of ordinary shares outstanding during the period, while diluted EPS also includes Dilutive potential ordinary shares (as options and convertible instrument) if they meet certain requirement.

There are three common types of earnings per share

i.) Reported Earnings per Share (or GAAP EPS): It is the number derived from generally accepted accounting principle (GAAP), which are reported to Securities and Exchange Commission filings. The accounting guidelines used is the parameter by which the company derives its earnings per share.

ii.) Pro forma Earnings per share: It means that the company used an assumption to derive a number used. The pro forma earnings per share specifically excludes some expenses or incomes that were used in calculating reported earnings. Example is a company sells a large division, the company may use historical results, calculate the expenses and revenues related to that unit. This allows for more of an "apple – to – apple comparison" (Investopedia, 2003).

iii.) Ongoing Earnings per share: It is calculated based on normalized, or ongoing, net income and excludes anything that is an unusual one-time event. The aim is to find out the pattern of earnings from core operation which may be used to forecast the future earnings per share. This means that the company, excluding a large one time gain from the sales of equipment, and unusual expenses. This methodology may also be called "Pro forma" EPS (Madura, 2006).

Earnings per share is simply a figure describing a public company's profit per outstanding share of stock, calculated on a quarterly or annual basics.

Net Profit

Net profit is an essential metric used in assessing a company's total financial health and viability for investments net profit is also known as net income, net earnings or bottom line. It is the total amount left over after subtracting all business expenses from its total revenue. In addition to cost of goods sold, other expenses for net profit includes operating expenses, income taxes, interest expenses on loans and debts, depreciation of fixed asset, and selling, general, and administrative expenses. Net profit calculations: total revenue includes the amount of money earned from product sales in addition to income from other places, such as investments.

Net profit account for all the company's expenses is revenue. It is a metric that reflects a company's actual profitability at the end of the year of accounting period. The net profit is often listed on the last line "bottom line" of a company's income statement.

Empirical Review

Relevant research have been conducted to evaluate the relationship between current asset management and financial performance of listed construction companies in Nigeria. Some of which are reviewed hereunder. This work will review various empirical contributions made by other researchers on this and related subject matter in order to possibly locate the gaps that may exist.

Emmanuel et al. (2021) studied the level of financial performance of selected construction companies in South Africa. The study used 32 construction companies in South Africa, pragmatic approach was used and contractors with financial capacity and credibility of ≥ R 40 million, annual turnover of ≥ R 20 million, and available capital of ≥ R 40 million were selected purposively for the research. Parameters like total indirect cost, direct cost of work, total income and total revenue were obtained from the sample contractors to measure their financial performance. Post hoc Turkey's honest significant differences (HSD) was used to run the analysis. In their result, they concluded that there is no consensus on the indicators that measure a construction company's financial performance projects undertaken and there is a shortage of concepts on the financial performance indicators for construction companies in South Africa and indeed, the entire Africa continent.

Oluyemi and Chinyere (2021) studied the relationship between asset structure and financial performance of quoted construction companies in Nigeria. The study used secondary data from 2012 – 2018. The dependent variable of financial performance was measured using earning per share and return on asset while the independent variable of asset structure was measured by fixed asset and current asset. The proxies were measured using correlation test, unit root test using the Augmented Dickey Fuller (ADF) and simple regression using (Eview 11). The result was that fixed asset has a profitable and significant impact on return on asset. It also showed that current asset has a positive and significant impact on earnings per share.

Monday et al. (2020) examined the influence of construction firm size on the level of adoption of sustainability practices in Niger Delta, Nigeria**.** Survey design approach was employed. Data were obtained through interviews and one thousand one hundred and seventy-nine copies of structured questionnaire administered to representatives of the companies by researchers and research assistants. Data analysis were simple percentage and Spearman's rank correlation. The result reveals that small companies accounted for 84.7 %, medium-sized companies accounted for 11.61 % and large construction firms accounted for 3.73 %. Therefore, a majority of companies are small and medium-sized construction firms in Niger Delta. The work reveals that the firm size influenced the level of implementation of firm sustainability practices in the study area. Conclusively, the size of companies has a significant influence on the level of adoption of sustainability practices among the construction companies operating in Niger Delta. Furthermore, he also opined that small and medium-sized construction companies recorded poor capacity building and human capital development. The study recommended that small and medium-sized construction companies operating in Niger Delta should enhance their level of capacity building and human capital development.

Olubimbola and Tayo (2018), Financial performance of locally owned construction firms in south-western Nigeria. From 2004 to 2013 of annual financial statements of 58 locally owned construction firms' (LOCOFs') financial statements on turnover, fixed assets, gross profit and after-tax profit to assess their financial performance in the Nigerian construction industry. Design/methodology/approach, a purposively sampled size of 580 LOCOFs' financial values (turnover, fixed asset and gross profit) from 212 turnover, 207 fixed assets, 184 gross profit and 217 after-tax profit data points was obtained. Firms' capacities were obtained by categorization, industrial average median was obtained, and a regression analysis was used to describe the relationship and test of significance of the variables. Result shows that LOCOFs were categorized as micro scale construction contracting business enterprises. LOCOFs' financial performance was less than the performance of similar construction firm types and profits were not necessarily influenced by the cost of its investments on fixed asset but rather on firms' turnover.

Samiloglu and Demirgunes (2008), examined on the impact analysis of current asset management on profitability of firms with reference to Turkey. The quarterly data was collected for a sample of companies listed at Istanbul Stock Exchange from 1998 to 2007. The researchers employed Correlation and regression analysis. It was revealed that receivable and inventory period with liquidity has a negative effect on the profitability of the company while growth was positively related with profitability. However, CCC, size and financial assets did not have significant impact on the profitability of the companies.

Niresh (2012) examined the relationship between working capital management and financial performances of listed firms in Sri Lanka. A sample of 30 companies listed on the Colombo Stock Exchange was used. Data were collected from annual reports of sampled companies from 2008 to 2011. Performance was measured in terms of return on assets and return on equity while cash conversion cycle, current assets to total assets and current liabilities to total assets were used as measures of working capital management. Correlation and regression analysis was employed. The result shows that, there is no significant relationship between cash conversion cycle and performance measures. The researcher suggested that companies in Sri Lanka follow conservative working capital management policy.

Methodology

The research design adopted for this study was the ex-post facto research design. The population of this study consisted of all listed construction companies in Nigeria which stands at Six (6), as listed on the Nigerian Exchange Group in 2021. However, Arbico Plc and Roads Nig. Plc have incomplete data under the period in view, which made the observation to be 53firm year observations

Data Analysis

Descriptive analysis

For an effective analysis of the data collected for this study, the descriptive statistics were applied to appraise the nature of the data so collected. Presented in table 4.2 below is the result of the descriptive statistics of the data as generated by the Stata12 software.

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
cm	53	2.527692	3.282411	.6643841	21.30884
eps	53	25.16981	62.65312	-104	223
np	53	-2.196226	145.6158	-802.62	76.64

Source: Output from STATA version 12.

The table above shows the result of the descriptive analysis of the data used in this study. It shows that listed construction companies cash management; hereafter called CM has an average mean value of 2.5% with a standard deviation of 3.28 ranging from 0.6 as a minimum to 21 as maximum values. This implies that there is great variability amongst the firms as indicated by the minimum and maximum statistics. Earnings per share, hereafter referred to as EPS shows a mean value of 25, a standard deviation of 62.65, and ranges between a minimum value of -104 and a maximum value of 223. Net profit hereafter referred to as NP shows an average mean value of -2.19% with a standard deviation of 145.62, and with a minimum value of -802 and a maximum value of 76. This implies a decrease in the financial performance of listed construction companies as portrayed by the average mean value.

Test of Hypothesis 1

Ho_1: The effect of cash management on earnings per share is not significant.

Regression on the relationship between cash management and earnings per share.

Number of obs = 53

R-squared = 0.1411

eps	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf. Interval]	
cm	-1.461761	3.066956	-0.48	0.636	-7.628289	4.704768
cons	26.75299	14.38877	1.86	0.069	-2.177574	55.68356

Source: output from STATA version 12.

Table above shows the regression result on cash management and earnings per share. The table revealed the existence of a negative relationship between cash management and earnings per share of listed construction companies on the Nigerian Exchange Group (p-value= 0.636). It means that a 1% increase in cash management will bring about a 1.46 % decrease in earnings per share all other variables held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant relationship between cash management and earnings per share of listed construction companies in on the Nigerian Exchange Group."

Test of Hypothesis 2

Ho_2: The effect of cash management on net profit is not significant.

Regression on the relationship between cash management and net profit.

Number of obs = 53

R-squared = 0.0694

np	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf. Interval]	
cm	5.48315	4.070941	1.35	0.184	-2.702026	13.66833
cons	-38.33534	43.43505	-0.88	0.382	-125.6674	48.99668

Source: output from STATA version 12.

Table above shows the regression result on cash management and net profit. The table revealed the existence of a positive but insignificant relationship between cash management and net profit of listed construction companies on the Nigerian Exchange Group (p-value= 0.184). It means that a 1% increase in cash management will bring about a 5.5 % increase in net profit all other variables held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant relationship between cash management and net profit of listed construction companies in on the Nigerian Exchange Group."

CONCLUSION AND RECOMMENDATIONS

One of the main concerns of the company is the effort to achieve the desired level of profit. That goal can be achieved through good current asset management. Good current asset management reflects that the company is able to control its financial performance efficiently and effectively

Based on the empirical results and findings obtained above, we therefore recommend the followings.

(i) The management should give consideration to cash management which play a critical role in increasing the financial performance of the company.
(ii) Attention should be taken on management of current ratio as well as investment of excess liquidity in short-term assets such as treasury bills for an enhanced net profit.

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