CASHFLOW AND ORGANIZATIONAL PERFORMANCE IN NIGERIA: HOSPITALITY AND PRINT MEDIA INDUSTRIES PERSPECTIVES

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ABSTRACT

This paper examines the relationship between cashflow and organization performance from the perspective of the hospitality and print media industrial sectors of the economy. From a pilot study, forty five small and medium enterprises (SMES) in these sectors were sampled. Data were collected through questionnaire. Analyses were performance by means of descriptive statistics and Pearson's product moment coefficient of correlation using the statistical package for social sciences (SPSS). Results indicate a significantly strong positive relationship between cashflow position and net profit. Consequently, cashflow position determines the extent of net profit performance of organizations in the hospitality and print media. Considering advances in technology and quality of service delivery which create competition, hospitality and print media organizations should develop strategies to enhance their cash inflow

Keywords: Cashflows, organizational performance, hospitality and print media.

INTRODUCTION

Cashflow is a concept in accounting and finance used to describe the inflow and outflow of cash within an organization. Inflows represent cash receipts while outflows relate to cash expenditures. A high inflow of cash when compared with the outflow provides a company with sufficient cash balance for investment purposes. On the other hand, a low inflow leading to excess of outflow over the inflow reduces organizational operations. In the views of Libby *et al* (2001:682), cashflow permits a company to expand its operations, replace needed assets, take advantage of market opportunities and pay dividend to its owners. Both managers and analysts need to understand the various sources and uses of cash that are associated with business activity. Reinforcing this position, Rose *et al* (2007) noted that, cash flow information assists its financial statement users in obtaining the relevant information concerning the uses and sources of virtually the entire financial resources over stated period of time.

M. Luz *et al* (2012) investigated whether financial statements, particularly the cashflow statement provide users with relevant information on investment transactions. Using a sample of UK companies, two main facts were documented, first cashflow statement convey valuable information on corporate investments (i.e. investing cashflows) that help users in assessing future firm cashflows. Second, information on these investments that were not financed with cash is also relevant when assessing the future prospects of the firm, though; it is not reflected in the face of the financial statements. Results suggest that even in the UK where most investments are financed with cash, valuable information on investments is missed from the cashflow statement.

Similarly, Amuzu (2010) studied cashflow ratio and saw them as being more effective in determining enterprise effectiveness and competitiveness in the market, because they present more dynamic examination of actual return on assets and equity.

None of these studies attempted to relate cashflow in its entirety to organizational performance. The purpose of this paper is to examine the influence of cashflow on organizational performance, particularly in Nigeria, a developing economy. The next section will discuss literature review. This will be followed by development of hypothesis, methodology, data presentation and analysis, conclusion and recommendation

LITERATURE REVIEW

Cashflows are categorized according to the activities that generate and use cash. From the body of knowledge, such activities are those associated with operating, investing and financing. Operating cashflow involves activities leading to the determination of net profit. As per IAS 7, operating activities are primarily derived from the main income producing activities of an entity. They result from transactions and other events that enter into the computation of net profit or net loss. Some examples are cash receipts from the sale of goods and services, cash receipts from fees, commissions and other services, cash payment to suppliers and employees and cash payments for income taxes. Similarly, FRS 1 explains cashflows from operating activities as the cash effects of transactions and other events relating to trading activities, included in the profit and loss in arriving at operating profit.

Alternatively, cashflows from investing activities are cash inflows and outflows associated with the purchase and disposal of productive facilities used by the company and investments in the security of other companies, while cashflow from financing activities include inflows and outflows of cash involved in obtaining cash from external sources for the purposes of financing the company and its operations (Libby *et al* 2001: 684 - 685). Examples of investing cashflows are payments to acquire property, plant and equipment, loans by the reporting entity and payments to acquire debt instruments of other entities excluding payments for the acquisition or disposal or a movement in liquid resources. Others are receipts from sales or disposals of property, plant or equipment and receipts from repayment of the reporting entities loans to other entities or sales of debt instruments of other entities other than receipts forming part of an acquisition or disposal or a movement in liquid resources (FRS 1 in Alexander and Britton, 1999). Cash inflows in management of liquid resources include withdrawals from short term deposits not qualifying as cash and disposal or redemption of any other investments held as liquid resources.

Financing activities are cash proceeds from issuing shares or other equity instruments, cash payments to owners to acquire or redeem the entities shares, cash proceeds from issuing debentures loans notes, bonds, mortgages and other short-term or long –term borrowings, cash repayments of amounts borrowed and cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease (IAS, No. 7).

The segregation of cashflow generating activities into the dimensions of operating, investing and financing is to identify how each of them impact organizational performance. This fact exposes the essentiality of cash flow data or information to an organization. From IAS 7, a statement of cashflows, when used in relation with other financial statements gives information which enables users to assess the changes in net assets of an organization, its financial structure (liquidity and solvency) and ability to affect the amounts and timing of

cashflows so as to adapt to changing circumstances and opportunities. As stated by Albrecht (2003), data from a balance sheet (statement of financial position) tends to be static in nature portraying that they measure only one point at a time. In addition, income statement is characterized by a lot of non-cash allowance and expenses; for instance amortization and depreciation. Conversely a statement of cashflows documents the observable changes from the financial statements. At the same time, it also eliminates the deception of book keeping, laying more emphasis on what is of more concern to shareholders which is the amount of available cash for investment and operations (Amuzu, 2010). Thus, the cashflow statement focuses attention on a firm's ability to generate cash internally, its management of current assets and current liabilities and the details of its investments in productive assets and external financing (Libby *et al* (2001).

Cashflow position of a company determines its ability to execute projects and acquire raw materials for manufacturing activities. Nwachukwu (2002:301) attests to this when he said "the biggest problem of any project (property) development organization of any size is finance which is one of the elements or factors of production. It is the project developers' capacity or power for mobilizing required land, labour force, materials, plant and supervisory staff necessary to organize any development project".

Two methods are adopted in the preparation of statement of cashflows. According to IAS 7, they are the direct and the indirect methods. The direct method reports cash inflows and outflows on gross basis and provide a measure for forecasting cash requirements of an entity. It ignores non-cash items. Alternatively, the indirect method adjusts net profit with non cash items (depreciation, profit on disposal of non-current assets; etc) and considers changes in working capital to arrive at net operating cash flow. This approach fails to report cashflows in its entirety but incorporates changes in working capital which do not succinctly provide a direction for cashflow assessment of an organization. Apart from users knowledgeable in finance and accounting, it is herculean for others to comprehend working capital changes as substitutes for cashflow under the indirect method.

In the works of Jones *et al* (1995) the indirect method highly undermines and reduces the relevance and purpose of cashflow statement. On the other hand, Krishnan and Largay (2000: 218) studied whether the direct method is superior to the indirect method in forecasting future cashflows. From a sample of US firms adopting the direct method from 1988 to 1993, past cashflow data were found to be more useful than past earnings and other accrual information in forecasting future cashflows; also the accuracy of cashflow prediction is enhanced when direct method cashflows data and earnings as well as other accrual data are used. The body of knowledge so far suggests that the direct method is more superior to be indirect method as it reports cash transactions in their absoluteness. The indirect method incorporates movements in working capital and adjustments to net income which fail to reflect cash movements.

Organizational Performance

Performance is a concept used to assess the level at which an organization has succeeded in its line of business. It varies from one organization to the other depending on the nature of activity. Whereas in profit making organizations, profit or sales volume may provide on index of performance, non-profit entities may use number of membership and service to society, example, scholarships as measures of performance.

Commonly used measures of organizational performance are those related to accounting. They include net profit, return on asset, return on equity current ratio, liquid ratio; etc. (Dyckman *et al* 1998, Hicks and Gullet 1981 and Nwanyanwu 2013a). This is because accounting related measures have the advantage of being comparable both to industry norms and to historical performance (Fry *et al*, 1998).

This paper is premised on the conception that sufficient cash inflow position of a company has the propensity to improve its performance in the context of profitability. Consequently, organizational performance in this study is measured using net profit.

Hypothesis Development

Cashflow plays a prominent role in evaluating organizational performance particularly, industries in the service sector such as those in the hospitality and print media. The cashflow position of a company determines the extent to which it finances its operations. Nwachukwu (2002:301) observed that the biggest problem of any project (property) development organization of any size is finance which is one of the elements or factors of production. It is the project developer's capacity or power for mobilizing required land, labour force, materials, plant and supervisory staff necessary to organise any development project. From the perspective of Pandey (1979:357-358), cash flows – inflows and outflows are inseparable parts of the business operations of all firms. The firms need cash to invest in inventories, receivables and fixed (non-current) assets and to make payments for operating expenses in order to maintain growth in sales and earnings.

Taking into consideration the relevance of cashflows in organizational performance, the following hypothesis is formulated for testing:

> *There is no significant relationship between cashflow position and net profit of hospitality and print media organizations.*

METHODOLOGY

This study adopted a survey design. Primary data are collected using questionnaire drawn on a five point scale. The explanatory variable, cashflow (CF) has three questions while the response variable, net profit (NP) has two questions. Respondents were required to rate their company's performance in terms of net profit, from 'outstanding "to "fair". Considering the nature of their organisations businesses, they were required to agree or disagree on their profitability, from "strongly agree" to "strongly disagree".

In relation to the cashflow position of their companies, they were required to assess if cash flow position can affect their companies investment in non-current assets and inventory as well as their performance on a five point scale managing from "strongly disagree" to "strongly agree". Responses on the cash intensive nature of their organizations were also elicited from "low" to "very high".

From a pilot survey conducted, forty five (45) organizations in the hospitality sector and print media were identified. This number constituted the sample for the study. The test statistic is the Pearson's product moment coefficient of correlation. Analysis was performed using the statistical package for social sciences (SPSS).

Data Presentation and Analysis

One hundred and thirty five (135) sets of questionnaire were distributed to respondents. The number returned is one-hundred and twenty seven, out of which six (6) were rejected for incorrect completion and mutilations. One- hundred and twenty one which is a response rate of approximately 89.63% were accepted and used for analyses.

The descriptive statistics are presented in table 1. The essentiality of cashflow position in the acquisition of non-current assets and inventory for business operations is rated 3.8099 on the average. This is 76.2% on a 5 point scale. On the other hand, respondents' opinions as to whether cash position affects their companies performance had a mean score of 3.8595 or 77.19% also on a 5 point scale. The mean rating of the intensity of cash requirement by the companies sampled is 3.7190 or 74.38%. Overall profitability assessment of the industries studied was rated 3.4298 on the average or 68.6% while the mean score specifically in terms of net profit performance was 2.9174 or 58.4%. Analysis suggests that cashflow is an important factor in organsational growth. This confirms the fact that financial statements reported under the cash basis is a better assessor/measure of liquidity performance than the accrual concept (Nwanyanwu, 2013b).

The correlation analysis between the explanatory variable cashflow position (CFP) and the response variable, net profit (NP) is shown in table 2. The coefficient of correlation (r) is 0.583, indicating a positively strong relationship between the variables. This relationship is significant at 0.01 level (2-tailed). The analysis rejects the hypothesis that there is no significant relationship between cashflow position and net profit of hospitality and print media organizations.

DISCUSSION OF FINDINGS

Results of descriptive statistics indicate that cashflow position determines the level of performance of organizations. Aside net profit rating which is 58.4%, other events namely intensity of industry cash requirement and acquisition of non-current assets and inventory were rated in excess of 70%.

This confirms the level of overhead consumption prevalent in the industries arising from the quality of service delivery required by clients as well as innovations due to changes in technology. For example the print media needs sufficient vehicles and manpower to supply newspapers and magazines to its outlets and marketing centres.

In addition, the coefficient of correlation(r) of 0.583 indicates a significantly positive relationship between cashflow position and net profit. Conversely, increase in cashflow position increases net profit. Judging from the coefficient of correlation, the coefficient of determination (r^2) is 33.99%. Consequently, cashflow position of hospitality and print media organizations account for changes in their net profit by 33.99%. Other factors apart from cashflow position explain changes in net profit of organizations in this sector by 66.01%.

CONCLUSION AND RECOMMENDATION

The hospitality and print media organizations are cash intensive subsectors of the economy. The quality of service, level of innovations and modernizations required expose them to

competition. As a result, cashflow becomes an important factor in determining their level of performance. Empirical findings as shown in this study provide supportive evidence.

Organizations in these industries should develop strategies towards enhancing their cashflow positions in order to improve net profit performance. This study is significant as it enriches literature on cashflow in the context of hospitality and print media organizations. Future research agenda should consider the influence of other factors such as advances in technology and information and communication technology (ICT) on the performance of organizations in these subsectors of Nigerian economy.

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Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
Cashflow position on non-current assets and inventory (CF)	121	1.00	5.00	3.8099	1.16415
Cash position on company performance (CFP)	121	1.00	5.00	3.8595	1.11285
Intensity of cash requirement (CRQ)	121	1.00	5.00	3.7190	1.06633
Overall industry profitability in relation to cashflow (NP)	121	1.00	5.00	3.4298	1.16065
Company Net profit performance (NPP)	121	1.00	5.00	2.9174	1.22193

Source: Survey data November 2014 and IBM SPSS Version 20.0.
Scale: CF, CFP and NP: I = strongly agree, 2 = disagree,
3 = undecided, 4 =agree 5 = strongly agree.CRQ -: I = low,
2 = below average, 3 = average, 4 = high and 5 = very high
NPP-: fair, 2 = good 3= very good, 4 = excellent,
5 = outstanding.

Table 2: Correlation analysis between cashflow position (CFP) and net profit (NP)

	Cashflow Position (CFP)	Net Profit (NP)
Cashflow position Pearson correlation Sign.(2 –tailed) N	1 121	0.583** 0.000 121
Net profit Pearson correlation Sign. (2 –tailed) N	0.583** 0.000 121	1 121

**Correlation is significant at the 0.01 level (2 –tailed)
Source: IBM SPSS version 20.0