



Firms' Growth And Cash Flow Analysis: An Empirical Analysis Of Nigeria Companies

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ABSTRACT

The study investigated the link concerning cash flow analysis and firm growth in companies in Nigeria. Using variables such as operating cash flow and investing cash flow to represent cashflow analysis, while profit before tax is used to proxy firm growth. The Agency theory served as the foundation of this paper. Ex-post research design is the methodology used in this study. It is founded on secondary time series data. The manufacturing businesses listed on the trading floor of the Nigeria Stock Exchange make up the study's target population and keep reliable records of all the information required for evaluating the research variables from 2012 to 2021. At 0.05 significance, the F-value of 0.000916 indicates that the complete model is highly substantial. The aforementioned analysis affirms the statistical significance of the multiple regression model, indicating its appropriateness as a predictive tool for elucidating the influence of chosen independent variables on the growth of firms in Nigeria. This paper also found that operating cash flow (OCF), is statistically significant with investing cash flow (ICF) are with significance value of more than 5% is statistically insignificant. Conclusively, a noteworthy correlation exists among cash flow analysis and firm growth in companies in Nigeria. In line with the results of this paper, it is advised that manufacturing companies adopt what is known as backward integration, i.e., have raw materials within the nation rather than always importing to improve their investment, as doing so results in lower prices, which increase the firms' investment cash flow.

Keywords: Analysis, Cash, Flow, Firm, Growth, Investing, Operating, Profit

INTRODUCTION

The heart of corporate organizations is the impact of the availability of cash. Any entity's cash situation dominates its corporate performance, and an entity's cash flow is a key element that improves how well it operates. A cash flow statement gives a company a chance to disassociate itself from the financial inflows and outflows that occurred during the reporting period. As per Appah's (2021) findings, cash is an essential resource for corporate organizations as it is imperative for procuring assets that are used in the manufacturing of goods and services. Consequently, this facilitates the enterprise's ability to yield revenue and amplify the prosperity of its stakeholders.

The cashflow statement is an accounting document that, when integrated with other financial statements, allows users to assess alterations in an organization's net assets or equity, its financial framework integrating factors such as solvency and liquidity, and its capacity to modify the timing and amounts of cash inflows and outflows in reaction to changing circumstances and opportunities. The use of consistent accounting techniques across various transactions and events helps to improve the comparability of operating performance reporting among different organizations. This approach mitigates the adverse impacts that may arise from the use of disparate accounting methods. Frequently, historical cash flow data

is utilized to forecast the magnitude, timing, and reliability of forthcoming cash flows. Additionally, it can serve the purpose of verifying the precision of prior projections pertaining to forthcoming cash inflows and outflows.

For the financial movements to be organized properly and successfully employed, a corporation must be able to devise a number of strategies for selecting the paramount cashflow components that would be utilized in the business' operations to boost productive capacity. The finance manager should have created clearly defined criteria on which to base this strategy following thorough financial planning and supervision of the firm (Uremadu, 2004). The funds that a company spends in its tangible assets, inventory, marketable securities and account receivables in order to produce business profit are referred to as the business's cash flows (Uremadu, 2004).

A class of stocks and companies known as the manufacturing sector deal with the products that customers buy, as opposed to manufacturers and industries. Companies in this sector produce food, packaged products, clothing, drinks, automobiles, and electronics. Consumer behavior has a big effect on how well the manufacturing sector performs. As the economy grows in this area, demand for higher-end products will increase. On the other side, if the economy weakens, there is a fall in demand for the value output. Despite the fact that some product categories, like food, are considered essentials, others, like cars, are seen as luxury items. Due to customers' lower purchasing power as a result of Nigeria's recent economic decline, the manufacturing sector is probably going to see poor corporate performance.

Firm growth is a thorough assessment of how well a firm accomplishes its main objectives. It is frequently assessed in terms of financial, market, and shareholder performance. Also, it is concerned with the health of the company, which is often determined by how well it does financially. Yet, the concept of corporate performance has grown in recent years. The current agreement is that in addition to financial factors, the assessment incorporates various elements, including but not limited to corporate social obligation and standing, ingenuity, workforce satisfaction, and efficiency. Key growth indicators (KGI) such as return on investment, revenue, profit before tax, return on total assets (ROA), as well as overhead and operating expenses are no longer the sole measurements used to evaluate growth.

Problem Statement

When projecting a company's future performance, its ability to generate future cash flows, and its ability to pay for modifications to the size and nature of its activities, information about an entity's cash flow is useful to stakeholders, creditors and investors like the bank. Current research on cash flow concentrate on listed companies in well-known and industrialized economies, both industrial and non-industrial. Different outcomes were indicated by other research' findings. According to general company growth, the outlook for Nigeria's manufacturing industry is not particularly positive. The Nigeria manufacturing sector report notes that in addition to the existing issues, the sector has a high-risk rating.

Previous research efforts have made significant progress in exploring the association between cashflow and organizational performance. They have evaluated the influence of cashflow management on the performance of businesses in Nigeria, analyzed the link concerning cashflow and the financial outcomes of insurance companies, and investigated the association among cashflow and organizational achievement in Nigeria, particularly within the hospitality and newspaper and magazine sectors. The effect of cashflow analysis on company growth has received less attention and has received less research in Nigerian private enterprises. The present investigation aims to address a research void within this particular field of study.

Objectives of the study

The general objective of the study is to examine the correlation among cash flow analysis and firm growth in companies in Nigeria. However, the specific objectives are;

1. To examine the relationship between operating cash flow (OCF) and profit before task (PBT) in companies in Nigeria.
2. To examine the relationship between investing cash flow (ICF) and profit before task (PBT) in companies in Nigeria.

Research hypotheses

H0₁: There is no significant relationship between operating cash flow (OCF) and profit before task (PBT) in companies in Nigeria.

H0₂: There is no significant relationship between investing cash flow (ICF) and profit before task (PBT) in companies in Nigeria.

Conceptual and Theoretical Review

Cash Flow

The cash flow report tells you everything you need to know about how money comes into and goes out of a business. This includes both ongoing operations and ways to get money from outside the business. It also includes any monetary transfers made within a specific time period for assets or business expenses. The financial records of a business show a full picture of all of its business transactions and how they have contributed to the company's success. The generation of funds in a company is primarily achieved through three key mechanisms: operating, spending, and funding, which are meticulously monitored and recorded in the cash flow summary. Therefore, the cash flow statement is deemed the most informative financial summary. The net financial flow is determined by the addition of these three elements. The estimation of a company's market worth or equity price can be facilitated by investors through the use of three key components of the cash flow summary.

Operating Cash Flow Activities

This cashflow element entails actions that result in profit determination.

These are regular business operations that occur in the usual path of an enterprise's operations, and transactions resulting from them are often included in the profit and loss account to determine operational profit (FAMS 2). According to IPSAS 2, most of the cash flows from practical processes come from the main activities that bring in the most cash for the entity. Income tax payments, business income tax payments, fees, royalties, and other services are all examples of transactions that involve cash payments. Additional illustrations encompass monetary gains derived from the vending of commodities and amenities.

Operating cash flow is another metric that can be used to figure out how well a business can make money from its operations. The working cash flows must be enough to cover the final cash withdrawals for operations like paying debt interest, bonuses, and other costs. (Appah, 2018). Bingilar and Oyadonghan (2014) found that the variability of operating costs resulted in an inconsistent influx of financial resources and assets. Liman and Mohammed (2018) explicate that operational cashflow pertains to the income produced by a firm's routine financial activities in a comparable manner. The determination of a company's net income is contingent upon the cash flow generated from its business operations. This encompasses the cash inflows from the procurement of goods and services, as well as the cash outflows disbursed to the vendors of those goods and services and the remuneration of employees, among other factors.

Investing Cash Flow Activities

According to AS-3, trading actions include buying and selling long-term assets as well as other ventures that aren't monetary alternatives. They relate with the acquisition and disposal of machinery, real estate holdings, funds, and other resources used in the creation of goods and services (FAMS 2). Examples of investment cash flows include loans from the reporting business, expenditures to purchase debt securities from other companies, and expenditures to purchase land, plant, and equipment. These examples don't include cost associated with the procurement or divestiture of assets or adjustments to liquid assets.

The potential for future earnings and cash flow from new asset investments to support corporate development and expansion is shown by the investing cash flow statement (Appah, 2019). Investment activities include those that entail the acquisition and sale of stock, equipment, and real estate, as per Nangih, Ofor, and Onuorah (2020). Other examples of investing operations include cash proceeds from the sale of tangible assets, payments in cash for the acquisition of real property etc.

Firm growth

In company development, indicators are put into four main groups: capacity, business results, qualitative indicators, and business outputs. Profit is one of the most vital ways to evaluate performance. It is found by subtracting total costs from total revenue. The profitability of a company is contingent upon its generated income and operational efficiency. An increase in profitability would indicate a rise in output and revenue growth. Hence, the enhancement in efficiency and financial gain can serve as a measure of a firm's progress.

Profit Before Tax (PBT)

Essentially, it refers to the complete sum of a corporation's profits prior to any imposition of taxes. The revenue statement displays profit before taxation as the difference between operating profit and interest. The figure utilized to determine a corporation's tax liability is the pre-tax profit. Profit before tax (PBT), commonly referred to as earnings before tax, is a metric used to gauge a company's profits prior to the payment of corporate income tax. The revenue summary for the business displays this information. The main aim of the company proprietors was to ascertain their authentic profit ratios while disregarding diverse tax rates and frameworks. (Owolabi & Obida, 2012).

Agency theory

The Agency theory will serve as the foundation of this paper. One of the most popular management theories is agency theory, according to Wasserman (2006) and Madison (2014). Jensen and Meckling introduced it (1976). Jensen and Meckling say that an agency arrangement is a contract between a company's owners and its executives. The owners (in their role as principals) name the executives as their agents to run the business on their behalf. The text posited a hypothesis that elucidated the genesis of an organization's governance through the conflicts of interest that arise among its shareholders, management, and major debt financiers.

The study is supported by the theoretical foundation that claims cashflows influence business effectiveness, and the magnitude of that impact relies on the company's profit or loss, excessive capacity investment, stock availability, etc. Two issues that arise in the agency relationship are addressed by the agency theory. The connection between company principals (owner) and their agents (stewards), who provide services on their behalf, is explained and resolved using this concept. Most frequently, that connection occurs between shareholders acting as principals and firm officials acting as agents.

Empirical Review

Appah, Awuji, and Anuogwo (2021) looked at the impact of accounting for cashflow on the financial success of notable consumer product firms in Nigeria from 2015 to 2019. Twenty-three companies were chosen as the sample from the study's population of 26 companies using the Taro Yamane algorithm. The data analysis employed in this study included descriptive, bivariate, and multivariate analyses. The data came from a sample of annual reports from firms that are quoted in Nigeria. The study findings indicate a noteworthy inverse relationship among investment endeavours and financial leverage while demonstrating a significant direct association across operational and financing cash flow and the attainment of business prosperity.

Nangih, Ofor, and Ven (2020) examined the link across the financial success and cashflow management of a selected number of listed oil and gas companies. The Stakeholders' Theory served as the study's foundation. The judgmental research design was the one employed in the study. Data that was obtained from the yearly records of five publicly traded firms for the years 2013-2018 was evaluated using multiple regression and correlation approaches. The study's results indicate that the cashflow generated from funding operations had a significant and favourable impact on the outcomes of companies operating in the oil and gas sector. Conversely, cashflow originating from investment and operating activities exhibited a minor and adverse correlation with earnings.

Nwakaego, Ikechukwu, and Ifunanya (2015) looked at how cash flow affected the performance of businesses in Nigeria's nutrition and drinks sub-sector. The paper involved an inquiry into six quoted in Nigerian food and drinks enterprises. The selected companies' yearly reports and financial records were

used to collect data for the research. The applicable data was analysed utilizing multiple regression techniques. The discoveries of the research indicate that investment cash flow exhibits a substantial negative correlation with corporate success, whereas operating and funding cashflows display a robust positive correlation with corporate performance in the food and drinks companies in Nigeria.

Bingilar and Oyadonghan (2014) look into how much money the Nigerian food and drink industry makes and how well it does in business. For the research, six (6) quoted Nigerian food and drink enterprises were questioned. The statistical appraisal of the data involved the use of several regression approaches. The researchers proposed that regulatory bodies like the IFRSB, FRCN, CBN, NSE, SEC, NDIC, and others should promote the use of cash flow ratios by external auditors of these listed food and beverage companies in evaluating a company's performance prior to making a free-standing judgment regarding the financial summary.

METHODOLOGY

Ex-post research design is the methodology used in this study. It is founded on secondary time series data. The manufacturing businesses listed on the trading floor of the Nigeria Stock Exchange make up the study's target population and keep reliable records of all the information required for evaluating the research variables from 2012 to 2021. The audited reports of the chosen quoted firms, as well as the annual reports of these selected companies, served as the sources of data for both the dependent and independent variables in this research.

Model Specification

The model in the study of Bingilar and Oyadonghan (2014) will be adopted for this study. They develop a regression model of the subsequent form to illustrate the relationship among cashflows and firm growth which is shown below:

$$PBT = F(OCF, ICF)$$

To make the equation easy for empirical verification, they transform it into a multiple linear regression equation.

$$PBT_{it} = b_{it} + b_1 OCF + b_{it} ICF + et_{it} \dots \dots \dots (1)$$

Where:

b = Parameter to be estimated

PBT_{it} = Profit before task, a proxy for firm growth

OCF_{it} = Operating cashflow

ICF_{it} = Investing cashflow

Multiple regression was employed to analyse the data. Multiple regressions have the advantage of allowing researchers to estimate the dependent variable using more of the available data. Additionally, it has the distinctive traits of impartiality, stability, and effectiveness. The variables' regression equation, the coefficients of correlation (R), and determination (R²), analysis of variance (ANOVA) F-test Statistics are among the statistics that were put to the test. Eview version 9 was utilized to analyze as the statistical software.

RESULTS AND DISCUSSIONS

This part of the paper shows the results of the analyses in the form of tables and talks in depth about what they mean.

Descriptive Statistics

	PBT	C	ICF	OCF
Mean	11491516	1.000000	-2702290.	8520270.
Median	4673724.	1.000000	-2078826.	5172591.
Maximum	54882983	1.000000	3566734.	43818395
Minimum	-562870.0	1.000000	-12175509	-7751583.
Std. Dev.	14444256	0.000000	2941274.	11136934
Skewness	1.674456	NA	-1.228509	1.640488
Kurtosis	4.869278	NA	5.635472	5.374436
Jarque-Bera	18.38676	NA	16.22831	20.50343
Probability	0.000102	NA	0.000299	0.000035
Sum	3.45E+08	30.00000	-81068712	2.56E+08
Sum Sq. Dev.	6.05E+15	0.000000	2.51E+14	3.60E+15

The table above shows the summary of the descriptive statistics; the sampled data comprises of 30 observations from the period of 2012 to 2021. The mean values of PBT, ICF and OCF are 11491516, -2702290 and 8520270 respectively. It is observed from the table that median values of PBT, ICF and OCF are 4673724, -2078826 and 5172591 respectively. Also, the maximum value for PBT, ICF and OCF are 54882983, 3566734 and 43818395 respectively. It is also observed from the table that minimum values of PBT, ICF and OCF are -562870.0, -12175509 and -7751583 respectively. The standard deviation value for the variables (PBT, ICF and OCF) are 14444256, 2941274 and 11136934.

Multiple Regression Result (Ordinary Least Square)

Dependent Variable: PBT

Method: Least Squares

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3505851.	3000054.	1.168596	0.2528
ICF	-0.652940	0.824444	-0.791976	0.4353
OCF	0.730168	0.217736	3.353450	0.0024
R-squared	0.404416	Mean dependent var		11491516
Adjusted R-squared	0.360299	S.D. dependent var		14444256
S.E. of regression	11552703	Akaike info criterion		35.45738
Sum squared resid	3.60E+15	Schwarz criterion		35.59750
Log likelihood	-528.8606	Hannan-Quinn criter.		35.50220
F-statistic	9.166846	Durbin-Watson stat		0.931932
Prob(F-statistic)	0.000916			

Source: E-view9 Computation

The E-view highlighted the result that is significant with the output indicating significant at 5% level. Reject the null hypotheses if $p\text{-value} \leq 0.05$ (while accept the alternate when the $p\text{-value} \leq 0.05$). The formulated hypotheses are;

H₀₁: There is no significant relationship between operating cash flow (OCF) and profit before task (PBT) in companies in Nigeria.

Operating cash flow (OCF) has a substantial coefficient with probability value of $0.0024 < 0.05$ level of importance. The implication is that the void hypothesis is rejected. Thus, operating cash flow (OCF) has a significant relationship with profit before task (PBT) in enterprises in Nigeria. The analytical conclusion is supported by the studies of Nwakaego et al (2015), and Bingilar and According to Oyadonghan's (2014) findings, there exists a noteworthy and affirmative correlation between financial performance, specifically return on assets (ROA) and return on equity (ROE), and operating cashflows. (CFOs). H₀₂: There is no significant relationship between investing cash flow (ICF) and profit before task (PBT) in companies in Nigeria.

Investing cash flow (ICF) has insignificant positive coefficient with probability value of $0.4353 > 0.05$ level of significance. This statement suggests that the null assumption has been accepted, which concludes that investing cash flow (ICF) there is no significant relationship with profit before task (PBT) in companies in Nigeria. This outcome is consistent with the research of Appah et al (2021), Bingilar and Oyadonghan (2014), and Nwakaego et al. (2015), Nangih et al. (2020). The link among investing cashflow operations and business financial performance is adverse and considerable. The findings of this research imply that raising investing activity will lower profit before task in any given firm.

CONCLUSION

At the 5% level of significance, the F value of 0.000916 suggests that the whole model is statistically substantial. Both the Schwarz and Akaike information criteria are within the acceptable range, which suggests that the model has been correctly specified. The model has successfully passed both the diagnostic test and the normalcy test. Autocorrelation is absent based on the Durbin-Watson statistic value of 0.931932.

The above sentence shows the general statistical importance of the multiple regression model and how well it works as a way to describe how certain independent variables affect the growth of companies in Nigeria. This study also found that operating cash flow (OCF), is statistically significant with investing cash flow (ICF) are with significance value of more than 5% is statistically insignificant. Conclusively, there is a substantial link among cashflow analysis and firm growth in companies in Nigeria.

RECOMMENDATION

Therefore, depending on this paper's findings, it is advised that manufacturing companies adopt what is known as backward integration, i.e., have raw materials within the nation rather than always importing to improve their investment, as doing so results in lower prices, which increase the firms' investment cash flow. The majority of their investments are often made in raw resources, and the majority of these raw commodities are not offered by the nation. They could enhance firm and individual performance in Nigeria's consumer products sector, boosting the nation's economy overall.

Additionally, depending on this paper's findings, it was determined that operating cashflow has a substantial impact on the corporate financial performance of quoted manufacturing companies. It was advised that companies in the manufacturing sector give operating cash flow the appropriate relevance and attention to improve their company's business success. In order to maintain profitability and competitiveness, the senior management of any manufacturing company needs make wise financial decisions.

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