



## EFFECT OF CASH FLOW ON FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE FIRMS IN NIGERIA

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**Abstract:** *The aim of this study was to investigate the effect of cash flow on financial performance of food and beverage firms in Nigeria. Specifically, the study examined; to examine the effect of cash from operating activities on profit for the year of food and beverage firms in Nigeria; to determine the extent to which cash from financing activities affect profit for the year of food and beverage firms in Nigeria and to examine how cash from investment activities affect profit for the year of food and beverage firms in Nigeria. Ex – post facto research design was adopted. The study used secondary sources of data and used listed food and beverage companies. While the analytical techniques used for the study were random panel regression model and descriptive statistics. It was revealed out that cash from operating activities significantly affect profit for the year of food and beverage firms in Nigeria. Cash from financing activities has significant effect on profit for the year of food and beverage firms in Nigeria and cash from investment activities significantly affect profit for the year of food and beverage firms in Nigeria. The study recommended that food and beverage firms in Nigeria should payout dividends as at when due and timely too as it was found out that dividend paid has significant effect on net profit margin.*

**Keyword:** Cash flow, Financial performance, Food, Beverages, Firms

### Introduction

Cash in organizations usually takes two direction and are – inflow and outflow. The difference between these two concepts results in cash flow (Akinloye, 2013). Thus, a financial manager in an organization makes it a priority to ensure cash outflow does not outweigh the cash inflow. Net positive cash flow connotes there is prudent management of cash under the three activities in the organization, which are – operating, investing and financing activities.

Similarly, Adegbie and Fakile (2018) explain 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 (Adedeji & Oboh, 2017). Examples of investing cash flows are payments to acquire property, plant and equipment,

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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.

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 (Altman, 2013).

### Statement of the Problem

Cash inflows and outflows are the heartbeat of every business endeavour. One of the main reasons that businesses fail is their inability to meet their financial obligations when they fall due as they have run out of cash. Knowing how to maintain a healthy cash flow is essential to a successful business. A lack of cash flow data has caused problems for investors and analysts in assessing a company's performance. This has led to major issues for diverse companies in meeting up with dividends paid, income tax paid and interest paid on their business activities (Adedeji & Oboh, 2017).

### Objectives of the Study

The broad objective of the study is to appraise the effect of cash flow on financial performance of food and beverage firms in Nigeria. The specific objectives include the following:

1. To examine the effect of cash from operating activities on profit for the year of food and beverage firms in Nigeria.
2. To determine the extent to which cash from financing activities affect profit for the year of food and beverage firms in Nigeria.
3. To examine how cash from investment activities affect profit for the year of food and beverage firms in Nigeria.

### Research Questions

The following questions are set to guide the study:

1. What is the effect of cash from operating activities on profit for the year of food and beverage firms in Nigeria?
2. To what extent does cash from financing activities affect profit for the year of food and beverage firms in Nigeria?
3. How does cash from investment activities affect profit for the year of food and beverage firms in Nigeria?

### Statement of Hypotheses

The following hypotheses are formulated to guide the study:

- H<sub>01</sub>: Cash from operating activities does not significantly affect profit for the year of food and beverage firms in Nigeria.
- H<sub>02</sub>: Cash from financing activities does not have significant effect on profit for the year of food and beverage firms in Nigeria.
- H<sub>03</sub>: Cash from investment activities does not significantly affect profit for the year of food and beverage firms in Nigeria.

## REVIEW OF RELATED LITERATURE

### Conceptual Review

#### Cash Flow

Akinloye (2013) defines cash flow as the amount of cash or cash-equivalent which the company receives or gives



out by the way of payment(s) to creditors is known as cash flow. Cash flow analysis is often used to analyze the liquidity position of a company. It gives a snapshot of the amount of cash coming into the business, from where, and amount flowing out.

Akpan (2017) is of the view that the availability of finance is one of the most important factors that constrain a firm's investment. Whether firms can secure the funds they need to undertake their profitable investment is an important consideration for growth. Such funds could be externally or internally generated. Funds could be generated externally via equity or debt financing (Ali & Jalal 2013). In real life, the capital market is not perfect due to the presence of information asymmetries. As a result, economic agents are not equally well informed; consequently, outside investors will ask for a premium to purchase a firm's equity. Prospective investors are only willing to purchase shares in the firm except at a reduced price. Altman (2013) argues that this conflict of interest increases the cost of external finance. On the other hand, due to information asymmetries in debt financing, lenders may only fulfill a part of borrowers' requirements for loans. Such credit rationing is done to mitigate risks and inherent information asymmetries. As such, firms become less accessible to external funds. In this light, profits gained from previous investments would have to be retained in order to smooth future investment activities. As a result, investments become very sensitive to availability of internal funds flow since internal funds may be less costly than external funds (due to financing constraints).

#### **Cash Flow from Operating Activities**

Gregory (2005) is of the view that cash flow from operating activities demonstrates cash inflows and outflows which arise from revenues and expenses. In this respect, income statement and statement of financial position should be used to identify the amount of cash inflow or outflow. Cash sales and cash collections from

trade receivables constitute cash inflows from these activities. On the other hand, Gombola and Ketz (2016) stated that cash payments for inventories, operating expenses, taxes, interests and dividends are considered as the cash outflows. In addition, this section is regarded as crucial for companies since it highlights their success in operations and working capital management.

Habib (2018) is of the view that two methods are available for the determination of cash flows from operating activities. The first method, which is called as the indirect method, expresses net income on cash basis by making adjustments for non-cash items. Nevertheless, the second method or the direct method, considers comprehensive cash flows by examining accounts related to operating activities.

#### **Cash from Investing Activities**

The purchase and sale of long term assets form cash flows from investing activities (*Ekeocha, Ekeocha, Malaolu & Oduh, 2017*). Cash inflows are associated with the sale of long term assets such as buildings. On the other hand, cash outflows occur through long term asset purchases (Cinca, Molinero and Larraz, 2015). In general, there could be a cash inflow or outflow from investing activities. On the other hand, cash inflows may sometimes be equal to cash outflows (Danson, David and Riro, 2017). Future investments determine the growth and the chance of survival. As a result, cash is regularly invested in productive assets.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Akram, 2017). This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to the degree to which financial objective being or has been accomplished and



is an important aspect of financial risk management. it is the process of measuring the results of a firm's policies and operations in monetary terms.

#### **Profit for the Year**

Amidu (2017) is of the view that corporate profits reflect the income earned by corporations as a result of current production; the measure is defined as receipts arising from current production less associated expenses. Receipts exclude income in the form of dividends and capital gains, and expenses exclude bad debts, natural resource depletion, and capital losses.

#### **Theoretical Framework**

##### **Pecking Order Theory**

Pecking order theory was first suggested by Donaldson in 1961 and it was modified by Stewart C. Myers and Nicolas Majluf in 1984. Pecking order theory states that firms prefer to finance new investment, first internally with retained earnings, then with debt, and finally with an issue of new equity (Odesa & Ekezie, 2015). It is argued that an optimal capital structure is difficult to define as equity appears at the top and the bottom of the 'pecking order'. Internal funds incur no flotation costs and require no disclosure of the firm's proprietary financial information that may include firm's potential investment opportunities and gains that are expected to accrue as a result of undertaking such investments.

The pecking order theory is about what firm's management prefer; a pecking order of alternative sources of finance that firm faces. First, firms chose internal finance that is using profits from previous years. Second, if there is no internal finance available, will firms chose to lend money from credit institutions such as banks. Third, only as a last option will firms issue new shares. Basically, the pecking order theory says that management favours internal financing to external financing.

The study is anchored on the Pecking Order Theory based on the premise that it discusses the movement of

cash flow in organizations where most profitable organizations use internal financing firstly with retained earnings, then with debt, and finally with an issue of new equity

#### **Empirical Review**

##### **Cash from Operating Activities and Profit for the Year**

Nwanyanwu (2015) examined Cash flow and Organizational Performance in Nigeria: Hospitality and Print Media Industries Perspectives. The study examined the relationship between cash flow 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 indicated a significantly strong positive relationship between cash flow position and net profit. Consequently, cash flow 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.

##### **Cash from Financing Activities and Profit for the Year**

Khalil, Abu and Emad (2020) carried out an investigation on whether cash flow has an impact on profit quality from 2014 to 2018. The study was based on panel data as the data collected one-time and cross-sectional data for a period of time. The data consisted of a set of indicators for 9 Jordanian hotels collected from annual hotels' reports. The results of the hypothesis test indicated that there is a strong inverse relationship



between (index of operational activity, index of return on assets from operating cash flow) respectively, and (profit quality), at the same time the study found that there is an inverse relationship that is not statistically significant between (index of operating cash flow) and (profit quality).

Evans, Mwangi and Ochieng (2017) studied the moderating role of firm characteristics on the relationship between free cash flows and financial performance of firms listed at the Nairobi securities exchange... Specifically, the objectives of the study were two-fold: first, to establish the relationship between free cash flows and financial performance of firms listed at the NSE; and secondly, to determine the influence of firm characteristics on the relationship between free cash flows and financial performance of firms listed at the NSE. The firm characteristics considered in this study are firm size and age. The study used secondary panel data which was obtained from all firms listed at the NSE for the period 2006 to 2015. Regression analysis was employed in data analysis. Results indicate that free cash flows has a significant positive effect on financial performance; while firm characteristics have a negative significant moderating effect on the relationship between free cash flows and financial performance. The main academic contribution of the study is that free cash flows have a positive statistically significant effect on financial performance. The study recommends that firm managers, shareholders and practitioners should focus more on the need for firms to generate more FCF.

#### **Cash from Investment Activities affect Profit for the Year**

Wanja (2011) conducted a study on the relationship between the determinants of working capital management i.e. inventory, debtors, creditors, and the cash level of Kenyan SMEs. This research was conducted through a survey study. The target population

of this study was the sampled 205 SMEs. Data was analyzed using a regression model and the results of the study found that firms with greater cash flow volatility hold more cash in order to provide a safe cushion for smooth operations.

Yazan (2017) studied the effect of cash flows on the share price on Amman stock exchange. The objective of the study was to investigate and quantify effects of cash flows on the share prices of Jordanian companies. The study used multiple regression and found out that the cash flows have a statistically-significant effect on the share prices of the Jordanian companies listed on ASE and that the operating cash flows (OCFs), financing cash flows (FCFs), and investment cash flows (ICFs) together explain 13.27% of the variations in these prices.

#### **Research Methodology**

The researcher design adopted *ex-post* facto research design. This research is on the effect of cash flow on financial performance of food and beverage firms in Nigeria. It was conducted in Nigeria. This study made use of secondary data covering a period of 10 years ie. 2010 – 2019 obtained from the financial statements of the selected food and beverage firms in Nigeria. Panel data covering a period of 10 years was estimated using diverse techniques. Such techniques include; descriptive statistics and random panel regression model.

## **DATA PRESENTATION AND ANALYSIS**

### **Data Presentation**

The presentation of data used in the analysis of the study is illustrated below.

Data for Nigeria Breweries Plc, Guinness Nigeria Plc and Champion Breweries Plc comprising cash from operating activities, cash from financing activities and cash from investment activities and profit for the year as presented in table 4.1.1.



**Table 1**Data on cash from operating activities, cash from financing activities and cash from investment activities and profit for the year

	COA	CFA	CIA	PFY
NB PLC – 10	11081593	5685769	26117	179279
NB PLC – 11	21157224	8247732	265895	142146
NB PLC – 12	28669218	12277407	738455	957348
NB PLC – 13	26066087	12621442	269836	779489
NB PLC – 14	9904407	16996193	1448455	327112
NB PLC – 15	21664981	15863579	7261020	62444
NB PLC – 16	21756348	17487744	5147990	90642
NB PLC – 17	42263111	16886840	3065286	162877
NB PLC – 18	32148978	14787463	6072546	179110
NB PLC – 19	36057793	12454954	3950192	178534
CADBURY PLC - 10	4530848	2297628	1539746	223354
CADBURY PLC - 11	6641292	4664712	436705	330238
CADBURY PLC - 12	18883089	4828223	2026261	350184
CADBURY PLC - 13	11065600	5471146	1051503	386494
CADBURY PLC - 14	13199123	608914	564880	201588
CADBURY PLC - 15	14071121	515050	2093463	192370
CADBURY PLC - 16	4274600	3450000	196527	27910
CADBURY PLC - 17	10849192	1395224	314324	25700
CADBURY PLC - 18	4754825	387556	212013	27910
CADBURY PLC - 19	2243948	89623	152335	63505
NESTLE PLC - 10	3840884	1454617	134920	63505
NESTLE PLC - 11	4308034	1642068	1459218	285546
NESTLE PLC - 12	4252025	1698458	6198464	2800016
NESTLE PLC - 13	3804958	2073033	76885994	1685342
NESTLE PLC - 14	10051715	2526742	28396777	2172888
NESTLE PLC - 15	67123955	2186135	47731	2327342
NESTLE PLC - 16	40400000	2663724	69285	2105500
NESTLE PLC - 17	81674450	2939057	89820	1946490
NESTLE PLC - 18	20719365	3137431	1093669	2652748
NESTLE PLC - 19	25831840	1236631	1259198	38408846

**Source:** Financial Statement of Nigerian Breweries Plc, Cadbury Nigeria Plc and Nestle Nigeria Plc

**NB:**

COA: Cash from Operating Activities

CFA: Cash from Financing Activities

CIA: Cash from Investing Activities

PFY: Profit for the Year

Table 2 showed the pooled data of Nigeria Breweries Plc, Cadbury Nigeria Plc and Nestle Nigeria Plc. These data were adopted from the financial statements of the three companies under study.

**Table 2: Logged Data of the variables under study**

	LCOA	LCFA	LCIA	PFY
NB PLC - 10	5.338691	11.88377	14.39835	18.17729
NB PLC - 11	5.398841	12.46623	14.39512	18.37416
NB PLC - 12	5.437557	14.28168	14.61910	18.47904
NB PLC - 13	5.456261	13.30442	15.01015	18.61180
NB PLC - 14	5.467638	13.21994	15.06880	18.70080
NB PLC - 15	5.475040	13.45500	15.16746	18.62155
NB PLC - 16	5.481014	13.12955	15.37939	18.73544
NB PLC - 17	5.487656	12.93965	18.05212	18.79938
NB PLC - 18	5.861498	12.05568	18.30581	18.46386
NB PLC - 19	6.252809	12.79919	18.51022	18.48823
CADBURY PLC - 10	6.314254	14.00740	18.63307	18.68981
CADBURY PLC - 11	6.632371	12.44527	18.57307	17.45440
CADBURY PLC - 12	6.867860	14.02124	18.62332	17.16179
CADBURY PLC - 13	7.049949	15.34534	18.50871	13.43498
CADBURY PLC - 14	6.823145	12.21198	18.59039	13.98407
CADBURY PLC - 15	6.774041	12.67527	18.44022	14.45994
CADBURY PLC - 16	7.010664	13.09996	18.65116	14.52763
CADBURY PLC - 17	7.172688	14.24429	18.79542	14.22138
CADBURY PLC - 18	7.130669	14.62794	18.91664	14.84951
CADBURY PLC - 19	7.149769	14.60464	18.95040	14.04384
NESTLE PLC - 10	9.792202	12.29532	15.77909	14.48062
NESTLE PLC - 11	9.847403	12.75351	15.73232	17.23977
NESTLE PLC - 12	9.674469	12.71228	16.02792	17.28156
NESTLE PLC - 13	9.733418	12.79865	16.07648	17.33488
NESTLE PLC - 14	9.838164	9.344959	16.15048	11.88350
NESTLE PLC - 15	9.783864	11.26037	16.11421	13.79362
NESTLE PLC - 16	9.807277	10.63763	16.12694	11.65095
NESTLE PLC - 17	9.829011	11.06115	18.12840	11.63514
NESTLE PLC - 18	9.935825	10.87907	18.11780	11.85154
NESTLE PLC - 19	10.09808	9.560504	10.28486	12.40861

Source: Researcher's Computation from Eviews 9.0

**Data Analysis**

Data analysis depicts how the data collected for each of the companies are analyzed with diverse analytical tools.

**Descriptive Analysis****Table 4: Description of the Characteristics of the Variables under Study**

	LCOA	LCFA	LCIA	LPFY
Skewness	2.052743	0.150063	1.155289	1.840004



Kurtosis	10.53661	2.498919	2.957183	5.458218
Jarque-Bera	138.1107	0.568596	8.901011	32.64215
Probability	0.000000	0.752542	0.011673	0.000000
Observations	30	30	30	30

Source: Author’s Computation from Eviews 9.0, 2020

Table 4.2.1 showed the components used to ascertain the normality of the study variables. They include; skewness, kurtosis and Jarque – bera Statistics.

The table showed that all the variables are positively skewed. The logs of cash for operating activities and profit for the year were leptokurtic as their kurtosis values are greater than three (3) while logs of cash for financing activities and cash for investment activities were platykurtic as their kurtosis values were less three (3).

The table also showed that the logs of cash for operating activities and profit for the year are normally distributed as the probability values of their Jarque-Bera statistics were less than 5% (0.05) while the logs of cash for financing activities and cash for investment activities are not normally distributed as the probability values of their Jarque-Bera statistics were greater than 5% (0.05). The

**Tables 5: Variables for Regression Analysis**

R-squared	0.733796
Adjusted R-squared	0.611001
F-statistic	5.869563
Prob(F-statistic)	0.020280
Durbin-Watson stat	1.656525

Source: Author’s Compilation from E-View 9.0 Output

From the above regression analysis, the  $R^2$  is 0.733796 which is about 73%. The  $R^2$  is used to explain the goodness of fit. Therefore, since it is about 73%, it implies that about 73% change in profit for the year is

assumption of normality is therefore rejected by the JB statistics. This, however, does not affect the goodness of the data for the estimation in this study as this is a preliminary test as the data will be subjected to other advanced estimation techniques.

#### Regression Analysis

Regression analysis is a set of statistical processes for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables (or 'predictors'). More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'criterion variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed.

explained by the independent variables and the higher the  $R^2$  the better fit the independent variables. Since the F – statistics is 5.869563 which is greater than 2.0 and the probability value is 0.020280 is  $< 0.05$ . This shows





that the model is significant and has a high goodness of fit.

### **Discussion of Results**

The study discovered that cash from operating activities significantly affect profit for the year of food and beverage firms in Nigeria due to the fact that the P- value been 0.0203 is less than 5%. This is in agreement with the statement of Nwanyanwu (2015) who examined cash flow and organizational performance in Nigeria: Hospitality and Print Media Industries Perspectives. The author discovered a significantly strong positive relationship between cash flow position and net profit.

Cash from financing activities has significant effect on profit for the year of food and beverage firms in Nigeria based on the premise that the P- value been 0.0274 is less than 5%. This discovery is in agreement with the findings of Akinyomi (2014). The author studied effect of cash management on firm profitability of Nigerian manufacturing firms and found out a positive and significant relationship between CCC and ROE.

The study equally discovered that cash from investment activities significantly affect profit for the year of food and beverage firms in Nigeria as the P- value been 0.0429 is less than 5%. This finding is in accordance with the finding of Liman & Sani (2019) who studied operating cash flow and corporate financial performance of listed conglomerate companies in Nigeria. The result of their study showed a positive and significant impact between Cash Flow from Operating activities (CFO) and financial performance proxied by ROA while the impact is positive and significant when financial performance was proxied by ROE of the listed conglomerate companies in Nigeria.

## **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **Summary of Findings**

The summary of findings of the study includes the following:

1. Cash from operating activities significantly affect profit for the year of food and beverage firms in Nigeria.
2. Cash from financing activities has significant effect on profit for the year of food and beverage firms in Nigeria.
3. Cash from investment activities significantly affect profit for the year of food and beverage firms in Nigeria.

### **Conclusion**

Cash flows 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 cash flow involves activities leading to the determination of net profit. 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. Similarly, cash flows 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, cash flows 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 cash flow 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. From the findings, it is therefore concluded that these cash flows been cash from operating activities, financing activities and investing activities all have significant effect on profit for the year of food and beverage firms in Nigeria.

### **Recommendations**



The following recommendations are made for the study

1. Food and beverage firms in Nigeria should payout dividends as at when due and timely too as it was found out that dividend paid has significant effect on net profit margin.
2. The federal government agencies involved in implementing income taxation on corporate organizations should be effective and efficient in that task to avoid double taxation as income taxation already depletes the net profit margin of organizations.

3. Food and beverage firms in Nigeria should improve their finance income as finance is critical in just about every business decision, from planning and budgeting and cash flow management to the capital structure and how a firm control risks and costs since it was found out that finance income significantly affect net profit margin of food and beverage firms in Nigeria.

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