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Effect of Financial Management Practices on Firm Performance of Selected Manufacturing Companies in Nigeria

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Abstract: The study examined the impact that sound financial management practices have on the overall performance of manufacturing companies in Nigeria. In this study, an ex-post-facto research strategy was used, and secondary data was collected so that the researchers could investigate the link between the variables. The population of the research was made up of five samples that were randomly chosen from the population as a whole. The information was taken from the company's annual financial report, which covered a period of ten (10) years (2010-2020). Ordinary Least Square (OLS) regression analysis was used in order to make sense of the gathered information. It was discovered that financial management practices have a positive significant effect on Profit after tax (PAT) (p0.0021); financial management practice has a positive significant effect on retained earnings (p0.0415); however, financial management practice has no significant effect on debt-to-equity (p>0.7350). These findings were derived from the findings of the research. The research concluded that there is a considerable positive association between effective financial management practice, profit after tax, and retained profits. This relationship is robust. According to the results, it was suggested that the management of manufacturing organizations should try to place a greater emphasis on the practice of financial management in order to improve the efficacy and efficiency of their operations.

Keywords: Financial Management; Firm Performance; Profit after Tax; Retained Earnings; Debt to Equity Ratio

JEL Classification: L25

1. Introduction

Financial management is used by financial managers in order to guarantee that the balances of a firm's current assets and current liabilities are maintained at levels that are optimum for the organization. The efficient management of finances ensures that the cash flow generated by a project is sufficient to cover both the short-term loan commitments and the ongoing operating expenses of the project. This is the case because effective management of finances guarantees that the cash flow generated by a project is adequate. The administration of a business's financial affairs is a crucial component of corporate finance. This is because the management of a company's financial affairs has a direct influence on the liquidity, profitability, and development of the organization. This is as a result of the fact that effective management of financial resources is directly accountable for these aspects of the situation. It is

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imperative that all organizations make working capital expenditures in order to maintain good financial health because, on average, working capital expenditures form a considerable percentage of total asset utilization. In light of this fact, it is imperative that all organizations make working capital expenditures in order to maintain good financial health (Atrill, 2014). The maximization of corporate value is the objective of financial management, and this objective is connected to the following three financial decisions that firms make: financing, investing, and paying dividends. In other words, the maximization of corporate value is the end goal of financial management. To put it another way, the ultimate purpose of financial management is to increase a company's stock price as much as possible. Company have to go to financial institutions in order to receive loans and stock capital investments in order for the companies to be able to meet their cash demands. Companies contact financial institutions.

Inability to acquire enough cash flow and working capital in order to continue operations in a profitable manner is one of the most typical challenges that manufacturing firms must contend with. This is one of the most typical difficulties that organizations involved in manufacturing are required to overcome (Siaw, 2014). Even as far back as the Bolton Report, which was prepared in the early 1970s, it was recognized that one of the most critical issues that industrial companies confront is financial management. This report was written in the United Kingdom. The United Kingdom was the location of the authoring of this report (Bolton, 1971). Since that time, there has been a substantial amount of conversation within the realm of academic literature on small enterprises centered on this topic (Abor & Quartey, 2010; Amoako, 2012). Manufacturing enterprises encounter issues that are unique from those that are faced by other sorts of organizations, despite the fact that all types of organizations struggle in some way or another with the management of their financial resources. This is as a result of the fact that manufacturing enterprises are often of a more compact nature, making them more vulnerable to fluctuations in their cash flow (Siaw, 2014).

Some of the literary works that originate in Nigeria have flaws and omissions, and these issues need to be resolved before the works can be regarded as finished and comprehensive. Osisanwo and Atanda (2012), for instance, focused their study on the macroeconomic drivers that have an influence on financial management practice. This was the focus of their investigation. They did this so that they could provide a response to the question, "How does this influence the practice of financial management?" (rather than business specific ratios). The amount of money in circulation, the historical rate of return on stocks, the current interest rate, and the current exchange rate are the characteristics that are evaluated. The rate of the currency is another factor that is considered. On the other hand, in the study that is being done today, corporate performance is often described in terms of the practice of financial management. In their research, Uwubanmwen and Obayagbona (2012) and Adedoyin (2011) utilized total assets as a proxy for the performance of corporations.

The sample for this research comprised of all of the small and medium firms that were stated; since the study did not concentrate on a particular sector, the results seem to be too generic and lacking in specificity as a consequence. It is of the utmost importance to pay equal attention to the characteristics that are unique to certain business sectors as well as the characteristics that are common to all of them. At the same time, it is essential to take into consideration the parallels that can be drawn across all of these different industries. Because of this, basing one's assumptions about the success of a company merely on the price of its shares at the end of the fiscal year does not offer an accurate picture of the link between competent financial management and the overall performance of the organization. The significance of this study lies in the fact that it seeks to address a gap in the existing body of knowledge by investigating the ways in which the methods of financial management utilized by MSEs have an effect on the organizations' levels of performance as well as their capacity for growth and expansion. In

other words, the study will investigate the ways in which the methods of financial management utilized by MSEs have an effect on the levels of performance as well as the capacity for growth and expansion. To put it another way, the purpose of this research is to analyze the ways in which the techniques of financial management that are employed by MSEs have an influence on the levels of performance as well as the potential for development and expansion. The purpose of the study is to find a solution to the problem by evaluating how effective the many approaches to financial management that are currently being used improve financial performance of the listed manufacturing firm. This will be accomplished by examining how effective the various approaches to financial management that are currently being used. The main objective of this research is to investigate the impact that effective financial management practice has on financial performance of listed manufacturing firm in Nigeria. The specific objectives are to:

i. determine the effect of financial management practice on profit after tax of manufacturing companies in Nigeria;
ii. ascertain the significant influence of financial management practice on retained earnings of manufacturing companies in Nigeria;
iii. examine the significant relationship between financial management practice and debt to equity ratio of manufacturing companies in Nigeria.

2. Literature Review

"Financial management techniques" is one phrase that may be used to refer to the process of managing the financial resources of an organization, as stated by Mange (2013). This term is one of many that can be used. This process includes accounting, financial reporting, forecasting, and budgeting, in addition to capital budgeting decisions, which include selecting whether to lease or purchase assets, as well as deciding whether to issue debt or equity. In short, this process includes everything from accounting to financial reporting to budgeting. These many decisions are all a part of the process of capital budgeting. The process of capital budgeting will serve as the backdrop for every one of these decisions to be made. In addition to this, he stated that the financial management framework is composed of the processes, systems, internal controls, and practices that are associated with the manner in which the division manages its revenues, costs, assets, liabilities, and potential outcomes. He said this was the case because the framework is made up of the processes, systems, and practices that are associated with the manner in which the division manages its financial information. This statement was made in the context of his outlining what the framework for financial management is. He said that the structure for effective financial management is comprised of each and every one of these component sections. According to Marembo (2013), the components of efficient financial management practices include the management of capital structure, accounting processes, cash budgeting, working capital management, management of non-current assets, and risk management methods. In addition, effective financial management practices include the utilization of cash flow forecasting. In addition, effective approaches for financial management and administration include cash budgeting. The implementation of a cash budget is another one of the effective strategies of financial management that should be used by firms.

Hanafi and Abdul (2005) offer a detailed explanation that the aim of making choices about one's financial resources is to acquire cash at the lowest feasible cost. This idea is presented as the motivation for making decisions regarding one's financial resources. This is the end goal of the process of making choices about one's financial resources. They refer to this as the reason why one should give serious

consideration to the decisions that will have an effect on one's financial resources. It is possible to make money for either a short or a long length of time, and the many sorts of financing that are available correlate to these two unique time periods. Long-term finance refers to funding for a period of time that is at least three years in the future, while short-term financing refers to funding for a period of time that is less than one year in the future. According to Cui, De Jong, and Ponds (2011), in order to make a financial option, one must first identify when, where, and how much money a firm needs in order to carry out its operations and earn a profit. This is necessary in order to make an informed decision. In order to choose the right path of action, it is vital to do this first. The method of financing that was selected is favorable because it reveals the extent to which the total assets backed by the loan have an effect on the financial performance of the firm. This is an important piece of information. This is helpful since the option of financing provides benefits. The relevance of this piece of information should not be overlooked by those who are investors.

Measures of performance that are utilized frequently include Tobin's Q, the return on assets (ROA), the return on equity (ROE), the return on sales (ROS), the earnings per share (EPS), the growth in market capitalization, the gross and net profit margins, economic profit, and the return on sales (ROS). The vast majority of research that have been conducted in relation to performance have come to this conclusion. The abbreviations ROA, ROE, and ROS each stand for a different aspect of a company's profitability: return on assets (ROA), return on equity (ROE), and return on sales (ROS). The expansion of a firm's market capitalization is an additional statistic that may be considered when measuring the amount of profitability that a company achieves. ROA is a measure of a company's profitability that takes into consideration the conventional financial indicators and accounting ratios that are used by firms. Among these measures and ratios is something called the return on assets. One example of one of these indicators and ratios is the return on assets. Another example is the return on equity. Throughout the course of human history, the relevance of this concept has been understood and used in a broad range of different ways. The return on assets (ROA) of a firm is a measurement of how profitable the company is in relation to its total assets. ROA is also known as the return on investment (ROI). This measure is also referred to as ROA rather often. This is an indicator of the effectiveness with which management is making use of the firm's resources in order to generate profits for the business (Olaniyan, Efuntade & Efuntade, 2021).

Given that the Resource-Based View Theory was the impetus for our inquiry, we will refer to that theory as the theoretical framework whenever we talk about this examination. The fundamental theoretical underpinning for this inquiry was the Resource-Based View (RBV) theory, which postulates that an organization's performance is shaped by the one-of-a-kind mix of resources it has access to. This theory was used as the basis for the investigation. This theory was selected because it postulates that the distinct combination of resources that an organization has access to is what shapes the company's performance. The RBV theory was chosen because it postulates that the unique mix of resources available to an organization is the major determinant in defining the degree of performance that the organization is capable of achieving (Gottschalk 2007). These resources are made up of both physical assets and intangible capabilities in about the same proportion. According to the resource-based firm theory, "unique organizational resources of both the physical and intangible type are the major source of competitive advantage." This is the essential factor that contributes to a competitive edge. (Gottschalk 2007). According to Wade and Hulland (2004), the resources that are available to an organization may be broken down into six unique categories. The degree of competition that takes place for a resource may be ex ante constrained by characteristics of the resource itself. These characteristics may include the resource's value, its scarcity, its appropriability, its imitability, and its sustainability. Mobility and

sustainability are two examples of resource traits that might be used after competition has already taken place in order to lessen the effect of the competition. According to Wade and Hulland (2004), some resources are responsible for the creation of competitive advantages, whereas other resources are responsible for the maintenance of competitive advantages after they have already been established. If ex ante competition limitations are seen to be resources that may be used to gain a competitive advantage, then it is possible that they will be considered as having a positive impact. On the other hand, one may look upon ex post competition restraints as resources that help them sustain their competitive advantages.

Research is carried out by Erambo (2017) on the financial management practices and the firm performance of micro and small businesses in the town of Busia, which is located in the country of Kenya. According to the results of the study, the approaches to financial management were shown to have a significant impact on the overall financial performance of the businesses. It turned out that this influence was not only considerable but also positive for the situation. The overall debt of an organization has a large and beneficial influence on how well it performs financially in Mombasa County, Kenya, according to the results that were found by Simon and Mohamed (2017). This new result is consistent with the outcomes of previous research that arrived at the same verdict as this one. According to the results of the research that was conducted by Mwangi, Otuya, and Kamau (2014) on the Matatu Transport Industry in Kenya, there is a considerable effect that capital structure has on the profitability of a firm. This influence is positive.

Butt et al,(2010) investigate the practices of financial management and the influence that these practices have on the organizational performance of companies that are listed on the Karachi Stock Exchange. Specifically, they look at the performance of companies that are listed on the KSE. The writers place a special emphasis on assessing the performance of firms that are listed on the KSE. In particular, they look at how well enterprises are doing that are listed on the Korea Exchange (KSE). This study investigated the decisions that were taken about a variety of topics, including the capital structure, dividend policy, investment appraisal process, working capital management, and overall financial performance. According to the findings of the research, there is a significant positive influence that can be given to each independent variable on the financial performance of the organizations. This finding may be attributed to the fact that there is a high correlation between the two. This conclusion is reasonable given the fact that there is a connection between the two variables in question. This impact may be tied to the fact that the causes have the potential to affect the businesses' financial performance, which in turn may be related to the fact that this influence exists. Alternatively, this effect may be related to the fact that this influence does exist.

In contrast, Khan et al. (2017) discovered that total debt did not have a significant influence on profitability when measured by ROA in a study of companies that were listed on the Karachi Stock Exchange. Their findings were based on an examination of companies that had been traded on the Karachi Stock Exchange. Their conclusions were reached after conducting an analysis of the financial data provided by these firms. After doing research based on the data supplied by the companies, the authors came at the following conclusion (KSE).

Arafat, Warokka, and Suryasaputra (2014) found that there is a positive and significant effect between investment decision and firm performance. They arrived at this conclusion by using the data of consumer goods companies that were listed on the Indonesia Stock Exchange for three years (2008-2010) as the sample. Their conclusions were drawn from the observation that there was a connection between the two different factors. According to what they said, the effect had a beneficial influence. Not just one, but two distinct statistical approaches—a multivariate regression analysis and a t-test - were used in the

processing and interpretation of the data that was gathered. In a similar line, Kemuma (2011) investigates the impact that the choice of investment has on the performance of firms that are traded on the Nairobi Securities Exchange. To be more specific, he concentrates on the performance of companies that have their shares traded on the NSE. Kemuma focuses mostly on companies that are regularly traded on the NSE as its target market. According to the conclusions of the study, financial leverage, investment choices, and liquidity all have a considerable influence, and all in a positive way, on the profitability of a business. On the other hand, Sani, Abdullahi, and Ango (2018) demonstrate that there is not a significant association between Capital Budgeting Management and the profitability of listed food and beverage enterprises in Nigeria. This conclusion is based on the findings of their study. Research in Accounting, Finance, and Economics is the name of the journal that featured their results. They were able to ascertain from the results of their inquiry that this was, in fact, the situation.

3. Methodology

This research used an ex-post facto research design, sometimes known as "after the fact research," which means that it made use of data that was previously available. The sample for this research consists of five different companies: Protas and Gamble, Fumma Juice, Eva, UAC, Dangote Flour Mill Ltd and Food Ltd Water. Study participants included Nestle Nigeria Plc, Cadbury Nigeria Plc, Flour Mill Nigeria Ltd, and Dufil Prima foods over a period of ten (10) years running from 2010 to 2020. These participants served as the study's sample size. For the collecting of data, this research relied on secondary sources. The information used in the research came only from secondary sources, namely the annual reports of the companies that were chosen at random.

The Ordinary Least Square (OLS) regression analysis was used by the researcher who was engaged to determine the nature of the influence that the dependent variables had on the independent variable. The value of the dependent variation could be most accurately anticipated by using the regression approach, which included estimating the coefficient of the linear equation. The F-statistics were employed in the research to determine whether or not the regression model was significant, while the t-statistics were used to determine whether or not the regression coefficients were significant. The F-statistic and the t-statistic were both tested at a confidence level of 95 percent. Additionally, a correlation matrix was used in order to illustrate the connection between the various aspects of financial management and financial success.

Model Specification

The research used measures of financial management practice as dependent variables, which were then regressed against the explanatory factors, which included Profit after Tax (PAT), Retained Earnings (RE), and Debt to Equity Ratio. The results of the study may be seen in the following table (DER).Y = a + bX

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_{it}$

TFCR $= f$(PAT, RE, DER,)

Specifying in econometric format using logarithms;

$\log TFCR = \log\beta_0 + \beta_1 * \log PAT + \beta_2 * \log RE + \beta_3 * \log DER +$ (i)

TFCR= Financial Management

PAT = Profit after Tax

RE = Retained Earnings

DER = Debt to Equity Ratio

4. Results

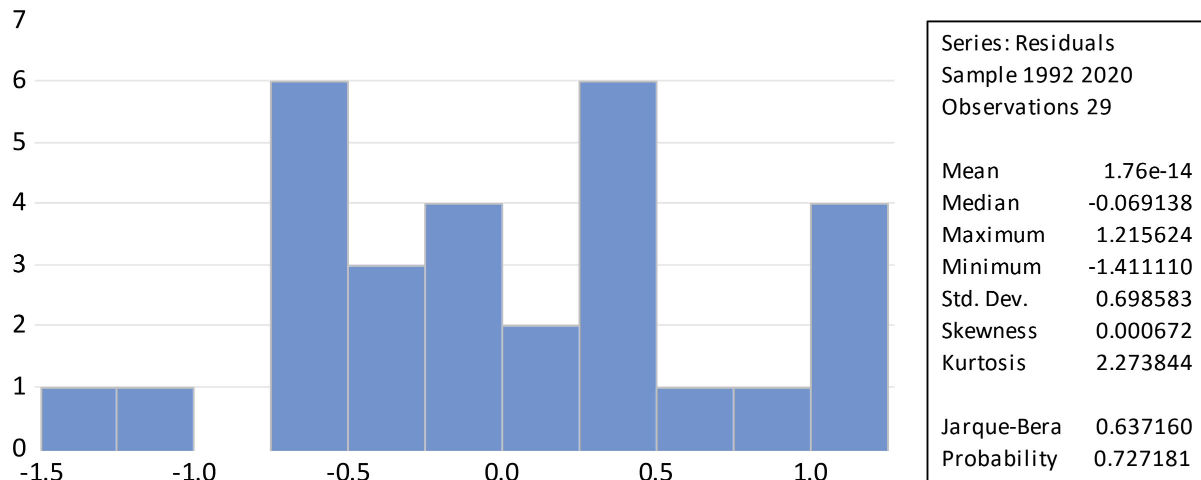
Table 1. Descriptive statistic

	TFCR	PAT	RE	DER
Mean	4.356	3.485	3.604	1.301
Median	6.944	8.972	6.148	5.963
Maximum	2.337	2.781	1.232	1.971
Minimum	4.235	5.918	6.207	4.915
Std. Dev.	1.311	3.087	2.701	5.295
Skewness	6.741	8.565	6.512	10.724
Kurtosis	1.977	3.567	0.808	1.211
JarqueBera	3.014	7.223	5.986	4.877
Probability	0.679	3.215	3.831	0.808
Sum	5.254	5.839	6.101	5.199
Sum Sq. Dev.	4.356	3.485	3.604	1.301
Observations	50	50	50	50

Source: E-views 10 Output

Table 1 presents the descriptive outcomes of the variables that were put to use in this study. According to the presented data, the typical value of financial management (TFCR) is 4.356, the typical value of profit after tax (PAT) is 3.485, the typical value of retained earnings (RE) is 3.604, and the typical value of debt-to-equity ratio (DER) is 1.301. The investigation led to the discovery that the median value for TFCR is 6.944, the median value for PAT is 8.972, the median value for RE is 6.148, and the median value for DER is 5.963. On the other hand, the skewness statistics indicate that variables such as TFCR, PAT, RE, and DER are positively skewed, with respective values of 6.741, 8.565, 6.512, and 10.724. According to the information provided by kurtosis, PAT has a platykurtic value, which means that it is less than 3, but TFCR, RE, and DER all have leptokurtic values, which suggest that they are higher than 3. Due to the fact that their likelihood is very low in terms of its statistical significance, the Jarque-Bera statistics shed light on the fact that retained profits are a variable that follows a normal distribution during the time in question. On the other hand, TFCR, RE, and DER do not follow a normal distribution over the course of the research since the likelihood of each of these events is very statistically significant. This is clear from the fact that the Jarque-Bera statistics show that retained profits is a variable that follows a normal distribution throughout the course of the period. This sheds light on the aforementioned reality.

Table 2. Bar Chat Tests



Source: E-views 10 Output

It was determined that the test is a statistical approach that is used for assessing the connection based on prediction, and the findings of the bar chat are displayed in Table 2 below. As a consequence of this, it is used in order to develop a link between the many elements that are being taken into consideration. Each of the PAT/TFCR, DER/TFCR, RE/DER, PAT/DER, and RE/DER ratios are statistically insignificant, which indicates that the variables do not have any granger influence on one another. On the other hand, DER/TFCR, RE/TFCR, PAT/VOT, and PAT/RE are all statistically significant. This indicates that the variables indeed have a link with each other and that the relationships are causal. As a consequence of this, there is a relationship that can be defined as unit-directional that exists between and among the variables that were employed in the research.

Table 3. Co-integration Rank Test

Null Hypothesis: LOG(TFCR) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=7)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.336702	0.1677
Test critical values:	1% level	-3.670170	
	5% level	-2.963972	
	10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(TFCR))
Method: Least Squares
Date: 03/05/22 Time: 13:03
Sample (adjusted): 1991 2020
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(TFCR(-1))	-0.056871	0.024338	-2.336702	0.0268
C	0.696879	0.286337	2.433771	0.0216

R-squared	0.163184	Mean dependent var	0.028025
Adjusted R-squared	0.133298	S.D. dependent var	0.044227
S.E. of regression	0.041174	Akaike info criterion	-3.477661
Sum squared resid	0.047469	Schwarz criterion	-3.384248
Log likelihood	54.16492	Hannan-Quinn criter.	-3.447777
F-statistic	5.460175	Durbin-Watson stat	1.776813
Prob(F-statistic)	0.026837		

When only the absolute value is considered, only the positive side is considered, as can be seen in Table 4, which demonstrates that the null hypothesis is correct because financial management has a unit root, the ADF test statistic is -1.919721, and because only the absolute value is considered, only the positive side is considered. This indicates that the null hypothesis is correct. Because the absolute value is higher than the critical value, the null hypothesis that there is a unit root in financial management cannot be rejected. This is because the absolute value is bigger than the critical value. The absolute value is less than the value that is considered crucial. The constant in the regression of the test for the unit root indicates that a coefficient of 16332.0, and the value of this coefficient is statistically insignificant. This is seen when one looks at the intercept of the regression. As a consequence of this, choose one lag of the dependent variable to utilize for the AIC analysis rather than the maximum of eight lags that are available.

Analysis of the Decision-Making Process Based on the Hypothesis-Rule Employing the T-Statistic as an Analytical Tool The t-test is used to data in order to establish whether or not a given explanatory variable has a significant impact on a given dependent variable. Therefore, we will accept Hypothesis 1 (H1) if the value of the probability is below 0.05, which indicates a key value of five percent, and Hypothesis 2 (H2) if the value is more than 0.05.

There is no evidence to imply that good financial management techniques have a significant influence on the after-tax profitability of publicly listed industrial enterprises in Nigeria, as this is the case in the previous hypothesis. It has been shown that the financial management methods of publicly listed industrial enterprises in Nigeria have no major influence on the retained profits of such companies. This was the conclusion reached by the researchers who conducted the studies. According to this hypothesis, the debt-to-equity ratio of publicly traded industrial businesses in Nigeria has no significant connection to the process of financial management. This conclusion is drawn from the fact that the ratio has been found to be unrelated to the practice of financial management.

5. Decision

Concerning the first hypothesis, the probability value of profit after tax on the regression line shows 0.0046, which is lower than the threshold value of 5%. This indicates that the first hypothesis is false. This lends credence to the idea that the first hypothesis is invalid. As a result, we agree with the first hypothesis, which asserts that the use of sound financial management has a significant bearing on the after-tax profit that is generated by manufacturing companies in Nigeria that are listed on a public stock exchange. In terms of the second hypothesis, the probability value of dividend premium in the regression line shows 0.0379, which is less than the crucial threshold of 5 percent. This indicates that the second hypothesis is supported. As a result, we agree with the hypothesis H0, which states that there is a substantial impact between the practices of financial management and the retained profits of publicly traded manufacturing businesses in Nigeria. This is because the hypothesis H0 indicates that there is a connection between the two.

In conclusion, in terms of the third hypothesis, the probability value of the exchange rate in the regression line shows 0.6580, which is more than the crucial threshold of 5 percent. This indicates that the third hypothesis is supported. As a consequence of this, we have decided to adopt the null hypothesis, which asserts that there is no significant connection between the practice of financial management and the ratio of debt to equity held by publicly traded manufacturing companies in Nigeria.

6. Conclusion

The findings of the study led the researchers to the conclusion that there is a significant positive correlation between efficient practices of financial management, earnings after taxes, and profits kept on hand. The strength of this bond cannot be overstated. On the other hand, it has been seen that the process of financial management has a negative impact on the debt-to-equity ratio. This is the conclusion that can be drawn from the findings of the previous sentence. According to the findings of the study, on the whole, a lot of Nigerian manufacturing businesses are not too levered and do not have a disproportionate quantity of long-term liabilities. This conclusion is based on the fact that these companies do not have an excessive amount of debt. As a result, there will be a proportional drop in financial performance in the event that debt is decreased. According to the results of the study, the process of financial management has a negative influence on the ratio of debt to equity for manufacturing enterprises in Nigeria. This is the conclusion drawn from the findings of the research. On the other hand, the study reaches the conclusion that the debt-to-equity ratio may be a significant driver of the financial success of listed manufacturing businesses in Nigeria (across all the metrics of performance).

7. Recommendation

In light of the findings of the study, which are presented in the following order, the following recommendations have been made as a response:

i. There is a significant and positive correlation between stock prices and market value, so in order to increase the profitability of their businesses, the management of manufacturing organizations need to focus more of their attention on the stock price. This will allow them to take advantage of the positive relationship between the two variables. They should actively monitor (including risk-based supervision) and carry out surveillance on enterprises with substantial market capitalization as well as all trading operations to guarantee prudence in their expenditure, which will allow them to be reflective of the forces of demand and supply.

ii. They have to conduct out surveillance on corporations that have substantial market capitalizations in addition to monitoring all trading operations. Manufacturing companies should make it a priority to work toward the objective of building strong fundamentals that may have a positive effect on their business. Since there is only a weakly positive relationship between profit margin and financial management, the management of organizations have to redouble their efforts in the direction of raising their profit margin in order to enhance their organization's overall performance.

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