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CASH FLOW STATEMENT AND PERFORMANCE OF BANKS QUOTED ON NIGERIA STOCK EXCHANGE

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Abstract
This study assessed the statement of cash flow and performance of quoted banks in Nigeria, using panel data collated from the yearly reports of five banks listed in the Nigerian Stock Exchange from 2016 to 2020. The random impact was utilized for breaking down the data dependent on the Hausman's Test, which showed a likelihood value of 1.000. The study showed that the cash flow factors decide 99.5% of the progressions in the net profit of the banks. The result from the study uncovered that financing cash flows positively and significantly influenced the financial performance of the recorded banks, however cash flows from operations and investing activities were negative yet significant. This study recommended that banks ought to reevaluate their cash flow management strategies to enable them operate even more profitably so as to generate adequate cash enough to meet their regular responsibilities as they fall due.

Introduction

The financial sector plays numerous roles in the growth of an economy. The financial sector has consistently been seen as the motor enhancement of money (that is it purchases money by preparing stores from people generally and furthermore sells money by given out loans advances and all sorts of credit facilities (ICAN 2010). Aside from these essential jobs, the financial sector additionally delivers different sorts of administrations which are fundamental and pertinent to supplement of their essential parts above. These different administrations are as regards to asset transfer, product, improvement, limiting bills clearing business for their clients, consultancy administrations and ensure for the liabilities of their clients. From the above mentioned services, banks contribute to the cycle of financial improvement and advancement (ICAN 2010).

The cash flow statement also shows the cash and cash reciprocals accessible, that empowers the endeavor to meet its obligation commitments (Amahalu, Okoye, Obi & Nweze, 2016).

Financial performance is a term used to depict the degree to which a business is doing; in view of set standards (investopedea.com). Appropriately, accounting ratios are the essential methods for assessing the performance of organizations. Instances of accounting ratios utilized for performance measures are net profit, return on investment, return on equity, income per share, net resources per share, and so on. This study utilized the net profit as a proxy of financial performance (Nangih, Ofor & Onuorah, 2020).

In many businesses, the issues experienced are failure to achieve their financial mandates as they become due. It is contended that there is weak administration of cash flows in the industries and it permits managers to seek after close to home objectives whereby putting the managements' premium at chances with the premium of investors (Chikashi, 2013; Khoshdel, 2006) who further contend that cash flows and corporate performance have a huge negative relationship. These contentions are countered by researchers in related investigations, for instance, (Thanh and Nguyen, 2013; Ross, Wester, Field and Jordan, 2007), who contended that cash flows and corporate performance have a great positive relationship. These rift among researchers have made a hole, hence justifying further evaluation of the problem.

The conventional strategies for financial examination that Companies have been utilizing for quite a while to examine their financial performance are tormented by various disadvantages. The income statement and asset report can't adequately assess the financial performance of a firm as the cash flow statements have end up being. It is the current circumstance that required this study which is pointed toward analyzing the relationship of cash flow with financial performance from banks quoted on Nigeria stock exchange (2016-2020).Specifically, this study seeks to examine the effect of operating cash flows on financial performance of quoted banks in Nigeria.

Literature review

Cash Flow Statement

As indicated by Amahalu, Okoye, Obi and Nweze (2016); Adelegan (2003), cash flows are more straightforward proportion of liquidity and a contributing element in corporate performance. Cash flows address all inputs and outputs liquidity, and cash counterparts, cash reciprocals are transient investments with a liquidity degree that can be effectively changed over into cash with an inconsequential danger of significant worth change. A cash flow statement is a posting of cash flows that happened during the past bookkeeping time frame.

Cash flow from Operating Activities

They are the activities from which the firm infers its profit or loss. Bhattacharyya (2011) expressed that operating activities by and large incorporate those that go to the assurance of net income of the firm, for example, cash receipt from offer of labor and products, cash installment to providers of merchandise, cash installments to workers, and so on

Cash flow from Financing Activities

These are activities that change the share capital and long haul debt design of the firm. They identify with exchanges that change the capital design. According to Bhattacharyya (2011), they are exchanges with agents. For example; cash receipt from issue of shares, cash payment for reclamation of shares and debentures, proceeds from issue of debentures, proceeds from acquiring and cash payment for the repayment of loan.

Cash flow from Investing Activities

These are cash flows identifying with the procurement and removal of long haul assets and investments. They are cash flow from activities that are identified with capital consumption, acquisitions and between corporate investments of the firm. A part of the activities that fall under this are; cash receipts from the removal of non-current assets, cash payment to secure non-current assets, and so forth (Nangih, Ofor and Onuorah, 2020).

Profitability

Onuorah and Ogbonna (2016) are of the view that profitability is a firm's ability to produce high returns from either its operations or sales. Thus, profitability might be respected relative term quantifiable so far profit and connection with different components can straightforwardly impact the profit.

Theoretical Framework

This study is clinging on the Agency cost theory and trade-off theory.

Agency Theory

As indicated by the agency theory, agency clashes emerge from the conceivable uniqueness of interest between shareholder principal and managers (specialists) of firms. The essential obligation of managers is to deal with the firm so that it creates get back to shareholders along these lines expanding the profit figures and cash flows (Bingilar and Oyadonghan, 2014; Elliot and Elliot, 2002). As per Boohoo (2009), the commitment of agency cost theory is that leverage firms are better for shareholders as debt level can be utilized for observing the managers. Accordingly, higher leverage is relied upon to bring down agency costs, lessen in effectiveness and these lead to progress in cash flow statement. (Akintoye, 2008).

Trade-off theory

The trade-off theory suggests that firms concentrate on an ideal degree of liquidity to adjust the advantage and cost of holding cash. The cost of holding cash incorporates low rate of return of these assets due to liquidity premium and perhaps tax detriments. The advantage of holding cash are in two folds (Bingilar and Oyadonghan, 2014);

- The firms save exchange costs to raise reserves and doesn't sell assets to make payment.
- The firm can utilize fluid assets to back its activities and speculation if other wellspring of subsidizing is not accessible or are incredibly costly.

As theory, the use of trade off model can't be overlooked, as it clarifies that, firms with high leverage draws in significant expense of serving the debt accordingly influencing its profitability and it gets hard for them to raise assets through different sources.

Empirical review

ThankGod and Igwe (2021) completed an examination on cash flows and financial performance of cited hospitality firms in Nigeria from 2008-2017. The examination uncovered a critical linkage between Cash flow from Operating Activities and Net Profit Margin of hospitality firms in Nigeria. The examination recommended that hospitality and the travel industry firms in Nigeria should set-up an outcome situated cash flow framework that will urge the contributing public to benefit themselves of monetary danger fit for not imperiling their speculation and reestablish the certainty of Nigeria financial investors.

Nangih, Ofor and Onuorah (2020) analyzed cash flow management and financial performance of cited oil and gas firms in Nigeria. Data were acquired from the yearly reports of five firms from 2013-2018 and analyzed with multiple regression and correlation methods. The outcomes got set up that cash flows from operating and putting away cash flows had negative and inconsequential relationship with profitability.

The study discovered that operating cash flow management had huge and constructive outcome on return on assets and irrelevant and positive outcome on return on value. The examination reasons that operating cash flow management had critical and constructive outcome on return on assets and non-significant and positive outcome on return on value.

The examination used secondary data obtained from reality books, yearly report and record of the banks being scrutinized. The appropriate data were exposed to verifiable examination using Pearson coefficient of correlation, normality test, ordinary least square regression, heteroskedasticity and Hausman tests. The result of the examination revealed that, there was a positive and immense association between cash flow statement and liquidity. It was furthermore observationally affirmed that cash flow statement fundamentally affects liquidity of banks quoted on the floor of Nigerian stock exchange at 5% level of importance.

Thanh and Nguyen (2013), finished an examination on the effect of Banking Relationship on firm performance in Vietnam. They used the multiple regression to examine the data, using an example of 465 companies recorded in Vietnam observed in period 2007 to 2010. The examination uncovered that firm performance decreases as the amount of bank associations increases. Also, the examination furthermore shows that cash flow has negative relationship with firms, return on value, while assets have negative relationship with return on assets.

Methodology

Data Source/Sample Size And Sampling Method

Data were assembled from the distributed financial statements of five (5) quoted banks for a five (5) year time frame traversing from 2016-2020. Non-probability examining strategy utilizing critical testing technique (that is all the service firms that documented their yearly financial statements with NSE from 2016-2020 without missing any year was chosen for this investigation). The five chosen banks were Zenith Bank, Access Bank, UBA, FCMB and Fidelity Bank.

Method of Data Analysis

The multiple regression (random effect) model was used in analyzing the relationship between the variables of study, computed using the Econometric Views (E-views) software. The random effect was employed based on the Hausman's Test, which showed a probability value of 1.000.

Model Specification

The model for study was formulated as follows:

NP = ƒ (OCF + ICF+ FCF + µ).

This is further restated mathematically as:

$NP = \beta_0 + \beta_1 OCF + \beta_2 ICF + \beta_3 FCF + \mu$

Where

NP = Net Profit: as a proxy for financial performance of the quoted banks (Amah, Micheal and Ihendinihu, 2016).

OCF = Cash flow from operating activities;

ICF = Cash flow from investing activities

FCF = Cash flow from financing activities;

µ = Error Term;

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficients of the regression.

Results and Discussion of Findings

Descriptive Statistics

The descriptive statistics of the variables are shown in Table 1. The descriptive statistics reveal that the firms make an average of ₦541.7 billion from their operating activities annually while on the other hand, investment and financing activities result in deficits of ₦910.4 billion and ₦1.6 trillion, respectively.

Table 1: Descriptive Statistics

Statistics	NP (million₦)	OCF (million₦)	ICF (million₦)	FCF (million₦)
Mean	78135.48	541684.3	910458.2	1655800.
Median	80067.20	370243.2	778381.0	1136708.
Maximum	98090.80	933280.8	1719904.	3588441.
Minimum	58805.60	230797.2	591356.6	810339.4
Std. Dev.	14243.37	284214.7	423299.9	1054138.
Skewness	-0.001522	0.364311	1.324708	1.096848
Kurtosis	1.682617	1.345237	3.017154	2.613329
Jarque-Bera	1.807821	3.405343	7.312189	5.168555
Probability	0.404983	0.182196	0.025833	0.075451
Sum	1953387.	13542108	22761455	41394992
Sum Sq. Dev.	4.87E+09	1.94E+12	4.30E+12	2.67E+13
Observations	25	25	25	25

Source: Author's Computation using E-views

Correlation Matrix

The correlation statistics in Table 2 reveals that cash flows from operation, investing and financing activities are positively correlated with the net.

Table 3: Correlation Matrix

	NP	OCF	ICF	FCF
NP	1.000000			
OCF	0.912653	1.000000		
ICF	0.657040	0.712010	1.000000	
FCF	0.878757	0.893900	0.934291	1.000000

Source: Author's Computation using E-views

Random Effect Regression Result

Table 3: Random Effect Regression Result

Dependent Variable: NP
Method: Panel EGLS (Cross-section random effects)
Date: 07/01/21 Time: 19:40
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OCF	-0.019495	0.002653	-7.349522	0.0000
ICF	-0.056094	0.002239	-25.04871	0.0000
FCF	0.037617	0.001409	26.70553	0.0000
C	77480.24	1048.477	73.89788	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			1055.129	1.0000
	Weighted Statistics			
R-squared	0.996113	Mean dependent var		78135.48
Adjusted R-squared	0.995558	S.D. dependent var		14243.37
S.E. of regression	949.3369	Sum squared reside		18926051
F-statistic	1793.837	Durbin-Watson stat		3.099852
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.996113	Mean dependent var		78135.48
Sum squared reside	18926051	Durbin-Watson stat		3.099852

Source: Author's Computation using E-views

Discussion of Findings

The outcome in Table 3 uncovers that operating cash flow has a huge adverse consequence on the net profit of the banks. This suggests that the operations of the banks have not contributed emphatically to its profitability. This finding can't help contradicting the entries of Amahalu, Okoye, and Nweze (2016) who broke down cashflow statement and liquidity of quoted Banks in Nigeria (2010-2015) whose review presumed that that operation cash flow has a positive and genuinely huge effect on liquidity of Banking Industry at 1% significance level.

Also, investing cash flows likewise contrarily influenced the net profit edge of the banks and measurably critical at 1% significant level. This infers that the banks made more ventures that the premium recovered from such speculations. The justification is due to the ominous operating climate, most of the banks look for elective kinds of revenue age, particularly through interest in financial resources.

Notwithstanding, majority of these speculations have not yielded a lot of return consequently the negative indication of the investing cash flow coefficient.

This is probably going to help the firms reposition themselves to operate all the more effectively and generate more profit. This is couple with the findings of Nangih, Ofor and Onuorah (2020) who examined cash flow management and financial performance of quoted oil and gas firms in Nigeria and the investigation uncovered that financing cash flows have critical positive relationship with corporate performance.

Conclusion and Recommendations

This study assessed cashflow statement and performance of quoted banks in Nigeria, utilizing panel data acquired from the yearly records of five banks quoted in the Nigerian Stock Exchange from 2016 to 2020. The outcome from the investigation uncovered that only financing cash flows decidedly and significantly affected the financial performance of the listed banks, though cash flows from operations and investing activities were negative yet significant. In this way, the cash flows of firms in the banking sector, aside from those relating to financing activities, have not been effectively figured out how to emphatically impact its profitability. It was therefore recommended that bank firms should reconsider their cash flow management techniques to empower them operate all the more profitably just as to create sufficient cash adequate to meet their everyday mandates as they fall due. Also, external Auditors ought to be urged to utilize cash flows proportions in assessing the performance of a company prior to giving an independent opinion on the financial statement. This will give detailed data on the financial performance of the company to enable investors settle on profitable investment choices.

Contribution to Knowledge

The study has made the following contributions to knowledge;

Cash flow activities are strong predictors of net profit (financial performance) of commercial banks.

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