# FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

OLOWOOKERE Johnson Kolawole[1]; IBRAHIM Jimoh[2]*; OLANIYAN Ibukunoluwa Hannah[3]
[1]Department of Accounting, Osun State University, Osogbo, Nigeria
[2]Department of Accountancy, Osun State College of Technology, Esa-Oke
[3]Bursary Department, Osun State University, Osogbo, Nigeria
*** Corresponding author:** jimohibrahim889@gmail.com

## Abstract

This study examined the influence of financial management practices on the performance of consumer goods companies listed on the Nigerian Stock Exchange (NSE). The objective of this study was to examine the relationship between financial management practices (capital structure management practice, liquidity management practice, and investment management practice) and return on equity of listed consumer goods companies in Nigeria. This study adopted an ex-post facto research design. Data were sourced from annual financial reports of 10 selected consumer goods companies listed by the Nigerian Stock Exchange from 2013 to 2019. The cumulative result showed that financial management practices had a significant relationship with return on equity as confirmed ($F = 62.779$; $P < 0.05$). The study concluded that there was significant relationship between financial management practices and return on equity of Nigerian listed consumer goods companies. The investment management practice plays a key role in the financial management of a company by increasing the market value and return on equity of the business leading to the organization growth and increase in productivity. The study, therefore, recommends that senior managers of consumer goods should develop and maintain financial management policies to improve the financial performance of their respective companies.

**Keywords:** Financial management, performance, consumer goods, returns on equity, Nigeria

## 1. Introduction

Financial management practice plays a key role in increasing the market value of a business. This eventually leads to growth, productivity, and overall success of the company in particular and the economy at large (Ariyo, 2008). Nigerian consumers goods companies have been revolving around financial shortages, deprived financial practices (investment, liquidity, capital, and debts management) and inability to compete with imported and local raw materials, perennial losses and fluctuations in economic conditions which cumulatively harm industry's performance, specifically on the profit of consumer goods companies (Fwamba, 2017). Getahun (2016) stated that poor financial management practice is a significant factor that affects the overall performance of consumer goods. The performance of the Nigerian consumer goods sector is weak as evidenced by the decline in growth rate from 24.37% in 2017 to 24.00% in 2018 (NBS, 2019). Such decline in performance leads to an increase the rate of unemployment in the country which as a result leads to social vices and crime. Poor business performance in the consumer goods sector has for long remains a puzzle especially in the third-world countries where the consumer goods companies occupy a large part of the economy. Inefficiencies in financial management practices result in poor financial performance and eventually lead to the failure of small and medium enterprises (Kilonzo & Ouma, 2015).

Therefore, the capital structure practices of some companies were not prioritized due to poor administration of capital that affects the accessibility of required finance to fund future development. In the same vein, liquidity management problem is not when granting credit sales. A company suffering from liquidity management problems implies that the cost of obtaining funds from other sources may be high and a credit sale beyond the optimal level of credit is dangerous. Hence, sales levels and returns are reduced as a result of a high or tight credit policy or not granting credit at all. Investment problem arises due to mismatched of project. This also arises from over-investment in receivables especially when the debtors are of high-risk class (Pandey, 2006).

Several studies have been carried out in the past on the financial management practices in developed and some developing countries but there is a dearth of information on the influence of financial management practices on the performance of Nigerian listed consumer goods companies. Some researchers that attempted a similar study focused their work on banking sector sectors as the outcome this study will differ from banking sectors. The few authors that attempted the influence of financial management practices on the performance of listed consumer goods companies in Nigeria did not cover up to the year 2019 in their research findings which gives room for the existence of a research gap. It is in this light that the current study seeks to fill the existing research gap by studying the influence of financial management practices on the performance of listed consumer goods companies in Nigeria between the years 2013 to 2019. However, this study is important not because it fills the gap, but also it sets out to address this gap knowledge. The study was significant to the firm's owners/managers, who might wish to acquire strategies in the financing, management, marketing, and innovations, to improve the company's performance in terms of profitability and growth of consumer goods companies.

The objective of this study is to examine the relationship between financial management practices (capital structure management practice, liquidity management practice, and investment management practice) and return on equity of listed consumer goods companies in Nigeria. To achieve the objective of the study, the following fundamental question was examined. What is the relationship between financial management practices (capital structure management practice, liquidity management practice, and investment management practice) and return on equity of listed consumer goods companies in Nigeria?

This study is sub-divided into five sections. Section one showed the introductory part of the study. Section two focused on conceptual review, theoretical review, and empirical evidence. Section three presented the methodology adopted in analyzing the effects of the selected variables in the study, data analysis techniques employed in analyzing the data. The hypotheses testing and results were discussed in section four and section five was dedicated to the conclusion and recommendations of the study

## 2. Literature Review
### 2.1 Conceptual Review
#### 2.1.1 Financial Management

Finance is a key to any organization and can be considered the life wire of any organization. Proper financial management of an organization can therefore sustain an increase in the life of such organization. Owing to this view, we can say good financial management is the backbone of an organization. Thus, as resources are procured by an organization, they should be utilized in a cost-effective manner to ensure safety on speculation (Desta, Debela & Shibru, 2018). Financial management practices for consumer goods companies are generally concerned with procurement, allocation, and control of financial resources. It is a tool used to ensure a regular and adequate supply of funds to organize activities and also used to ensure adequate returns to owners in terms of earning capacity, market price expectations of shares, and optimum capital budget utilization.

Financial management connotes responsibility for obtaining and effectively utilizing the available funds for the efficient operation of an organization. The finance of an organization functions primarily on the management of funds which include raising and judicious use of raised funds. It, therefore, covers all functions and areas concerned with financial procurement and usage in the most effective way to attain the organization objectives (Akinsulire, 2014). Financial management makes a better feeling of the financial idea for the organization, with keen interest on what is deliberately imperious and ways of improving an organization .In this regard, the financial management of manufacturing companies has a pivotal significance as the organisation need to work and compete within a framework of great risk and vulnerability.

Financial management practices are central to the success of any small business. Financial literature has, therefore, suggested that optimum application and commitment towards financial management practices result in an increased firm's performance as a financially well-managed firm is operationally efficient (Yogendrarajah, Kengatharan, & Jeyan, 2017). The ability of a firm to develop, grow, sustain and strengthen its capacity is heavily determined by its capacity to access and manage finances (Abe, Troilo & Batsaikhan, 2015). Financial management is concerned with raising the needed funds to finance the firm's assets and activities, effective allocation of funds between competing uses, and ensuring that the funds are used effectively and efficiently to accomplish the desired goal of the business (Isaac, 2018). Sajuyigbe , Adeyemi and Odeniyi (2017) view that financial management refers to ways of planning, organizing, directing, and controlling the financial activities such as procurement and utilization of funds of the enterprise.

### 2.1.2 Capital Structure Management Practice

Capital structure refers to how a company finances its operations whether through shareholders equity-fund or debt or a combination of both (Akinyomi & Olagunju, 2013). Capital structure is the mix of debt and equity that maximizes a firm's return on capital, thereby maximizing its value (Ongore, 2011). Therefore, capital structure practices have a significant influence on the organization's financial performance. The powerful administration of capital structure guarantees the accessibility of required finance to fund future development and enhance the financial performance of the organization. Capital structure management generally means overseeing the capital structure of an organization (Romney, 2009). A company's capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity. When determining a company's cost of capital, the costs of each component of the capital structure are weighted with the overall total amount (Macharia, 2015). One of the major considerations that organization management must understand and take into proper account when sorting out capital structure management is the cost of capital. Thus, in a worthwhile investment, the expected return on capital must be greater than the cost of capital (i.e. the cost of debt and the cost of equity).

### 2.1.3 Investment Management Practice

Investment can be described as the re-direction of resources from being consumed present to creating future benefits (Waweru & Ngugi, 2014). In other words, it is the use of assets to earn income or profit. Although it is no longer a bartering society where goods were often more perishable, it is preferable, if not essential, to invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. Consumer goods companies must be able to respond quickly and efficiently to international market signals to take benefit of investment opportunities and reap the benefits of the international trading system. This means they need to be competitive and productive. Effective business support systems are needed to improve the competitiveness and productivity of consumer goods companies. The development of an effective business support system is paramount condition for the success of investment capacity building. It requires business support agencies (including financial institutions), which are customer-oriented and which have a demonstrated capability of penetrating the manufacturing sector (Waweru & Ngugi, 2014). Multinational enterprises seeking out new markets and investments offer capable manufacturing firms the opportunity to insert themselves into global value chains through subcontracting linkages, while those that are not to do so increasingly face the danger of losing their existing markets.

Strategic investment practices are the practices on ventures which significantly affect the long-term financial and operational performance of an organization and thus, greatly affect the competitiveness of firms. Strategic investments include the impact the product(s) or service(s) of an organization is spread or the geological degree and distribution of the firms' operations. Organization innovative work, acquisitions, and mergers, the presentation of new product lines, the establishment of new manufacturing procedures, and business advances are regarded as strategic investment practice in some related literature (Fwamba, Namusonge & Sakwa 2017).

Elragal and Al-Serafi (2011) in their review contends that strategic investment practices significantly affect the long-term financial and operational performance of an organization and significantly affect the competitive advantage of the firm. As one of the strategic investment practices, internationalization stands out as the most imperative and most complex practice. It has its exceptional dangers, instabilities in the process might be high and making estimations about future cash streams is hard. Studies have pointed out the significance of learning is fruitful in understanding internationalization. (Fwamba, Namusonge & Sakwa, 2017) analyzed the connection amongst finance and strategic investment practice on returns on the company's share listed in Taiwan and China trading system, They found out that there is a connection between profits (returns), investment decision and the choice of the cash dividend distributed to shareholders in both countries.

### 2.1.4 Liquidity Practice

Liquidity simply means the ability of meet financial demand and companies must maintain equal and adequate cash and a liquid asset to remain afloat. Manufacturing companies require money and other liquidity assets or current assets to meet their bills or current liabilities as they often fall in arrears. If an organization has deficient current assets with its current liabilities, it may be forced into liquidation (Fwamba, et al, 2017). Liquidity issues can arise from the lack of capacity to convert the current assets into cash in a profitable way or from unreasonable bad debt losses. In this way, Kiogora (2000) noted that liquidity is a vital perspective that passes on a decent image about the capacity of the organization to produce money and pay short-term liabilities and long-term debts as the need arises.

Subsequently, liquidity ratios are perceived to focus on the relationship between different groups related to current assets and current liabilities to measure the level of liquidity of an organization. Liquidity ratios aid in establishing the adequacy of the financial management approach that the firm uses (Bolek & Wilinski, 2012). Amalendu and Sri (2011) studied the liquidity management and its effect on firm productivity in the Indian steel industry, using current ratio and total liquidity as liquidity indicators; it was found that there was a positive and significant relationship between liquidity and firm profitability. Be that as it may, with the end goal of this review, debts and current assets and also fiscal management practices would be considered (Naibei, 2013).

### 2.1.5 Relationship between Financial Management Practice and Financial Performance

Financial management has been identified as major components of financial practices essential for the performance of every firm, the components includes: financial planning and control, financial analysis, accounting information, management accounting, capital budgeting, and working capital management

(Sajuyigbe, Adeyemi & Odebiyi, 2017). According to Maseko and Manyani (2011), accounting systems provide a source of information to owners and managers of businesses operating in any industry for use in the measurement of financial performance. It is crucial therefore that the accounting practices of businesses supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs.

Business strategy is one of the main components that contribute towards the growth of any firm (Ismail & Zin, 2009). The main factors that contribute to the success or failure of any given business are both internal and external factors. The external factors include financing (such as the availability of attractive financing), economic conditions, competition, government regulations, technology, and environmental factors. The internal factors are managerial skills, workforce, and the accounting systems. Accounting information can help both small and big businesses to manage their firms by providing information to support monitoring and control of their business. It also helps firms to integrate operational initiatives within long-term strategic plans (Macharia, 2015).

### 2.1.6 Financial Performance

The subject of financial performance had received significant attention from scholars in the various areas of business and strategic management (Macharia, 2015). It is also a primary concern of business practitioners in all types of organizations since financial performance has implications to an organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of the company's resources and this, in turn, contributes to the country's economy at large (Masnoon & Saeed, 2014). Therefore, financial performance refers to the degree to which financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given time and can also be used to compare similar firms across the same industry or to compare industries or sectors (Padachi, 2006).

However, a well-designed and implemented financial management of an organization, therefore, expected to contribute positively to the firm's value. Dilemma in financial management seeks to achieve desired trade-off between liquidity, solvency, and profitability. The financial performance of an organization is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget, or a mix of the methodologies. Performance measurement serves as a source of information about financial outcomes and the internal operations shown in an organization's financial statements (Okwo & Marire, 2012).

Financial performance can be characterized as an independent indicator designed to show how best an organization can use its resources to produce income for the organization (Malichova & Durisova, 2015). This aspect is also used as a common indicator of a firm's common financial health within the timescale and can be used to contemplate over similar organizations within similar sectors of operation or to focus on ventures or areas in general. Chowdhury (2012) asserts that the performance measurement idea demonstrates that workers can build the value of the company by increasing the extent of an organization's future cash streams, by hastening the acquisition of those cash streams or by making them progressively certain or less risky. There are a comprehensive collection of methodologies to measure financial performance, however, all methods should be taken in totality. A portion of the indicators of financial performance is return on equity, liquidity proportions, asset management ratios, profitability ratios, leverage ratios, and market value ratios (Crowe, 2009). However, the recommended measures for financial analysis that determine a firm's financial performance are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity, and financial efficiency ( Macharia, 2015).

Liquidity measures the ability of the firm to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business Liquidity can be analyzed both structurally and operationally. Solvency measures the amount of borrowed capital used by the business relative to the amount of owner's equity capital invested in the business. In other words, solvency measures indicate the business's ability to repay all indebtedness if all of the assets were sold. Solvency measures also indicate the business's ability to withstand risks by providing information about the operation's ability to continue operating after major financial adversity.

Profitability measures the extent to which a business generates a profit from the factors of production: labour, management, and capital. Profitability analysis focuses on the relationship between revenues and expenses and the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin, and net income (Hansen & Mowen, 2005). Repayment capacity measures the ability to repay debt from both operation and non-operation income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure.

Utilization of financial performance could at present be legitimized because it replicates what managers contemplate to be financial performance and, irrespective of the likelihood that this is a composite of different indicators like accounting profits, profitability, and cash flow. Financial performance is dictated by the complementary measures; profit or value-added; sales, expenses, spending plan; expenses or use and stock exchange markers (e.g. share price) and independence (Fwamba, 2017).

## 2.2 Theoretical Framework

The following theories links with this research work include Modigliani and Miller capital structure theory, liquidity preference theory, cash management theory, agency theory, and pecking order theory, however, this study is anchored on Pecking order theory which propounded by Myers and Majluf (1984), this is when practicing financial management, firms have particular preference order for capital used to finance their businesses. Firms first use to consider their internal source of funds, or retained earnings, then debt, and lastly equity. Using retained earnings involves lower funding costs and shorter processing times compared to debt funding, yet equity funding involves yet higher funding costs and even longer processing times. Therefore, debt financing positively affects firm value in terms of market share price, net asset per share, market capitalization. Firms with more profit and liquidity have more retained earnings and do not need external funding. Firms involved in high-risk ventures should not need more debt as more debt means even more financial risk. However, growth opportunities and non-current assets positively affect liability. The retained earnings of high-growth firms might not match their capital requirements, so they add more debt. Moreover, tangible assets can be used as security when firms require debt funding.

## 2.3 Empirical Review

Several studies have investigated the influence of financial management practices on the performance of consumer goods companies in Nigeria, and in different parts of the country with diverse techniques and opinions. The outcomes of the investigations, however, have shown that there are many empirical findings. For instance, Isaac (2018) examined the financial management practices and performance of SMEs in Ghana: The moderating role of firm age. He found that receivable management, cash management, inventory management, and asset management practices influence

SMEs' performance. The study further disclosed that, firm's age has a moderating effect on the relationship between financial management practice and SMEs performance. Besides, Veeraraghavan (2018) studied the effect of financial management practices on the financial performance of small and medium enterprises in Puducherry, India. The study showed that individually, there is a positive relationship between working capital management; investment decisions; financial decisions, and financial performance. The study further revealed that the combined effect of financial management practices (working capital management, investment decision, and financial decision) have a moderate positive relationship between financial management practices and financial performance.

Rugui and Omagwa (2018) appraised the influence of financial management practices on the performance of small and medium enterprises in Lemur Town, Kenya. The study found that firm's financing and ownership structure have a fairly strong positive correlation with performance, while cash management does not have a positive correlation with performance. Consequently, financial management practices were found to be good measures of performance for the SMEs studied.

Desta, Debela and Shibru, (2018) studied the effect of financial management practices on the profitability of small-scale enterprise in Hawassa City administration, Ethiopia. They found that financial management practice is a backbone to small-scale enterprises' profitability, success, and expansion. The study further reveal that, fixed asset management practices, accounting information system and financial reporting analysis, working capital management practices, and capital budgeting management practices have a positive relationship with profitability; but capital structure management practices has a negative relationship with profitability. In a similar study, Muchiri (2017) examines the financial management practices and financial performance of non-financial firms listed at the Nairobi Securities Exchange, Kenya. He disclosed that capital budgeting was significant while all other variables were insignificant. The results further revealed that liquidity and capital budgeting gave a significant positive relationship to return on assets in the regression model which meant that they had a positive significant impact on financial performance. The study revealed that the proper liquidity management and proper capital budgeting can bring about higher profitability.

Fwamba (2017) assessed the influence of financial management practice on the financial performance of sugar manufacturing companies in Kenya. He found that the strategic capital practices, strategic liquidity practices, and strategic investment as well as board structure have a significant effect on financial performance. The study recommended that it is important for firms to retain their profits so that they can reinvest and gain higher returns on investments and shareholder equity furthermore.

In a related study, Yogendrarajah, Kengatharan, and Jeyan (2017) evaluated the financial management practices and performance of SMEs in Sri Lanka: They found that there is a significant difference in the application of financial management practices between small and medium enterprises. Financial management practices of working capital management, investment appraisal, capital structure management, financial reporting and analysis, and accounting information system are highly applied by medium-sized enterprises than small enterprises. Working capital management and capital structure management have a significant impact on SMEs' performance. Outcome of the study may be useful to the practitioners to focus on the financial management practices in order to enhance their business performance.

Sajuyigbe, Adeyemi and Odebiyi (2017) also examined the effect of financial management practices on entrepreneurs' performances in Osun State. The study disclosed that women entrepreneurs in Osun State have very limited financial management skills which might be behind the inability of their businesses to grow significantly. Besides, Selvanayakia, Sivakumara, Rohinia and Manib (2016) evaluated the financial management practices and profitability of modern rice milling firms in Kangayam Cluster, Tamil Nadu. They discovered that there were significant differences among the fully and partially modernized rice milling firms that have been observed in the preparation of cash budget, setting-up credit policy, preparation of inventory budget and review of inventory turnover, capital budgeting in investment analysis, and accounting practices.

Furthermore, Macharia (2015) examined the influence of financial management practices on the financial performance of dairy industry in Kenya. The study found that without the four financial management practices, the dairy processors' financial performance would be dismal. Previous studies on financial management practices such as Isaac (2018); Desta, Debela and Shibru, (2018); Yogendrarajah, Kengatharan and Jeyan (2017); Waweru and Ngugi (2014); have focused mainly on the financial management practices and financial performance of SMEs without making convincing reasons for such practices. Other studies such as Veeraraghavan (2018); Fwamba 2017; Selvanayakia, Sivakumara, Rohinia and Manib (2016); and Macharia (2015) carried out review on the financial management practices and its influence on the performance of SMEs.

Authors try to correlate financial management practice with profitability by taking various articles from scientific data sources. The available literatures on financial management practices in Nigeria do not pay particular attention to the listed consumer goods companies. The few available studies on financial management practices in Nigeria which pay particular attention to the non-listed manufacturing companies include, Sajuyigbe, Adeyemi and Odebiyi (2017) and Oladejo, Akande & Yinus (2017). Based on this back drop, the study aims at filling the existing gap and also provides an examination of financial management practices and financial performance of listed consumer goods companies from 2013 to 2019.

## 3. Data and Methods

This study adopted an expo-facto research design due to the existence of data needed for the study. The study population was twenty consumer goods companies listed on the floor of the Nigerian Stock Exchange (NSE). The purposive sampling method was used to select the ten consumer-goods companies. As results of accessibility of needed data, the following ten companies selected as a sample size for this study include; Cadbury Nigeria Plc, Champion Brewery Plc, Flour Mills Nigeria Plc, Gunness Nigeria Plc, Honeywell Flour Mills Plc, International Brewery Plc, N Nigeria Flour Mills Plc, Nestle Nigeria Plc, Nigerian Breweries Plc ,and Unilever Nigeria Plc.

The data collected for this study was obtained through the secondary source and extracted from the audited annual financial reports of the ten randomly selected consumers–goods companies for a period of 7 years from (2013 to 2019). This study adopted ordinary least square (OLS) technique of multiple regressions and correlation analysis to determine the relationship between the dependent variable and independent variables

**Table 1: Measurement of variables**

| **Dependent variables** | **Operational definition** |
|---|---|
| Return on Equity (ROE) | $\frac{\text{Profit before tax}}{\text{Total Equity}} \times 100$ (Ikotun, 2019) |
| **Independent Variables** | |
| Capital structure management Proxy Leverage | (Long term debt + Short term debt)/Shareholders equity (Raza,2013;Shahen,2014) |
| Liquidity Management | Current assets/Current Liabilities (Shaheen,2014**)** Muchiri, (2017) |
| Investment Management | EBIT/ (Total assets-Current liabilities) Investment management will be measured using the ROCE ratio (Shaheen,2014**)** Muchiri, (2017) |

***Source:*** **Authors' Compilation (2020)**

### 3.1 Model Specifications

This study model established the relationship between the dependent variables of financial performance proxy return on equity (ROE) and independent variables were used as variables to define financial management practices which include Capital structure management, liquidity management and investment management. As an indicator of liquidity, the conventional definition was used (the ratio of current assets to current liabilities) (Jong, Kabir & Nguyen, 2008). Investment management was measured by the ROCE ratio and the capital structure was measured by the use of debt ratio.

To empirically ascertain the impact of financial management practices on the financial performance of listed consumer goods companies in Nigeria, a model put forward by Muchiri (2017), was used as specified below:

**ROE Model**

This model presents Return on Equity (ROE) and financial management practices (Capital structure proxy debt ratio DR, Liquidity management LIQ and investment management Proxy ROCE ratio ).

ROE= f (DR,LIQ, ROCE µ) -----------------------eq. 1

ROE = β0 + β1 DR + β2 LIQ + β3 ROCE + µ -------------------- eq2

Where:

ROE = Return on Equity, DR = Debt ratio, LIQ= Liquidity management

ROCE = Return on Capital Employed. β0 = Constant parameter

β1, β2, β3 = Coefficient of parameter/explanatory variables,

µ = Error terms. A priori Expectations: β1 – β3 +/-

## 4. Data Analysis and Discussion of findings

**Table 2: Pool OLS Regression Results of model 1**

| Variables | PERF Model 1 | | | | | |
|---|---|---|---|---|---|---|
| | Coeff. | Std. error | T-statistic | Sig. | TOL | VIF |
| C | 10.989 | .2383 | 4.810 | .000 | - | - |
| Debt ratio | -1.837 | .822 | -2.234 | .029 | .917 | 1.093 |
| Liquidity management | -3.881 | 1.175 | -3.302 | .002 | .977 | 1.023 |
| Return on capital employed | 87.533 | 6.543 | 13.380 | .000 | .923 | 1.070 |
| R | | .861 | | | | |
| $R^2$ | | .741 | | | | |
| F-Stat | | 62.779 | | | | |
| P-value | | .000[a] | | | | |
| Dw | | 1.459 | | | | |

*Source:* Authors' Computation (2020)

Table 2: presents a summary of the estimated regression model: ROE= 10.989- 1.837 DR -3.881 LIQ+ 87.533ROCE

The result in Table 2 revealed that the coefficient of determination for the regression as depicted by the R2 value of approximately 0.741 suggests that about 74 percent of the systematic variation of the dependent variable is accounted for by the independent variables. The remaining 26 percent is caused by variables that are not included in the model which is accounted for by the stochastic error term. The result in Table 2 showed that debt ratio, liquidity management and return on capital employed were predictors of ROE as confirm ($F = 62.779$; $p< 0.05$). This shows that the model of the study is well fitted and it was enough evidence to reject the null hypothesis. This implied that financial management practices (debt ratio, liquidity management and return on capital employed) had a significant relationship with ROE.

The results also showed that debt ratio and liquidity management had a negative and statistically significant influenced on the return on equity as confirmed by ($\beta= -1.837$, $t =-2.234$; $p< 0.05$) and ($\beta= -3.881$, $t = -3.302$; $p< 0.05$). This implies that the most of consumer goods companies studied, their current liabilities are greater than the current assets which invariably have a negative influence on ROE respectively. However, the return on capital employed had a positive and statistically significantly influence on the return on the asset as confirmed by ($\beta= 87.533$, $t = 13.380$; $p< 0.05$). This implies that investment management practices had greatly contributed to the financial performance of listed consumer goods companies in Nigeria. The study concluded that there is a significant positive relationship between financial management practices and return on equity of listed consumer goods companies in Nigeria.

Durbin Watson statistics of 1.46 which fall within the value of 1.2 to 3.5 shows sign of serial autocorrelation. To ascertain that the assumption of no multicollinearity was violated in the model, the variance inflation factor (VIF) was computed for all the repressors and the results are presented in Table 2. The decision rule of the VIF test was that the model was characterized with the problem of multicollinearity if any of the variables has VIF that was up to threshold of 10. Since none of the repressors' has VIF that is close to the threshold of 10, the repressors' do not exhibit high linear relationship and thus there is no multicollinearity issue in this model.

## *Correlation Analysis*

**Table 3*: Correlation Matrix of the relationship between financial management and return on equity variable***

| | **Variables** | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| **1** | Return on Equity | 1 | .101 | -.175 | .638** |
| **2** | Debt ratio | | 1 | -.141 | .251* |
| **3** | Liquidity ratio | | | 1 | .015 |
| **4** | Return on capital employed | | | | 1 |

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
*Source:* Authors' Compilation (2020)

The correlation matrix was used to test for multicollinearity. The general rule is that if a correlation between any two variables is greater than or equal to 0.70, then a high degree of interrelation can be inferred and the possibility of multicollinearity exists (Kieu, 2004).

Table 3 indicates that positive and negative correlations were found among the variables. The findings shows the relationship between debt ratio and return on equity indicates ($r = .101$, $p>.01$), liquidity ratio and return on equity ($r = .-175$, $p > .01$), return on capital employed and return on equity ($r = .628$, $p < .01$), indicating investment has significant influence on the return on equity. All the correlation coefficients are at 1% and 5% level of significance.

### 4.1 Discussion of Findings

From above, the study also examined the relationship between the financial management practices and performance of listed consumer goods companies .The financial management practices measure as capital structure proxy debt ratio, liquidity management, and investment management proxy return on equity. This study discovered that all financial management practices variables were significantly influenced the performance of listed consumer goods companies in Nigeria. The debt ratio and liquidity management had a negative but statistically significant influence on return on equity. The implication is that the most consumer goods companies sampled, their current liabilities are greater than the current assets which invariably have a negative influence on return on equity. This is because as investment increases, this will invariably lead to an increase in returns of equity-holders. These findings, therefore, corroborated the study of Kaumbuthu (2011) who discovered that there was a negative and significant relationship between debt-equity ratio and return on assets. Ajibola, Wisdom and Qudus (2018) also found that there is a positive statistically insignificant relationship between ROE and short term debt ratio. Finding of this study is similar to the work of Muchiri (2017) who revealed that liquidity management gave a significant positive relationship to return on assets.

The study, therefore, concluded that proper liquidity management can bring about higher profitability. In contrary to the finding of (Tiegen, Barclay, Marx & Smith, (2009) that the liquidity management decisions made by the employees may be influenced by the Board in terms of executive and non- executive directors, decisions hence affecting financial performance. However, the study further disclosed that pecking order theory can contribute to financial management practice and performance of an organization. Owing to this the information asymmetries between the firm and potential investors, the firm will prefer retained earnings to debt, short-term debt over long-term debt, and debt over equity. Myers and Majluf (1984) argued that if firms issue no new security but only use their retained earnings to support the investment opportunities, the information asymmetric can be resolved. That implies that issuing equity becomes more expensive as asymmetric information insiders and outsiders increase. Firms whose information asymmetry is large should issue debt to avoid selling underpriced securities. The capital structure decreasing events such as new stock offering leads to a firm's stock price decline. An announcement of increasing capital structure events is received by the market as good news because financial intermediaries like investment banks can become insiders to monitor the firm's performance. Managers may have inside information that is not known to the market. Insider investors have more information about the true distribution of firm returns than outsiders. Insider investors tend to limit the use of equity to retain control of the firm. Moreover, the risk of the firm's return is unknown to investors. They are forced to rely on noisy signals such as the firm's level of capital structure to determine the risk of their investment and the firm's value may be underpriced by the market (Myers & Majluf, 1984).

## 5. Conclusion and Recommendations

Based on the findings of this study, it could be concluded that organizational financial performance is dependent upon sound financial management practices. The liquidity ratio had a negative influence on the return on equity of sampled selected consumer goods companies in Nigeria and this can be concluded that the most of consumer goods companies studied, their current liabilities are greater than the current assets which invariably have a negative influence on ROE. In the view of above findings and conclusions, the following recommendations were suggested:

Senior managers of consumer goods companies listed on the NSE should come up with policies to ensure adequate capital structure and liquidity is maintained to improve the financial performance. Consumer goods companies should come up with policies to improve on investment decisions and financial performance

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