EFFECT OF CASH MANAGEMENT STRATEGY ON THE LIQUIDITY .ND PROFITABILITY OF SELECTED MANUFACTURING COMPANIE IN ABUJA, NIGERIA

BY

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MASTER OF BUSINESS ADMINISTRATION (MBA)

SEPTEMBER, 2019

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A PROJECT/DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY KEFFI, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (GENERAL), DEPARTMENT OF BUSINESS ADMINISTRATION, FACULTY OF ADMINISTRATION, NASARAWA STATE UNIVERSITY KEFFI, NIGERIA

DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in any previous application for Master of Business Administration Degree. All quotations are indicated and sources of information specifically acknowledged by means of references

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CERTIFICATION

This project entitled Effect of Cash Management Strategy on the Liquidity and Profitability of Selected Manufacturing Companies in Abuja, Nigeria meets the regulations governing the award of Master of Business Administration (MBA), of the School of Postgraduate Studies Of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to my Family

ACKNOWLEDGEMENTS

I give God all the glory for his grace and guidance.

My thanks go to my supervisor Dr. C. I. Okeke for his interest and support in completing this work. All the faculty in the faculty of administration are appreciated for their contributions in improving my intellect in the past two years.

My colleagues at work and on the academic programme are appreciated for their support in many areas that sustained my interest on the programme and pushed me to complete the research leading to this report.

ABSTRACT

The study examined the effect of cash management strategy on the liquidity and profitability of selected manufacturing companies in Abuja metropolis. To answer the research questions and test formulated hypotheses, the study utilised questionnaire in gathering data. The questionnaire was administered on five (5) Managers responsible for cash management in five selected manufacturing companies in Abuja. All the three hypotheses were tested with Pearson product moment correlation. Results showed, that there is a significant and positive relationship between effective cash management and profitability of manufacturing companies; that there is significant relationship between liquidity and profitability of manufacturing companies and lastly, the internal control system reduces risk, resource waste and frauds. Conclusively, the study confirmed that, without proper cash management strategies in place, the business is less likely to be profitable and sustainable for the future, and recommended that manufacturing firms pick the right cash management provider who can co-ordinate the physical and technological installation of the system and can significantly expedite and smoothen the process of ensuring profit maximization.

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All over the world, there is no business operation that is isolative of cash management Randall and Farris (2009). Olowe. (2008) opined that the term 'cash' is the most vital liquid asset required for the day to day operations of businesses. Cash is seen as the most basic liquid input required keeping the business in its day to day activities and it doubles as the ultimate output expected to be realized by selling the services or products manufactured by the firm Pandey (2004). Cash represents the basic input necessary to start and keep a business running. A company needs to maintain sufficient cash to keep its business running smoothly. Cash shortage will disrupts the firm's operation and can even lead to insolvency. Excessive cash will tie down unnecessarily long-term capital with a result that the return on capital employed will be low.

Cash management is essential to every business that desires to meet up with its short-term financial obligations. Akinsulire (2003) asserts that the success of any business venture is predicated on how the management has planned and controlled its cash flows. According to Olowe (2008). cash management is concerned with the efficient management of cash so as to achieve an optimum level of cash in the firm's working capital.

According to Horne and Wachowitz (1998), cash management is very vital for production linns whose assets are mostly composed of current assets. Cash management directly affects liquidity and profitability of any firm (Raheman and Nasr, 2007). Particularly, it centres on measuring the effect of cash management on profitability just as it dwells on establishing, if any, the association between liquidity and profitability of firms.

Business needs adequate liquid resources to maintain daily cash flow; it needs enough money to pay wages, salaries and creditors if it is to keep its workforce and ensure provision of supplies. Since resources are scarce, business organizations want to make maximum use of available capital in order to ensure optimal returns from among alternative investments opportunities. To avoid a situation of cash shortage when cash is highly needed or cash surplus when there is little or no need for cash, many companies have now embraced the idea of effective cash management.

The importance of cash management is to make sure that there is positive cash flow for smooth business processes. The argument of Adetifa (2005) described cash management as professional because of its importance in managing corporate cash transactions. Then the big question that draws attention will be. to what extent is cash management important to the running of a firm or an organization? Or put differently, how important is cash management in ensuring an effective, reliable and positive fund flow system in a business enterprise?

Basically today, cash management has been significantly justified by the growing developments in the world of business over the years Kesseven, (2006). These developmental strides include; changes in the corporate relationship from buyer's to a seller's market, globalization of businesses which saw the creation of the Economic Monetary Union (EMU) m Europe, and the proposed adoption of a single currency in the

West Africa Region (Abioro, 2013); the emphasis on new treasury structures to better manage resources on a worldwide basis; the developing interest in e-commerce for business to business transactions which changes how data and funds flow greatly reduces working capital cycle time; the emergence of the "new economy" with its orientation to information and cash, driving finance into every area of a company (Marsh, 2009). Based on these developmental efforts, it becomes imperative that effective cash management is fundamental to business survival, growth and overall success.

However, simply put. cash management refers to the ways and manner in which firm manages its cash flow cycle or operating cycles which defines the timing of cash inflows and cash outflows. The pattern of operations varies per industry but in a general term, the pattern involves: providing cash as capital for firm's initial outlay, the procurement of raw materials for manufacturing concerns, provision of cash for finished goods in marketing firms, for the distribution of the finished goods to receive immediate cash or create debtors when goods are sold on credit bases. (Akinbuli, 2006).

Similarly, I T were. (1999) argued that the process bf managing corporate cash has become a major concern for most companies, because of its significant contributions to the overall results of the organization. However, in determining cash management challenges the need to identify areas that are unique to solving cash problems become paramount.

In today's business world, one issue faced by finance managers in managing cash is the determination of an appropriate source of fund either for the purpose of initial take off of the business or for the purpose of its working capital (Gakure, Cheluget. Onyango. and Keraro (2012).

Some other challenges includes the identification of a profitable investment opportunity in engaging idle funds, non-cash planning, and the determination of an optimal level of cash to be maintained by the firm. Kesseven (2006) agreed that most business managers are squarely f aced with the challenge of attaining a desired trade-off between liquidity and profitability in the course maximizing the value of the firm. He therefore cautioned that too much focus on profitability may result in asset-liability mis-match which increases profitability in the short run but creating a risk of insolvency. Pandey (2010) remarked that finding a tradeoff between sufficient and insufficient cash to be held during business transactions has been a major problem faced by many organizations and Olowe (2008) suggested that cash must be obtained from an appropriate source in order to avoid the challenges of fund mismatch in investment decision making.

Traditionally, in the literature of corporate finance, so much has been written on long term investment and financing decisions. However, short term investment assets, has attracted less attention by both academic and professional researchers. Both bodies of researchers have paid less attention to cash (liquidity) management and its significance to business management practices. Whereas, researchers of finance have concentrated more on the relationship between firm value and capital structure, cash management, concerns and its role in real business, have attracted very little attention. Of more concern is the severe dearth of research on cash management in Nigeria.

Studies have shown that although working capital has been well researched, but very few studies have been conducted on cash management which is an integral component of working capital management in Nigeria, this becomes the key reason why it is being undertaken in this work.

1.2 Statement of the Problem

Cash management is a significant determinant of a firm's profitability and performance. It thus requires expert management and planning of all inflows and outflows from an organization for the purpose of achieving profitability and performance on the part of

Nigerian industries. But many firms in Nigeria especially manufacturing industries lack adequate technical competence and managerial acumen to achieve efficiency of cash management. This to a large extent has been responsible for the incessant liquidation and closure of many organizations in the country.

Mam manufacturing companies in Nigeria operate at a profit but they still run into serious financial problem resulting from inadequate capital to provide the cash needed to pay debts as they fall due because of overtrading. In order to reduce accounts receivable, many firms in Nigeria embraced strict collections policies and limit sales credits to their customers to maximize and increase cash inflow. But this strict collection policies and restriction on sales credits has led to lost sales which ultimately reduce.

As a result of the trade-off between liquidity and profitability of firms, many of the Nigerian firms that focus on effective cash management to achieve the objective of liquidity have lose hold of the profitability goal In the same vein, even as they centre on profitability objectives, main are facing difficulty of illiquidity. The challenge therefore lies on how lo achieve profitability goal without losing grip of the liquidity objective since inadequate cash may lead to lost sales and thus may affect the profitability.

1.3 Objectives of the Study

I he main objective of this study is to assess the Effect of cash management strategy on the liquidity and profitability of manufacturing companies in Abuja metropolis. To achieve this, the following secondary objectives will also be considered;

(1) To determine the relationship between effective cash management of Manufacturing companies and their liquidity and profit level.

(2) To examine whether manufacturing companies liquidity ratio and profit level is influenced by its cash management style/policies.

(3) To investigate if desire for high liquidity and profitability of manufacturing companies affect cash management goals?

To evaluate whether their internal control system reduce risk, waste and frauds.

1.4. Research Questions

This research study will provide answer to the following pertinent questions;

(I) To what extent is the relationship between effective cash management of manufacturing companies and their liquidity and profit level?

(2) Does manufacturing companies' liquidity ratio and profit level influence their cash management style/policies?

(3) How does the desire for high liquidity and profitability of manufacturing companies affect cash management goals?

(4) Does internal control system reduce risk, resource waste and frauds in Food Manufacturing companies in Abuja?

1.5. Statement of the Hypotheses

A hypothesis is a conjectural statement of the relationship between two or more variables. Hypotheses arc guides for the investigator in the entire process of research endeavour and they keep the researcher on the main line of his/her study. They tend to serve as assumed answer to his/her principal questions, the correctness of which he/she assesses in (he course of the study. Hence for the purpose of this research to be achieved, the following hypotheses will help in verifying the research statement.

Ho_1: There is no significant relationship between effective cash management and profitability of manufacturing companies.

Ho_2:There is no significant relationship between liquidity and profitability of manufacturing companies.

Ho_3: The internal control system does not reduce risk, resource waste and frauds

I he functions of the manufacturing industry in the country cannot be over-emphasized, this sector plays a prominent and significant roles for the substances of the economy; therefore it required proper and well-coordinated policies to manage its cash effectively.

Therefore, this study is significant in various ways, particularly to the management in the helm of affairs in this sector; because the study will highlight the significant of cash management in the industry, when to disbursed cash, when to hold cash and when to invest cash; the study will also examine the implications of shortage of cash in the manufacturing industry and effect of surplus cash, all these will create an awareness to the firm for proper management of cash.

In addition this study is also significant to the cash'managers in these (various) firms, it well create a significant awareness, established and well defined their roles for effective performances.

1.6 Significance of the Study

Lastly; the economy policy marker will find the study relevant to their advantages for proper policy marking and monitoring.

1.7 Scope of the study

Cash flows management is an important issue in the growth and survival of business and the ability to handle the trade-off between liquidity and profitability is a source of concern for financial managers.

Liquidity and profitability are very important in the development, survival, sustainability, growth and performance. Profitability does not translate to cash in all cases. A company may be profitable without necessarily being liquid. Therefore, cash should be managed in order to obtain an optimal level, that is, a level that avoids excess cash holding which may translate to poverty of ideas by management. Also cash level should not fall below minimum requirement as it will lead to the inability of the organization to meet short term obligation that are due. i wo major causes of liquidation or failure are illiquidity and operational losses. Therefore, illiquidity (negative operating cash flow) and unprofitable operation(s) are necessary antecedents for failure and eventual loss of going concern status. Therefore, liquidity (positive operating cash flow) and profitability can serve as proxy for going concern status.

Companies need to develop strategies to improve their liquidity position. Strategies which can be adapted within the firm to improve liquidity and profitability concerns the management of cash, areas which are usually neglected in times of favourable business conditions. This study assesses the Effect of cash management strategy on the liquidity and profitability of manufacturing companies in Abuja metropolis.

1.8 Definition of terms

Cash: Cash in the context of this study refers to current assets comprising currency or currency equivalents that can be accessed immediately or near-immediately as in the case of money market instruments. Money market instruments include bank notes, pass-books, cheques, treasury bills and deposit certificates, among others. Cash comprises of cash on hand and demand deposits. Demand deposits have the same level of liquidity as cash, as these deposits can be withdrawn at any time (Wingerard, Well, Pretotius, Ferreira, Badenhost, and Van Der Merwe 2013:62).

Liquidity: Is the ability of a firm to meet its short term maturing obligations. (Jane, 2000).

Cash **management:** Cash management in the context of this study refers to finance activities involving the collection, handling, and usage of cash in public sector in Nigeria. Cash management is a very broad subject and there are a lot of factors to consider when trying becoming more efficient. The goal is to manage the cash balances of a public sector organisation in such a way as to maximize the availability of cash and to do so in such a way as to avoid the risk of insolvency. Factors monitored as a part of cash management include a public sector organisation's level of liquidity, its management of cash balances, and its short- tcrm investment strategies (Ekanem. 2010).

Cost **of Capital:** A project cost of capital is the interest rate percentage, chargeable be a possible lender to a willingful borrower of fund in order to carry out the investment project. (Nwankwo, 1999).

Management: Management may be defined as "Those in top management level of an organization. That is decision makers in organization" (Jane. 2000)

Profitability: Measures that indicate whether the company is performing satisfactorily. It is used to identify whether a company may be a worthwhile investment opportunity. (Moir. 1999).

Initial Investment: Initial investment could be defined as the amount of capital expenditure to be invested at the inception of the project usually year 0. (Falegan, 2006).

Cash **Flows:** Cash flows may be defined as the amount of money (in cash equivalent) which are received in cash, inform of cash inflow and paid also in cash, inform of cash outflow, during the life span of a project. However, the inflows may be represented by saving in cash outflows. (Nwankwo, 1999).

Cash Outflow: This can be defined as relevant expenditure (including the initial investment) which occurs within the life span of a project. (Orji, 2015)

Discount Factor: T his can be defined as the Present Value (PV) of an investment which equals the cost of capital with the amount invested over the duration of the project life. (Moir. 1999).

Cash in Flow: This can be defined as those cash received or revenue received (But not accrued) during the life span of a project. (Nwankwo, 1999).

CHAPTER TWO

LITERATURE REVIEW

2.1

In I his chapter, a literature review of the independent variable, cash management practices, will he presented. Thereafter, the definition of cash management will be discussed as well as a discussion of the cash management practices which were focused on in this study. The conceptual clarification, theoretical framework and literature on the subject matter that forms the basis of this research work is gathered in this chapter.

2.2 CONCEPTUAL CLARIFICATION

Cash is required to meet a Firm's daily transactions and precautionary needs. A firm needs cash to make payments for acquisition of resources and services for the normal conduct of business. It keeps additional funds to meet any emergency situation; some firms may also maintain cash for taking advantages of speculative changes in prices inputs and output Nwankwo (1999).

Pogue cl al (2001) argues that cash is the money which a firm can disburse immediately without any restrictive. The term cash according to him includes coins and currency, held by the firm, and the balances in its accounts. Sometimes near-cash items, such as marketable bond, obtained loans and other fixed assets are also included in cash. The basic characteristics of near-cash assets are that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profits to the firm.

Cash management is the practice of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). Efficient cash management involves the determination of the most favourable cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et ah, 2008 cited in Nyabwanga, cl ah, 2011).

Cash management is fundamental to every business that desires to meet up with its short-term financial obligations. Cash management consists of taking the necessary actions to maintain adequate levels of cash to meet operational and capital requirements and to obtain the maximum yield on short-term investments. Uwuigbe, Uwalomwa and Egbide (2011) observed that cash management assumes more significance than other current assets because cash is the most important asset that a firm holds. Cash, unlike fixed assets or inventories does not produce goods for resale, notwithstanding management's considerable time is devoted to managing cash.

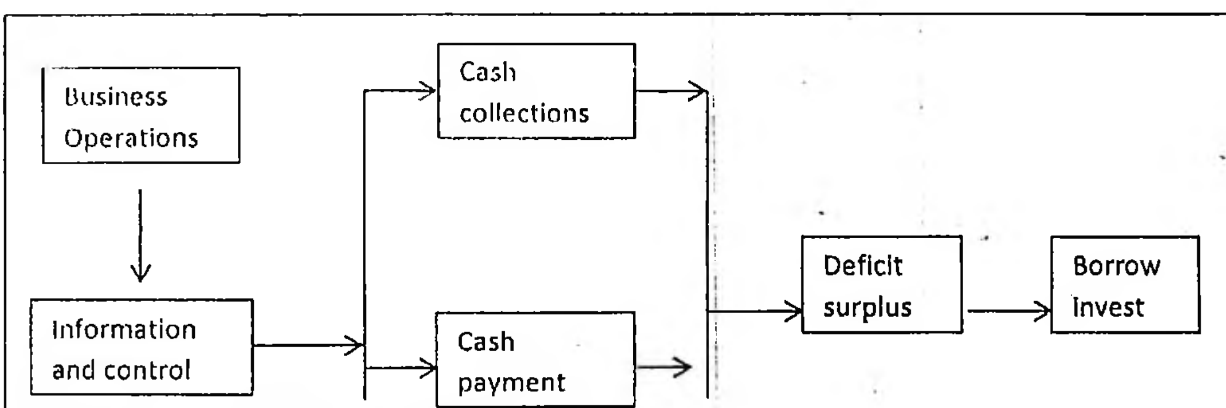
Pandey (2004) posts that, cash management is concerned with the management: of

-i- cash (lows into and out of the firm;

-ii- cash flows within the firm, and

-iii- cash balances held by the firm at a point of time by financing deficits or investing surplus cash. Pandey (2004) therefore represented this by a cash management cycle as shown in figure 1.1

Fig. 1.1: Cash Management Cycle



SOURCES: - Pandey (2004) Financial Management.

According to him deposit generates cash which has to be disbursed out. The surplus cash has to be invested while a deficit has to be borrowed. Cash management seeks to accomplish this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control. Cash management assumes more important than other current assets because cash is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firm's obligations. However, cash is productive like fixed assets or bonds; it produces products and services for sale. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

Nwankwo (1999) opines that cash management is important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between the inflows and outflows of cash. During some periods, cash outflows will exceed cash inflows; because payments for taxes, dividends, or seasonal inventory build-up. At other time cash inflows will be more than cash payments because there may be large cash received and debtor may be realized in large sums promptly. According to Horne (2002) cash management is significant because cash constitutes the smallest portion of the total current assets, yet management's considerable time is devoted in managing it. In recent past, a number of innovations have been done in cash management technique. An obvious aim of the firm these days is to manage its cash affairs to invest the surplus cash in profitable investment opportunities.

The importance of managing cash to a manufacturing organization as recognized by Alfred (2007) includes the following:

a) Management of cash aids the achievement of liquidity and control.

b) It brings about proper planning with regard to cash disbursement and receipts over cash positions to keep the firm sufficiently liquid and to use excess cash in some profitable venture

c) The management of cash is also significant since we cannot rightly predict accurately cash flow behaviour in the future.

d) Through cash management, appropriate strategies are developed thereby providing innovation for cash receipts and payments.

e) It also aid maintaining adequate control over cash position to keep the firm sufficiently liquid and to use excess of cash in some profitable ventures.

The effective management of cash has become paramount to every firm operating in the Nigerian economy, basically, the major function of firms is to manage and make cash available to an individual, corporate bodies and the government, Firms therefore needs to manage cash effectively to achieve the objectives. Pandey (2004) opined that management of cash involves three principles.

a. Managing cash flows into an out of (the) firm.

b. Managing cash flows within the firm and

c. Financing deficit or investing surplus cash and thus controlling cash balance at a point of time. It is an important function in practice because it is difficult to predict cash flows and there are hardly any synchronization between inflows and outflows.

2.2.1 Needs for cash management

In the manufacturing industry, cash management is necessary in order to achieve the following:

i Meet the deposit withdrawal of the customers i.e. the suppliers

ii. Satisfy the loan demand of its customers

ii. Satisfy the requirements of the monetary authority on reserves. Cash can be considered from the nature of a particular financial instrument, that is, knows whether or not the financial instrument the firm is holding is of long term or short-term nature.

It could also be used to describe the financial situation of a firm. For instance, at a period when the Federal Government gave the instruction that all government accounts with commercial and merchant firms should be transferred to the Central bank, the affected firms could be considered to be temporarily liquid then. The need for the firms to meet this situation influences their assets structure in the balance sheet. That is, it dictates the assets portfolio of the firm.

It could therefore, be said that a firm ceases to exist when it cannot honour the withdrawal demand of its customers.

2.2.2 Profitability

Ajibola (2004) defined as ability of the firm's loans, advances and investment to yield profit for its shareholders. The concept of profitability is a challenge to firms in the sense that a firm needs to be profitable in order to attract its customers. Unfortunately however, profitability is a word that developing societies in particular do not like to be associated with. The reason for this is that there is the assumption that there is an inverse relationship between what the society is expecting from the firm and profitability.

However, the ability of a firm to scale through this position is what distinguishes a good firm from a bad one .Profitability in manufacturing is an issue, which has to be handled with care because of its effects on different stakeholders as well as its relationship with cash.

Needs **for profitability**

i) A firm needs to be profitable in order to make the investment of the shareholders worthwhile since manufacturing business is not a charitable one. (Pandey 2004)

ii) A firm also needs to be profitable in order to attract more customers and at the same time retain the old ones.

However, loans and advances constitute the highest earning assets. It is expected that the higher the value of loans and advances made by firms the higher the expected income and the less cash a Firm becomes, thereby exposing the firm to the risk of default and bad debt. The need for this concept to be well managed cannot be over emphasized; for instance, if 100 percent of the firms deposits is invested in loans, more profit in terms of interest will be expected, whereas, nothing will be left to satisfy the liquidity requirement of the monetary authority and the withdrawal needs of the customers. Also, if the firm is too risk averse such that 100 per cent of its deposit intake is left in cash form, then there will be no investment in loans and advance, hence, profit will be zero.

Ajibola (200) emphasized that none of these two extremes is good enough for a firm. Therefore a reasonable balance has to be struck between profitability and cash such that the different interests of the shareholders, workers and customers will be protected in terms of profit maximization, attractive salaries, conducive working environment and ability to meet withdrawal needs respectively.

2.2.3 Liquidity Management

Liquidity management is concerned with the managing of:

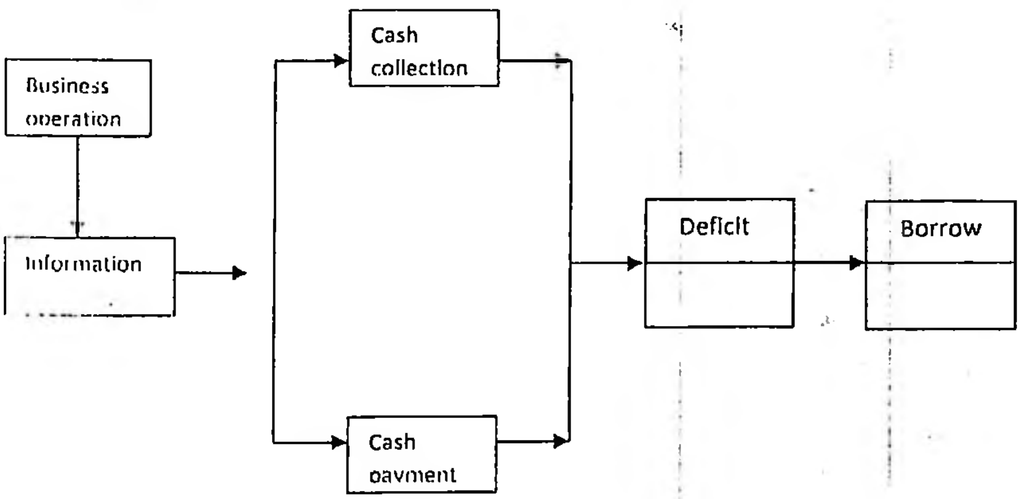
i) Cash flows into and out of the bank

ii) Cash flows within the bank, and

iii) Cash balances held by the bank at a point of time by financing deficit or investing surplus cash.

It can be represented by liquidity management cycle as show in figure 1.2 below. Sales generate cash which has to be disbursed out. The surplus cash has to be invested accomplish this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control. I iquidity management assumes more importance than other current assets because liquidity is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firms obligations. However, cash is unproductive, unlike fixed assets or inventories, it does not produce goods for sale, therefore, and the aim of liquidity management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

Figure 1.2. Liquidity management cycle



Source: Pandy (2007) Financial Management

Liquidity management is also important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between the inflows and outflows of cash. During some periods, cash outflows will exceed cash inflows, because payments for taxes, dividends, or seasonal inventory build-up. At other times, cash inflow will be more than dash payments because there may be large cash sales and debtors may be realized in large sums promptly. Further, liquidity management is significant because cash constitutes the smallest portion of the total current assets, yet management's considerable time is devoted in managing it. In recent past, a number of innovations have been done in liquidity management techniques. An obvious aim of the bank these days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable investment opportunities. In order to resolve the uncertainty about cash flow prediction and lack of synchronisation between cash receipts and payments. Pandy (2007) suggested that the bank should develop appropriate strategies for liquidity management. The bank should evolve strategies regarding (he following four facets of liquidity management:

- **Cash planning:** Cash inflows and outflows should be planned to project cash surplus or deficit for each period of the planning period. **Cash budget** should be prepared for this purpose.
- **Managing the cash flows**: The flow of cash should be properly managed. The cash inflows should be accelerated while, as far as possible, the cash outflows should be decelerated.
- **Optimum cash level:** The firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.
- **Investing surplus cash**: The surplus cash balances should be properly invested to earn profits. The firm should decide about the division of such cash balance between alternative short-term investment opportunities such as bank deposits, marketable securities, or inter-corporate lending.

The ideal cash management system will depend on the firm's products, organization structure, competition, culture and options available. The task is complex, and decisions taken can affect important areas of the firm. For example, to improve collections if the credit period is reduced, it may affect sales. However, in certain cases, even without fundamental changes, it is possible to significantly reduce cost of cash management system by choosing a right bank and controlling the collections properly.

2.2.4 Concepts of Cash and Liquidity

According to Lemo (2006) cash is defined as "the most liquid asset and the most yielding" Abdullahi & Aderento (2006) defines liquidity as the ability to meet machinery obligation that is the position of an organization in such a way that is able to meet up obligation when it arises. This statement may be segmented into two (2)

1. Making funds available
2. Meeting obligations at all times

Liquidity is thus, a continuous process and it determines whether a bank would stay afloat or go under that is, it is a pre-requisite for a bank's survival. According to Orji et al (2016) profit may be expressed as the proportion by which the price per unit sold exceeds its cost that is, as a rate on turnover. Profit as generally understood, it the difference between the total expenses incurred in producing or acquiring a commodity and the total revenue accruing from sales. I bis difference may be expressed in a return on capital, the total profit over a year being related to the amount of capital employed. Although profit is a reward to one of the factors of production, it differs in several respects from the income payable to the other factors. Profit is a residual reward payable to the entrepreneurs after all the other costs of the business have been met, whereas labour can be certain of its weekly wage or monthly salary, and the debenture holder fairly certain of his interest, there is no guarantee that the ordinary shareholder will receive a dividend. Orji et al (2016) maintained that although profit in accounting sense is a residual payment to capital, but the economists regard it as a cost that has to be met if the firm is to stay in business. While the firm may survive one year and perhaps two without making a profit, it will in the long run go out of business if it cannot pay a dividend to its shareholders. In the case of a bank it may be declared distressed and license withdrawn. Profit differs from other kinds of income in three ways (Dereck, 2001). Firstly, it may be negative. Neither wages, nor interest are ever likely to be negative but every year there are some firms which make a loss and there are few firms which do not make a loss at some time or another. Secondly, profit fluctuates more than any other kind both in boom and slump, there is comparatively change in wage - rates, in interest rates or in rents, the burnt of the change falls on profit. Profit responds immediately to a change in price, order incomes are adjusted more slowly and less violently. Thirdly, and this is the crucial distinction according to (Dereck, 2001), profit is not like other kinds of income, a contractual and certain income agreed on in advance, but an uncertain residue determined by luck of events. A man's wage, for example, is predetermined and certain in amount, but the income of his employer is not. The man is paid now for goods produced, in anticipation of further demands, and since the future can never be foreseen, with certainty, the goods which the employer obtains for a given wage payment are of uncertain value. If eventually the price which the goods realize exceeds the cost incurred in their production, the employer will make a profit. This is where the concept of profitability applies. If on the other hand the selling - price turns out to be lower than the cost which he has incurred, he will make a loss. But he does not, and cannot know in advance that he will be able to make a profit. He certainly expects to make a profit, but he may be unlucky.

2.3 THEORETICAL FRAMEWORK

Kytonen (2002) identified three basic theoretical approaches to cash management as listed below:

- Monetarist theory of cash management.
- Operational theory of cash management.
- Financial theory of cash management.

2.3.1 Monetarist theory of cash management

Following Kytonen (2004) monetary economists are concerned in the management of the organizations' money. Their primary objective has always been to describe the mechanism of the demand for money by firms, since it differs significantly from the behavior of other economic agents. Researchers have attempted to find a stable relationship between the quantity demand for money and its determining factors in order to forecast demand for money. However, it should be noted that the demand for money is one of the most intensively investigated areas in the monetarist school of thought. Flaving investigated both long and short run behavior of economic agents within the macro and micro level, he suggested that the demand for money can be used to investigate decisions made in the cash management process.

2.3.2 Operational theory of cash management

Several operational models have been advanced to optimize the relationship between cash and marketable securities based on the firm's needs for cash, the predictability of these needs, the inter estate on marketable securities, and the cost of a transfer to cash and vice versa Kytonen (2004). However, only two basic transaction models are most commonly accepted in the financial literature thus:

2.3.3 Financial theory of cash management

In finance theory, scholars are interested in finding out how cash together with all other liquid assets influence firm value and the optimal capital structure of a firm. The theory considers cash management problems in the framework evaluation and in the financing mode of a firm.

Cash management is a characteristic of liquidity management, which can be related to finance theory by recognizing its importance in an imperfect market Shin and Soenen (1998). However this can be achieved by adding cash balances to financial theoretic models, such as the Capital Asset Pricing Model (CAPM) or the Modigliani-Miller (M&M) model. The resulting effects of the inclusion of cash balances in such models show the significance of liquid assets on firm value (via the systematic risk component) and also for the optimal capital structure (via the liquidity slack concept) Van-Horne (1974).

2.3.4 Theoretical motives for holding cash

According to the noble economist, John Meynard Keynes, there are three main motives for holding cash. These motives are adduced to: Transactionary, Precautionary and Speculative motives.

However, Igbinosun (2002) stated that since business organizations do not engage in speculative motives and marketable securities are mainly transactionary and precautionary motive, he then listed the following factors which determines the company's level of cash requirements; efficient planning and control of cash, company's expected cash flow, company's borrowing capacity, company's management attitude to risk, debt repayment schedule, size of the organization and cost of capital. However, it is upon this theory that we anchor this research work. He further explained how Attanasio et al. (2002) used microeconomic data on household to estimate the parameter of the demand for currency derived from a generalized Baumol-Tobin model.

2.4 LITERATURE ON THE SUBJECT MATTER

From these definitions, it is evident that cash management is the ability of controlling the cash in the business by reducing the cash outflows and maximising the cash inflows.

Cash management refers to the management of an entity's cash to ensure sufficient cash to sustain the entity's daily operations, finance continued growth and provide for unexpected payments while not unduly forfeiting profit owing to excess cash Ffoldings (Bartlett et al. 2014). According to Pandey (2004), as cited by Akinyomi (2014), cash management is defined as a practice of the ability of controlling the cash inflows and outflows in a business. It also entails the ability to establish the cash balances that are held in a business at all times. Uwuigbe, Uwalomwa and Egbde (2011) indicated that cash management entails taking the needed precautionary measures to ensure that adequate cash levels are maintained in the business so that the operational requirements could be met. According to Aliet (2012), cash management is the management of cash to maximise the cash held in the business that is not invested in buying inventory or fixed assets. It essentially is the management of cash to avoid the risk of the business becoming insolvent. The author added that cash management is a rather broad term that refers to the collection, management of cash as well as the payment of cash from the business. Consequently, the business will have sufficient cash available to meet operational requirements and avoid the risk of becoming liquidated. Cash management is the ability to identify and implement precautionary measures to ensure that sufficient cash balances are maintained in the business.

Cash management is an essential tool which aims at establishing the financial position of the organization^ Pandey 2004) notes that it is a set of guidelines established by management to ensure that the organization has optimal cash balance at any time to meet the organization goals, cash recovered should be matched with cash spent on services so that there is no unused cash balances. Cash management had a growing importance in the past years and number of factors has brought serious attention to the importance of cash management.

Swing in interest rates on both borrowed and invested funds to get business away from basics and into a go-go mind set with the temptation to make big money through stock issues; to the economic malaise of the 1970s when businesses had to scratch harder to make money.

Cash management is now a household term with frequent articles in the media about its growth, innovation, and changes of technology that can be used cash management such as email money transfer (EMT).According to (Pandey 2004) cash planning is a technique used to plan and control the use of cash. It involves preparation of forecasts of cash receipts and payments so as to give out an idea of the future financial requirements. According to Brigham and Houston (1999) cash budget refers to a table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period of time.

This information helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization (Kakuru2003).

Cash management is essential for every business as it would contribute towards increasing profitability, future planning and sustainability (Patel. 2010).

Cash Management Essentials is a suite of cash management solutions that can help you gain better control over your daily financial activities. Puxty and Dodds (2013).

Cash management is concerned with the management of cash flow that is to say inflow and outflow of cash, this seeks to archive control of cash by paying obligations like meeting organizational needs (Kakuru 2001).

2.4.1 Measurement of Cash.

Nwankwo (1999) assumes that in order to measure cash in the manufacturing industry, the balance sheet usually constitutes the major tool with which the exercise is carried out. This is done by comparing a set of items with another in the balance sheet.

The liabilities indicate where the funds that have been invested in the firm have come from, while the asset show how these fund have been used, that is, what they have been applied to. The Central bank of Nigeria (Bank) specifies from time to time what the liquidity ratio should be and those assets that are to be considered liquid. The essence of monetary policy guidelines is to influence the cash in the firm either positively or negatively as the case may be. Cash assessment enables firm to determine or find out whether a firm is excessively cash which means that the firm is risk averse or that there is a bad management. However, the computation of the loan deposit ratio which measures the proportion of deposits applied profitable investments will help in determining the level of firms cash. The higher the loan- deposit ratio, the lower the cash and vice versa.

2.4.2 Management of Cash.

Ajibola (2004) assets that in order to have well-manager cash a firm has to define cash management policy so that it will provide guidelines to the managers as to what they are supposed to do. Policy statement on cash management is expected to contain the following amongst other things.

Loans and advances to deposit ratio.

As the name implies, this will show the proportion of deposits that could be invested in loans and advances and the tolerance limit above which there could be query to the affected manager from the board of management.

The safety margin of cash.

This is the amount or degree by which the actual cash exceeds the define level. It would be recalled that regulatory authority will from time to time specify what the cash ratio should be and which asset is cash. A firm will have to state in -Its policy by what percentage this ratio could be exceeded in order to be on the safe side. For Instance, if the expected ratio is 25 percent but the actual percentage is kept at 30%, then, the extra 5 percent is the safety margin.

Capital loan and advances ratio:

This has to be defined ill the cash management policy of a firm. This measures the relationship between the capital and the loans in a firm. The existing requirements by the banks at the time should be borne in mind. It is also important for the firm to define its sources and uses of funds, not forgetting the limitations to different sources as supplier to the pool of cash resources.

2.4.3 Sources of cash:

Adewunmi and Ojo (1999) list the three main sources of cash to a firm as follows:

Primary Source: This includes cash, short-term assets and other instruments that can be counted in the determination of cash ratio. For example, treasury bills (T.B.), commercial papers; certificate deposit (C.D.). All the instruments mentioned here can easily be turned to cash because they can be discounted if and when the need arises.

Secondary Source: This refers to short-term loans and advances. A firm will have its cash more replenished, the more the repayment of its loans and advances is made.

The Apex Firm: Another source of cash to the firm is the central bank. This is in line with the function of the BANK as the lender of last resort. That is, firms can always approach the BANK for short-term accommodation when in short of cash. However, in performing this function, it is not impossible for the BANK to impose penalties when firm resorts to the BANK for assistance, the BANK can also facilitate'.

2.4.4 Reasons for Holding Cash

The cash in an economy may not be instantly spent to buy newly produced goods and services or other assets. Indeed, at any point in time all the money in an economy is being held somewhere for some purposes. How much cash person holds is determined by his perception of future income and business prosperity. Iyiegbuiwe (2001)

Moreover, firms should keep sufficient cash. Cash shortage will disrupt firms operations, while excessive cash will remain idle without contributing anything towards the firm's profitability. According to Iyiegbuiwe (2001) there are three motives for holding unto cash and these are:

Transactions Motive

This is probably the most widely understood motive for holding unto ash. It hinges on the use of cash as a medium of exchange. Individuals desire to use cash in order to handle the ordinary day-to-day transactions. The amount of cash desired for transaction purposes generally depends on the volume of purchases **to be made per unit** of time. The amount needed will also depend on the frequency of **income payments, that** is. the more frequent the pay ments. the smaller the average amount of money **needed to finance** transactions. The cash . .u:ngs required for transactions in an economy tend to be larger when income is at higher •e\els.

Determinants of Transactionary Demand

i. **Use of Credit:** Credit reduces the amount of cash needed for transactions at every level of income. It allows the payments associated with transactions occurring between money outflows to be delayed until the cash in hows take place. When such delays are possible, there is no need to hold cash from earlier inflows to make payments when the transactions occur.

ii. **Vertical Interaction:** Public and private firms that are vertically integrated nave fewer buying and selling transactions and thus need less cash for transactions than unintegrated firms.

iii. **Sales of Used goods or financial asset:** Cash also can be held so that it will be available for use in transactions involving used goods and financial asset such as stocks and bonds. Thus the more used goods and financial assets being sold, the larger will be the amount of money that will be held for transaction motive.

iv. **Rate of Interest:** There is an interest expense in holding cash for transactions and other purposes. People and firms behaving rationally tend to hold the minimum amount of money needed for their transactions in order to keep their interest expenses as low as possible

v. **Level of income:** Consumers' income determines the amount of money held for transactionary motive. This is because it may be difficult to spend more than one's income except one enjoys credit facilities. So the higher the income, the higher the transactionary demand for money.

Precautionary Motive

The precautionary motive for holding cash is related to the function of money as a temporary store of value. Cash provides individuals with protection against certain risks. In other words, having complete liquid balances provides a cushion for abrupt reductions in income due to illness, accident or unemployment. Business may need cash or complete liquidity to meet unexpected payments, and also to take advantage of unanticipated opportunities with higher profits.

Determinants of Precautionary Demands:

The determinant of cash required for precautionary purposes in an economy is related to the confidence that producers, financial Institutions and individuals have in their non-ability to make all the outlays turnover or profit that they may desire; the less confidence they have in their ability, the more cash they will wish to hold for precautionary purposes.

iii. **Sales of Used goods or financial asset:** Cash also can be held so that it will be available for use in transactions involving used goods and financial asset such as stocks and bonds. Thus the more used goods and financial assets being sold, the larger will be the amount of money that will be held for transaction motive.

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The determinant of cash required for precautionary purposes in an economy is related to the confidence that producers, financial Institutions and individuals have in their non-ability to make all the outlays turnover or profit that they may desire; the less confidence they have in their ability, the more cash they will wish to hold for precautionary purposes.

Various factors that can influence the level of confidence include:

i. The level of income in an economy; At relatively high levels of income, individuals and businesses might receive more money and thus be able to meet unexpected situations without having to use previously accumulated holdings.

ii. **Availability of credit:** This implies that unexpected increases or reductions in income can be temporarily covered without having withheld available money.

The Speculative Motive

This relates to the holding of cash for investing in profit making opportunities when, they arise. Money provides individuals with the liquidity necessary to shift other assets. This motive is called the speculative motive because it involves guessing the movements in the prices of alternative assets. If for example, it is anticipated that prices will fall in (he future; individuals may want to hold more money today to take advantage of low prices in the future.

Determinant of Speculative Demand for Cash: The quantum of cash people may want to hold depends on the following factors: the size o their wealth. The level or interest rates in the economy, and expectations regarding future prices of assets and newly produced products.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Abuja State, the erstwhile capital of the Nigerian federation has remained the economic bedrock of the nation. Hence, its unrivalled position, as main players in the manufacturing world were situated their headquarters in this ever busy state.

Manufacturing business is made possible within the Abuja metropolis by the ever seeming hustle and bustle of the state. Abuja provides the people and a stable environment for business activities. In the consideration of the limitations apparent and in an attempt to get good representation of the various parameters for study, Abuja has the ability to provide a good field of study, hence our restriction to this particular region as our field of study.

3.2 Research Design

Data can be classified into two, which are primary and secondary. However, both data were employed for the purpose of this study.

3.3 Sampling Techniques

A sample is a segment of the population selected to represent the population as a whole. Ideally, the sample represented the population in order to make accurate estimates of the thoughts and behaviours of the larger population. Given the fact that all the manufacturing firms operating in Abuja State cannot be surveyed, a sample of 5 manufacturing companies was used.

These listed manufacturing firms formed the sub-set population for the study and the survey was conducted in their various headquarters located in Abuja; because this is where most of the decisions are being made and policies formulated.

In each of the 5 companies surveyed, the questionnaire was administered on the manager directly responsible for cash management.

3.4 Method of data collection

The questionnaire was administered personally by the researcher and to select staffs of the selected companies with the co-operation of some research assistants. All completed copies of the questionnaire were collected personally by the research.

3.5 Method of data analysis

The purpose of data analysis is to provide meaning, sense of direction and understanding structure. Therefore, method of data analysis adopted descriptive statistics of simple percentage using Statistical Package for Social Scientists (SPSS) and Pearson's product moment correlation coefficient (n) were used to test the hypothesis, which appropriate decision will be taken.

3.5 Reliability of instrument

Reliability is defined as the consistency between independent measurements of the same business research phenomenon. It refers to the stability, dependability and predictability of a measurement instrument (Osuagwu 2006).

The Cronbach's Alpha test was used to determine reliability. A Cronbach's Alpha (or coefficient Alpha) of 0.7 and is considered acceptable in business research.

3.6 Validity of instrument

Content validity is evaluated by determining the degree to which the items of the scale sample the content of the attitude domain, i.e. the degree to which the items of the scale correspond to the content of the attitude system" (Nwadinigwe, 2002) a scale as a whole has content validity the following judgment must be made.

According to Babbie and mouton [2001] validity refer to the extent to which a specific measurement provides data that relates to commonly accepted meaning of a particular concept that a given measurement procedure will yield the same description of a given phenomenon if that measurement is repeated. In order to establish the content validity of the instrument, the questionnaire was critically examined, so as to remove some ambiguous items, which were re-written; those that were considered irrelevant were discarded. Based on the amendments, the final instrument was developed.

3.7 Limitations of the study

The findings of the study will be limited because of lack of willingness and reliability of the data, adequate accounting disclosure and treatment. As a result, the samples selected manufacturing companies were not interested to give primary information about the issue under consideration.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

This chapter deals with the analysis ol" the data collected from the field survey conducted for this study. It also deals with the testing of the research conjectural statements (i.e. the hypotheses) that were meant to guide the study. Both the analysis and the tests were done in. a logical way as to ease interpretation of the research findings.

4.2 Analysis of Administered Questionnaire

Five copies of questionnaire were administered and five were completed and certified okay for this analysis.

Table 4.1

	Respondent	Per cent (%)
Total number of administered questionnaires returned and found valid	5	100

Demographic characteristics of respondents

Table 4.2: Respondents classification by Sex

SEX	Frequency	Percentage	Valid percentage	Cumulative percentage
Male	3	60.0	60.0	60.0
Female	2	40.0	40.0	100.0
Total	5	**100**	**100**	

Source: Field Survey, (2019).

The results in the table show that 60% of the respondents were males whereas 40% were females. This implies that more males were participated in the study. Thus there are many men as compared to women employed in the section of manufacturing companies that were approached.

On the issue of year of service, 60% said that they had worked and stayed in manufacturing companies for a period between 11 - 15years, followed by 20% who revealed that they had worked with the companies for a period between 6 - 1Oyears and another 20% noted that they had worked in this companies for a period of 1 - 5 year. This implied that they have the right and required information regarding cash management and profitability in the food manufacturing industries.

Table 4.6: Respondents Department

Department	Frequency	Percentage	Valid percentage	Cumulative percentage
Accounts	4	80.0	80.0	80.0
finances	1	20.0	20.0	100.0
Total	5	**100**	**100**	

Source: Field Survey, (2019).

The result above analysis showed that 80% of the respondents are in accounts department while 20% are in finance department of the organization. This above findings implied that the respondents were in good position to provide the require information about the study.

ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTIONS

Table 4.7 Management of cash is important in manufacturing companies.

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	4	80.0	80.0	80.0
Agreed	1	20.0	20.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Regarding the importance of cash management in manufacturing companies, majority of the respondents strongly agreed that cash management is of importance with 80% and 20% agreed with the statement. This implied that cash management was important in manufacturing companies.

Table 4.8 Relationship between effective cash management and profitability of Food Manufacturing companies.

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

The results in the table above showed that there is relationship between cash management and profitability of the companies as shown by 60% and 10% respondents are strongly agreed and agreed respectfully. The findings above therefore showed that cash management had an effect on profitability of food manufacturing companies.

Table 4.9 Cash Management assisting in planning towards reducing cash expenses and increasing cash receipts to ensure the business is liquid.

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Based on the finding in the above table, 50% of the respondents strongly agreed that cash management assists in the planning towardsreducing cash expenses and increasing cash receipts to ensure the business is liquid,and 40% agreed. This affirmed that cash management assists in the planning towardsreducing cash expenses and increasing cash receipts to ensure the business is liquid.

The results in the table above showed that there is relationship between cash management and profitability of the companies as shown by 60% and 10% respondents are strongly agreed and agreed respectfully. The findings above therefore showed that cash management had an effect on profitability of food manufacturing companies.

Table 4.9 Cash Management assisting in planning towards reducing cash expenses and increasing cash receipts to ensure the business is liquid.

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Based on the finding in the above table, 50% of the respondents strongly agreed that cash management assists in the planning towardsreducing cash expenses and increasing cash receipts to ensure the business is liquid,and 40% agreed. This affirmed that cash management assists in the planning towardsreducing cash expenses and increasing cash receipts to ensure the business is liquid.

Table 4.10 Through proper controls of cash, innovative procedures are implemented for cash receipts and cash payments in the business.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	3	60.0	60.0	60.0
Agreed	2	40.0	40.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	100	100	

Source: Field Survey, (2019).

The majority of the respondents represented by 60% strongly agree that through proper controls of cash, innovative procedures are implemented for cash receipts and cash payments in the business, and 40% agreed. However much the biggest percentage say through proper controls of cash, innovative procedures are implemented for cash receipts and cash payments in the business.

Table 4.11 Internal control system in this organization reduces risks, resources waste and fraud.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	3	60.0	60.0	60.0
Agreed	2	40.0	40.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	100	100	

Source: Field Survey, (2019).

From the findings above, 60% of the respondents strongly agreed and 40% agreed. This implies that the internal control system in this organization reduces risks, resources waste and fraud. In addition, in a chat with one of the respondents, it was established that fraud if not controlled has negative affect on the profitability of manufacturing companies. This finding implies that internal control system in this organization reduces risks, resources waste and fraud.

Table 4.12 Managing **cash helps in achieving liquidity in a business and proper control.**

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	3	60.0	60.0	60.0
Agreed	2	40.0	40.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

It was revealed from the above findings that 60% of the respondents agreed that managing cash helps in achieving liquidity in a business and proper control and 40% agreed with the statement. This means that managing cash helps in achieving liquidity in a business and proper control.

Companies

Table 4. Relationship between effective cash management and liquidity of manufacturing

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	**40.0**	**40.0**	40.0
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	100	100	

Source: Field Survey, (2019).

The results in the table above showed that there is a relationship between effective cash management and liquidity of manufacturing companies as shown by 60% and 40% agreed and strongly agreed respectively. The findings above therefore show that there is a relationship between effective cash management and liquidity of manufacturing companies.

Table 4.14 Management has a sound strategy towards cash control and cash planning and cash budgeting.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	**5**	**100**	**100**	

Source: Field Survey, (2019).

The analysis in the table given above shows 60% agreed and 40% strongly agreed that management of this organization has a sound strategy towards cash control and cash planning and cash budgeting. This is in agreement with Brealey (2005) who says that budgets should be prepared on a departmental level and these budgets should be rolled into one master budget. Respondents commented that these budgets are prepared basing on sales, costs, debtors ageing and creditors ageing as suggested by Moffet (2004). 12(40%) of respondents expressed that cash budgets were ineffective as they sighted some deviations from the cash budgets. They indicated that, although budgets are prepared and implemented, they are just estimates and may not be exactly correct as evidenced by deviations of the cash budgets. This is in line with Vanhorne management and liquidity of manufacturing companies as shown by 60% and 40% agreed and strongly agreed respectively. The findings above therefore show that there is a relationship between effective cash management and liquidity of manufacturing companies.

Table 4.14 Management has a sound strategy towards cash control and cash planning and cash budgeting.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

The analysis in the table given above shows 60% agreed and 40% strongly agreed that management of this organization has a sound strategy towards cash control and cash planning and cash budgeting. This is in agreement with Brealey (2005) who says that budgets should be prepared on a departmental level and these budgets should be rolled into one master budget. Respondents commented that these budgets are prepared basing on sales, costs, debtors ageing and creditors ageing as suggested by Moffet (2004). 12(40%) of respondents expressed that cash budgets were ineffective as they sighted some deviations from the cash budgets. They indicated that, although budgets are prepared and implemented, they are just estimates and may not be exactly correct as evidenced by deviations of the cash budgets. This is in line with Vanhorne

(2001) who said that cash budgets whether prepared on an annual, weekly or monthly basis are just estimates of cashflows.

Table 4.15 Cash control procedures are fundamental ingredients for strict cash monitoring and management.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	2	**40.0**	**40.0**	**40.0**
Agreed	3	**60.0**	**60.0**	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Based on the above analysis, the response rate of 60% agreed and 40% strongly agreed that cash control procedures are fundamental ingredients for strict cash monitoring and management this organization.

Table 4.16 Cash control as one of the internal control systems that positively militate against misapplication and misappropriation of cash by unscrupulous employees.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	1	20.0	20.0	20.0
Agreed	4	80.0	80.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Reading the table above, we can deduce a greater response rate of 80% and 20% in respect of agree and strongly agreed to statement that say cash control in manufacturing companies is one of the internal control systems that positively militates against misapplication and misappropriation of cash by unscrupulous employees.

Table 4.17 Effective cash management having bearing in the survival and growth of manufacturing businesses.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	3	60.0	60.0	60.0
Agreed	2	40.0	40.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

No doubt, the respondents' responses analyzed in the table above shows that 60% and 40% response rate support that effective cash management has bearing in the survival and growth of manufacturing businesses in Abuja state.

Table 4.18 Every level of management understanding and appreciating the cash management techniques adopted.

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	2	40.0	40.0	40.0
Agreed	-	-	-	80.0
Undecided	2	40.0	40.0	100.0
Strongly disagreed	1	20.0	20.0	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Based on the findings in the table above, 40% of the respondents strongly agreed that every level of management in the organization understands and appreciates the cash management techniques adopted, 40% were undecided, while 20% strongly disagreed with statement that states that every level of management in the organization understands and appreciates the cash management techniques adopted.

Table 4.19 **Relationship between effective cash management and their liquidity and profit level of the organisations.**

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	40.0	40.0	40.0
Agreed	3	60.0	60.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Given 40% and 60% response rates respectively from the above table, there is a relationship between effective cash management of manufacturing company and their liquidity and profit level.

Table 4.20 **Manufacturing companies liquidity ratio and profit level are influenced by its cash management style/policies.**

Based on the findings in the table above, 40% of the respondents strongly agreed that every level of management in the organization understands and appreciates the cash management techniques adopted, 40% were undecided, while 20% strongly disagreed with statement that states that every level of management in the organization understands and appreciates the cash management techniques adopted.

Table 4.19 **Relationship between effective cash management and their liquidity and profit level of the organisations.**

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	2	40.0	40.0	40.0
Agreed	3	60.0	60.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Given 40% and 60% response rates respectively from the above table, there is a relationship between effective cash management of manufacturing company and their liquidity and profit level.

Table 4.20 **Manufacturing companies liquidity ratio and profit level are influenced by its cash management style/policies.**

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	4	80.0	80.0	80.0
Agreed	1	20.0	20.0	100.0
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

With strongly agreed 80% response rate high in the above analysis, it can be deduced that manufacturing companies liquidity ratio and profit level are influenced by its cash management style/policies.

Table **4.21 Desire for high liquidity and profitability affecting cash management goals.**

Response	Frequency	Percentage	Valid percentage	Cumulative percentage
Strongly Agreed	5	100.0	100.0	100.0
Agreed	-	-	-	
Undecided	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

From the above analysis, it shows that desire for high liquidity and profitability of manufacturing companies affects cash management goals.

This organization uses computerized software for its accounts.

Table 4.22 **Organization uses computerized software for its accounts**

Response	**Frequency**	**Percentage**	**Valid percentage**	**Cumulative percentage**
Strongly Agreed	3	60.0	60.0	60.0
Agreed	2	40.0	40.0	100.0
Undecided ·	-	-	-	
Strongly disagreed	-	-	-	
Disagreed	-	-	-	
Total	5	**100**	**100**	

Source: Field Survey, (2019).

Reading the table above, we can deduce a greater response rate of 60% and 40% in respect of agree and strongly agreed to statement that says the organization researched uses computerized software for its accounts.

4.3 The Method of Testing the Hypotheses

As discussed in the previous chapter, hypotheses statements shall be tested using the Pearson Product Movement Correlation.

The Pearson's product moment correlation coefficient (n) states as thus;

$$\text{Real} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x2)]\,(n\Sigma y^2 - (\Sigma y^2)]}}$$

Where:

r = Correlation coefficient depicting relationship between observed frequencies and expected ones.

n = No of test alternatives.

x = number of option

y = score of the second variable

Σ = summation df = degree of freedom - n - 1

Assumption(S)

Based on the encouraging response patterns yielded by the survey, a confidence level of 95% is desired for the population of the study, thus leaving the sampling error (x) at 5%.

Decision Rule

Where real > tabs, accept Hi (Alternative Hypothesis) and reject Ho (Null hypothesis), vice-versa.

Testing the First Hypothesis

Hoi: There is no significant relationship between effective cash management and profitability of manufacturing companies.

Considering research questions 1,2 and 12 analyzed, we have.

TABLE 4.22

ALTERNATIVES	X	Y	x-	Y^t	XY
SA	aT"	5	4	25	10
A	3	4	9	16	12
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
SA	4	5	16	25	20
A	1	4	1	16	4
U	0	3	0	9	0

SD	0	2	0	4	0
D	0	1	0	1	0
SA	2	5	4	25	10
A	0	4	0	16	0
U	2	3	4	9	6
SD	1	2	1	4	2
D	0	1	0	1	0
	15	45	39	165	64

$$\text{Real} = \frac{n\Sigma xy - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x2)]\,(n\Sigma y^2 - (\Sigma y^2)]}}$$

$$\text{Real} = \frac{5\,(64) - (15x45)}{\sqrt{[5\,(39) - (15)^2]\,[n(165) - (45)^2}}$$

30

$$= \frac{355}{\sqrt{36000}}$$

$$= 189.7$$

$$\text{real} = 1.87$$

With real 1.87, it shows that is a strong positive relationship between the observed and expected frequencies in respect of the test variable.

To test the significance, df = n - 2, df = 5-2 df = 3,

0.05

Thus r_{tab} (i.e. Table value for Pearson's correlation coefficient) is given =

df = 3, = 0.05 r,,,b = 0.878

thus;

real>r_{tab}

decision Rule

Testing the Second Hypothesis

We would accept Hi that "there is significant relationship between effective cash management and profitability of food manufacturing companies", and reject Ho.

Ho_2: There is no significant relationship between liquidity and profitability of manufacturing companies.

Considering research question 6. 7 and 15 analysed

TABLE 4.23

ALTERNATIVES	X	Y	X^2	Y^2	XY
SA	3	5	9	25	15
A	2	4	4	16	8
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
SA	2	5	4	25	10
A	3	4	9	16	12
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
SA	5	5	25	25	25

A	lo˙	4	0	16	0
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
	15	**45**	**51**	**165**	**70**

$$\text{Real} = \frac{n\Sigma xy - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x^2)]\,(n\Sigma y^2 - (\Sigma y^2)]}}$$

$$\text{Real} = \frac{5\,(70) - (15 \times 45)}{\sqrt{[5\,(51) - (15^2]\,[n(165) - (45)^2}}$$

30

$$= \frac{325}{\sqrt{36000}}$$

$$= 1.71$$

real $=$ 1.712

With real 1.71, it shows that is a strong positive relationship between the observed and expected frequencies in respect of the test variable.

df = n - 2, df = 5-2 0.05, $r_{ab} = 0.878$

thus

real>r_{tab}

Decision Rule

We would accept Hi that "there is significant relationship between liquidity and profitability of manufacturing companies".

Testing the Third Hypothesis

H03: The internal control system does not reduce risk, resource waste and frauds

Considering research question 10

TABLE 4.24

ALTERNATIVES	X	Y	X^2	Y^2	XY
SA	3	5	9	25	15
A	2	4	4	16	8
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
SA	2	5	4	25	10
A	3	4	9	16	12
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
SA	1	5	1	25	5
A	4	4	16	16	16
U	0	3	0	9	0
SD	0	2	0	4	0
D	0	1	0	1	0
	15	45	43	165	66

$$\text{Real} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x^2)]\,(n\Sigma y^2 - (\Sigma y^2)]}}$$

$$\text{Real} = \frac{5\,(66) - (15x45)}{\sqrt{[5\,(43) - (15^2]\,[n(165) - (45)^2}}$$

30

$$= \frac{345}{\sqrt{12000}}$$

$$= \frac{345}{109.6}$$

$$= 3.15$$

With real = 3.15, it shows there is strong positive relationship between the expected frequencies.

df = n - 2, df = 5-2 - 0.05, $r_{tab} = 0.878$

Thus

real>r_{tab}

DECISION RULE

We would accept Hi that "the internal control systems reduce risk, resource waste manufacturing companies in Abuja state"

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The following are the summary of the major findings of the study:

- Findings showed a positive relationship given by real>rtab. The positive relationship between the above variables indicates that if the level of effectiveness of cash management is not improved, there is likely to be a decline the profitability of food manufacturing companies in Abuja.
- With real = 1.87, in hypothesis two, it shows there is a strong positive relationship between the observed and expected frequencies in respect of the test variables. That is, there is significant relationship between liquidity and profitability of selected manufacturing companies. The finding is consistent with the findings of Owolabi, Obiakor and Okwu (2011) investigating liquidity and profitability relationship in business organisation using some selected quoted companies in Nigeria and they concluded that a positive relationship exists between the two variables in processing and manufacturing companies respectively. The finding is also similar to that of Vijaykumar (2011) study the management of corporate liquidity and profitability in indian auto mobile companies and conclude that indian auto mobile has been able to achieve high scores on the various component of liquidity management which has a positive impact on it profitability.
- The findings also showed that the internal control systems reduce risk, resource waste and frauds in manufacturing companies. It then means that manufacturing companies researched employ several cash management techniques in order to reduce risk, waste

and fraud of cash.

The study confirmed that, without proper cash management strategies in place, the business is less likely to be profitable and sustainable for the future. Cash management is vitally important as it is the key factor to any successful business. The commonly used expression, "Cash is king" cannot be contested as its validity is more prevalent in this research study.

5.2 Conclusion

It is obvious from the study that cash management is an important aspect of management function and its importance cannot be over-emphasized. When companies understand and implement the concept of efficient cash management, business success will be achieved. However, shortage or bad management of cash may result in loss of cash discount, loss of reputation due to non-payment of obligation on due dates and insolvency which may result in operational shut down of the company.

Cash is the lifeblood of organizations. An organization having a proper set of liquidity management policies and procedures will improve profits, reduce the risk of corporate failure and significantly improve its chances of survival. It also provides a strategic advantage especially in difficult economic times.

As researched, the need for holding cash arises due to a variety of motives - transaction motive, speculation motive, precautionary motive and compensating motive. The objective of cash management is to make short-term forecasts of cash inflows and outflows, investing surplus cash and finding means to arrange for cash deficits. Cash budgets help Finance Manager to forecast the cash requirements.

However, the researchers strived to be as objective as possible to ensure that the results obtained reflect the key factors that effect of cash management strategy on the liquidity and profitability of food manufacturing companies.

The study therefore concludes that the need for efficient cash management cannot be over emphasized. This is because, the research work showed that the overall profitability in the manufacturing industry is enhanced if cash is properly managed.

5.3 Recommendations

Basing on the study findings therefore, the researcher recommended that;

There is need for deploying a cash management system which involves support and coordination among multiple departments including Finance, Operations, IT, Security and Loss Prevention to improve profitability in a company.

Each department should carefully consider features and functionality that will be required for a successful deployment and utilization of cash management which also increases profitability.

There is also need to discuss finance management under three main threads as capital budgeting, capital structure and working capital management. The first two of them are mostly related with financing and managing long-term investments.

However, financial decisions about working capital are mostly related with financing and managing short-term investments and undertake both current assets and current liabilities simultaneously.

Administrators should calculate the cash amount best suited for the level of activity, plan timing of relevant payments and collections and draw up a policy of investments in assets with high liquidity that can be converted in to cash allow transaction costs to serve as support for thei funds maintained by the company.

Cash collections should be closely monitored with the aim of accelerating cash inflows to spee up the collecting of accounts receivables. Cash disbursements should be also closely monitor with the aim of negotiating a reduction in cash outflows so as to reduce payments.

Financial projections should be accurate in order to project and forecast the amount of cash earned through business operations. Accurate forecasting should be based on a range of scenarios and risks so that the organization would be having an understanding of the key drivers of the cash position.

The manufacturing companies should actively consider ways of shortening the cash operating cycle to make the company more generative.

A cost benefit analysis should be performed to determine whether it is worthwhile to employ more resources, additional staff or new plant to speed up the production process and shorten the cash operating cycle.

The researcher recommends internal auditing of financial records periodically for instance quarterly before the end of financial period. This promotes and facilitates integrity and transparency in transaction recording and book keeping of the firm. It further checks on the implementation of formal cash management practices in the company.

The manufacturing companies should incorporate computerization especially the use of spread sheet application. This eases recording of transactions and keeps track on payments by the company to suppliers and settlement of other obligations and payments from company customer. Computerization of the transaction recording facilitates easy updating of transaction on a timely basis.

Manufacturing firms need to pick the right cash management provider who can coordinate the physical and technological installation of the system can significantly expedite and sipooth the process of ensuring profit maximization.

5.4 Proposal for further studies

This study report has only tackled the effect of cash management strategy on the liquidity and profitability of food manufacturing companies in Abuja state. It is impossible to exhaustively study the subject in a single report. Consequently, even after this effort, there are still numerous areas that are open for study. In addition, the findings of this study imply areas that need further study.

The scope of this study covers the operations of only five manufacturing companies. Giving enough time and resources it is possible to attempt to study the entire listed manufacturing companies in Nigeria using different statistical methods in order to have a more comprehensive result.

The analyses and findings this study show that there are other factors than the independent variables used for this study that affect cash management and profitability. Research could be conducted to identify those other factors so as enhance the profit generating capabilities of the companies.

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APPENDIX

Request for Completion of Questionnaires

This questionnaire is part of the tool for collecting information on the research topic: **"Effect of cash management strategy on the liquidity and profitability of manufacturing Companies in Abuja metropolis"** - A case study of five selected manufacturing companies.

The research project is being carried out in partial fulfillment of the requirement for the award of Master of Business Administration in the Department of Business Administration.

Any answer given by you will be strictly held in confidence and used only for academic purpose.

Your cooperation is therefore sought in this regard.

Thank you.

……………………………………….

Researcher

QUESTIONAIRE

SECTION A

SECTION A: BIO-DATA OF THE RESPONDENTS

Please, tiek (V) inside one of the boxes for each question to indicate your response.

1. Gender: **Male** ( ) **Female** ( )
2. **Marital Status:** Married ( ) Single ( ) Devoiced ( ) Widow/Widowed ( )
3. **Educational qualification:** SSC/GCE/NECO ( ) OND/NCE ( ) HND/B.SC/BA ( ) M.Sc./MBA/MA ( ) Others ( )
4. **Year in Service** 1-5 ( ) 6-10 ( ) 11-15 ( )16-20 ( ) 21 and Above ( )
5. Department: Accounts ( ) Finances ( )

SECTION B:

INSTRUTION: Please read this section carefully and state your level of agreement through the five options provided in this section.

SA = Strongly Agree, A = Agree, SD = Strongly disagree, D = Disagree, U = Undecided

S/N	STATEMENT	SA	A	UD	D	SD
1	Management of cash is important in manufacturing companies					
2	There is relationship between effective cash management and profitability of manufacturing companies					
3	Cash Management assists in the planning towards reducing cash expenses and increasing cash receipts to ensure the business is liquid					
4	Through proper controls of cash, innovative procedures are implemented for cash receipts and cash payments in the business					

5	Internal control system in this organization reduces risks, resources waste and fraud					
6	Managing cash helps in achieving liquidity in a business and proper control					
7	There is a relationship between effective cash management and liquidity of manufacturing companies					
8	Management of this organization has a sound strategy towards cash control and cash planning and budgeting					
9	Cash control procedures are fundamental ingredients for strict cash monitoring and management this organization					
10	Cash control in manufacturing companies is one of the internal control systems that positively militates against misapplication and misappropriation of cash by unscrupulous employees		5			
11	Effective cash management has bearing in the survival and growth of manufacturing business					
12	Every level of management in the organization understands and appreciates the cash management techniques adopted					
13	There is a relationship between effective cash management of manufacturing companies and their liquidity and profit level					
14	Manufacturing companies liquidity ratio and profit level are influenced by its cash management style/policies					
15	Desire for high liquidity and profitability of manufacturing companies affects cash management goals					
16	This organization uses computerized software for its accounts					