International Journal of Accounting Intelligence, Volume 3, Number 1, April 2025
ISSN: 2734-293X(Print) 2795-3092(Online)
Published By
International Centre for Integrated Development Research, Nigeria
In collaboration with
Copperstone University, Luanshya, Zambia

Empirical Analysis of the Effect of Cash Flow Management on Financial Performance of Listed Consumer Goods Firms in Nigeria

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ABSTRACT

Despite the importance of cash flow management in achieving financial success and sustainability, many companies continue to struggle with managing their cash flows effectively. Poor cash flow management can lead to liquidity crises, reduced profitability, and even business failure. The main objective of this study was to ascertain the effect of cash flow management on financial performance of listed consumer goods firms in Nigeria from 2014 to 2023. The research design adopted for this study was ex post facto and secondary data were used. The population of the study comprised 21 listed consumer goods firms in Nigeria, out of which 16 companies were purposively selected to constitute the sample size of the study. The data used in this study were analyzed using the Generalized Method of Moment (GMM) regression. The result of the analysis revealed that operating cashflows [coef. = 0.023 (0.000)] has significant positive effect on the return on capital employed (ROCE); investing cash flows [coef. = 0.025 (0.115)] have significant positive effect on return on capital employed; financing cash flows [coef. = 0.05 (0.024)] have significant positive effect on return on capital employed of listed consumer goods companies in Nigeria. It was thus concluded that cash flow management significantly affect the financial performance of listed consumer goods firms in Nigeria. Based on these findings, it was recommended among others that the management of consumer goods companies in Nigeria should ensure positive and healthy cash flows from core business activities as this enhance liquidity, reduce reliance on external financing, and sustain long-term profitability.

Keywords: *Cash flows, financial performance, operating cash flows, investing cash flows, financing cash flows*

1.0 INTRODUCTION

The survival of any firm depends on its ability to manage the major resources of the firm and remain financially stable despite the increasing complexities and economic uncertainties faced by businesses. Cash flow management is a major determinant of financial sustainability and performance of businesses and it represents the movement of funds in and out of a firm. The primary goal of cash flow management, as articulated by Abdul and Raj (2020), is to determine the optimal cash level to achieve the highest organizational performance standards. Effective cash flow management ensures that a company has enough liquidity to meet its financial obligations and invest in growth opportunities. *Mun et al.* (2020) argue that a well-defined cash policy, including clear guidelines on reserves and investment strategies, can support growth and investments. The primary objective of firms away from consumers' satisfaction is the determination of the best possible way to sustain and improve its profitability and competitive prowess. The ability to strike an equilibrium balance between meeting its financial obligations, retaining its competitive prowess, and remaining profitable are set on the firm's capability to generate net positive cash flows from the operating, investing and financing activities (Idamoyibo *et al.*, 2021).

Cash flow management has to do with the process of monitoring, analyzing and optimizing the inflows and outflows of cash within the organization to ensure liquidity and financial stability. The statement of cash flows (IAS 7) provides a structured framework for reporting the changes in in an entity's cash and cash equivalent during a specific period by classifying cash flows into three specific category namely; operating activities, investing activities and financing activities. IAS 7 defines operating cash flows as cash flows from the principal revenue generating activities of the entity and other activities of the entity that are neither investing nor financing activities. Investing cash flows refer to the inflows and outflows of cash resulting from investments made by the company. Financing cash flows refer to the cash inflows and outflows related to a company's financing activities, which involve raising capital and repayment of debts to support the business strategic initiatives.

Financial performance, on the other hand, is a measure of a company's profitability, efficiency, and overall financial health. Cash flow management is a fundamental aspect of financial management that significantly influences a company's financial performance. For instance, healthy operating cash flows reflects the underlying strength of a company's core business operations and its ability to generate cash to support growth, meet obligations and create value for stakeholders. Companies that effectively managed their investing activities can strengthen their financial position, maximize return on investment and achieve sustainable growth in the long run. Adequate financing is essential for funding investments in growth opportunities as positive financing cash flows support firm's expansion plans and drive long term growth. Cash flow management influences a company's ability to make strategic investments and pursue growth opportunities. By generating adequate positive cash flows, firms can allocate resources towards initiatives that drive expansion, innovation and long-term value creation.

Despite the importance of cash flow management in achieving financial success and sustainability, many companies ineffectively manage their cash resources. Poor cash flow management can lead to liquidity crises, reduced profitability, and even business failure. Research has shown that inadequate cash flow management can negatively impact profitability, investment decisions, and overall financial performance (Chibuike & Celestine, 2022; Nangih *et al.*, 2020), Issues such as inefficient working capital management, delayed receivables, and excessive short-term debt reliance can strain financial resources and limit a company's ability to generate sustainable returns. Conversely, firms that effectively manage their cash flows tend to experience improved financial stability, enhanced profitability, and increased shareholder value. Given the increasing complexities of financial markets and the economic uncertainties faced by businesses, there is a growing need to examine the role of cash flow management in enhancing financial performance of consumer goods firms in Nigeria.

Empirical literature revealed varying findings on the effect of cash flow management on financial performance. For instance, Akpan (2024) found out that operating cash flow has significant positive effect on dividend pay-out of listed healthcare firms; Odo and Theophilus (2021) revealed that cash from operating activities significantly affect profit for the year of food and beverage firms in Nigeria. Liman and Mohammed (2018) found insignificant relationship. Odhowa and Mutswenje (2022) found out that cash flow management from investing activities have a statistically insignificant influence on financial performance of manufacturing firms. Abdul and Raj (2020) investigated the correlation between financing cash-flows and corporate effectiveness in the London Stock Exchange-listed corporations. The findings revealed that there is no substantial relationship amongst corporate success of London-listed corporations and financing cash flows.It was also found out that most the previous studies focused on other sectors of the economy other than consumer goods firms (Odo & Theophilus., 2021; Nangih *et al*., 2020; Soet *et al*., 2018a). Thus, this study was carried out to ascertain the effect of cash flow management on financial performance of listed industrial goods firms in Nigeria.

2.0 Literature Review and Hypotheses Development

Cash flow management

Cash flow management refers to the process of monitoring, controlling and optimizing the inflows and outflows of cash and cash equivalent within and an organization. According to Akpan (2024), cash inflows and outflows are the heartbeat of every business endeavour. One of the main reasons that businesses fail is their inability to meet their financial obligations when they fall due as they have run out of cash. Pandey (2016) noted cash management is concerned with controlling cash flows into and out of the company, as well as cash balances kept by the business at any given time, whether by deficit financing or cash spending surpluses. He further claimed that the goals of cash management include maintaining reasonable control over cash position, maintaining ample liquidity for the company and ensuring that surplus cash is used profitably. Cash management is an important function for every business since it entails controlling cash movements both inside and outside the firm, as well as cash balances held by the organization at any one time (Pandey, 2016). According to Chibuike & Celestine (2022), cash flow management is concerned with maximizing cash accessible, increasing interest received on non-required surplus money as soon as possible, and preventing losses caused by fund transfer delays. Cash flow management as defined by Ward (2020) is the process of monitoring, analyzing, and optimizing the net amount of cash receipts and cash expenses. Net cash flow is an important measure of financial health for any business". Cash flow management entails frequent cash flow analysis so as to solve cash flow problems like illiquidity.

Financial Performance

This measures the ability of the company to utilize its resources efficiently and effectively to achieve the desired result. According to Kenton (2021), financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Stated differently, it is a monetary achievement attained by improved sales, improved efficiency, and improved profitability and improve market value to its shareholders as a result of sound financial management (Adegboyegun & Igbekoyi, 2022). Company's financial performance is the most important indicator of business growth because it demonstrates the companies' capacity to increase income levels (Ghazali *et al*., 2022). In Hermuningsih *et al.* (2020), financial performance is in the question of "if a firm's financial goals have been met or not". Financial performance is a subjective measure of how well firms can use assets from its primary mode of business and generate revenue. It can be expressed in terms of income generated from its operation, after offsetting expenses to arrive at net income. It is used as a general measure of firms' overall financial health over a given period of time.it can be used to compare similar firms across the same industry or to compare industry or sectors in aggregation. Financial performance in this study was measured using return on capital employed (ROCE) and this measures management efficiency in utilizing the capital of the firm to generate profit. This is given as:

$$\text{ROCE} = \frac{\text{Profit before interest and tax}}{\text{Shareholders fund+longterm loan}} = \frac{100}{1}$$

Operating Cash Flows and Financial Performance

IAS 7 defines operating cash flows as cash flows from the principal revenue generating activities of the entity and other activities of the entity that are neither investing nor financing activities. Operating cash flow is a key indicator of a company's ability to generate sufficient cash from its regular activities to maintain and grow the business, pay debts, and fund dividends. According to Prastowo (2020), operating cash flow is a life blood for every company and fundamental for the existence of the company in paying all obligations. Operating cash flows play critical role in determining the financial performance of a company. Healthy operating cash flows reflects the underlying strength of a company's core business operations and its ability to generate cash to support growth, meet obligations and create value for stakeholders. Empirical literature revealed varying findings on the effect of cash flow management on financial performance. For instance,

Akpan (2024) ascertained the effect of cash flow practices on dividend policy of listed healthcare firms in Nigeria. The result of the analysis revealed that operating cash flow has a significant positive effect on dividend pay-out of listed healthcare firms; Odo and Theophilus (2021) investigated the effect of cash flow on financial performance of food and beverage firms in Nigeria. The study revealed that cash from operating activities significantly affect profit for the year of food and beverage firms in Nigeria. Frank & James (2014) evaluated the connection between operating cash flow activities and corporate performance in Nigeria's food and beverage industry. They found out that operational cash flows had an impact on corporate performance in Nigeria's food and beverage industry. Odo and Theophilus (2021) investigated the effect of cash flow management activities on the financial performance and found a positive correlation between operating cash flows on financial performance. Parsian and Amir (2018) carried out research on the impact of operating cash flow on profitability in Tehran Securities Exchange. The study found that different operating cash flow components affect profitability. Liman and Mohammed (2018) examined the impact between operating cash flow on corporate financial performance of listed conglomerate companies in Nigeria and found a positive and insignificant impact between Cash Flow from Operating Activities (CFO) and financial performance proxied by ROA while the impact was positive and significant when financial performance was proxied by ROE of the listed conglomerate companies in Nigeria. Soet *et al*. (2018b) evaluated the effect of operating cash flow management on financial performance of mutual funds in Kenya and concluded that operating cash flow management had significant and positive effect on return on assets and insignificant and positive effect on return on equity. Thus, based on these non-unanimous findings, this study hypothesized that ***operating cash flows has no significant effect on return on assets of listed consumer goods firms in Nigeria.***

Investing Cash Flows and Financial Performance

Investing cash flows refers to the inflows and outflows of cash resulting from investments made by the company. It reflects the cash flows associated with a company's investment activities, highlighting how it is allocating resources to support growth, expansion and strategic initiatives. Investing cash flows influence financial performance by driving growth, optimizing assets allocation, enhancing competitive advantage, ensuring financial stability and supporting effective cash flow management. According to Akpan (2024), companies that effectively managed their investing activities can strengthen their financial position, maximize return on investment and achieve sustainable growth in the long run. Some of the empirical studies revealed showed conflicting results on the subject matter. Chibuike and Celestine (2022) evaluated the effect of cashflow management on financial performance of pharmaceutical firms in Nigeria. The study revealed a positive and insignificant effect of investing activities on liquidity. Akpan (2024) ascertained the effect of cash flow practices on dividend policy of listed healthcare firms in Nigeria and concluded that investing cash flow has a significant positive effect on dividend pay-out of listed healthcare firms in Nigeria. Odhowa and Mutswenje (2022) examined the effect of cashflow management activities on financial performance of manufacturing firms listed at Nairobi Securities Exchange. The found out that cash flow management from investing activities have a statistically insignificant influence on financial performance of manufacturing firms ($p=0.125>0.05$). Odo and Theophilus (2021) investigated the effect of cash flow on financial performance of food and beverage firms in Nigeria. The study revealed that cash from investing activities has significant effect on profit for the year of food and beverage firms in Nigeria. Thus, based on these varying findings, this study hypothesized that ***investing cash flows have no significant effect on return on assets of listed consumer goods firms in Nigeria.***

Financing Cash Flows and Financial Performance

Financing cash flows refer to the cash inflows and outflows related to a company's financing activities, which involve raising capital and repayment of debts to support the business strategic initiatives. It plays a crucial role in determining a company's financial performance and overall health. Financing cash flows directly impact a company's liquidity position, capital structure and affect profitability. Adequate financing is essential for funding investments in growth opportunities as positive financing cash flows support firm's expansion plans and drive long term growth. Empirical literature revealed varying findings on the effect of cash flow management on financial performance. Abdul and Raj (2020) investigated the correlation between financing cash-flows and corporate effectiveness in the London Stock Exchange-listed corporations. The findings revealed that there is no substantial relationship amongst corporate success of London-listed corporations and financing cash flows. Ebimobowei *et al.* (2021) investigated the effect of cash flow accounting on the corporate financial performance of listed consumer goods companies in Nigeria for the period 2015 to 2019. The study revealed a positive and significant relationship between financing cash flow and profit after tax of listed consumer goods manufacturing companies. Nangih *et al.* (2020) investigated the relationship between cash flow management and the financial performance of quoted oil and gas firms in Nigeria. The study revealed that cash flow from financing activities had a positive and significant influence on firm performance in the oil and gas sector. Soet *et al.* (2018a) examined the effect of financing cash flow management on financial performance of mutual funds in Kenya and found out that financing cash flow management had significant and negative effect on return on assets and return on equity. Thus, based on these conflicting findings, this study hypothesized that ***financing cash flows have no significant effect on return on assets of listed consumer goods firms in Nigeria.***

2.2 THEORETICAL UNDERPINNINGS

Agency Theory by Ross and Mitnick (1973)

Agency theory was developed and put forward by Ross and Mitnick in 1973 to explore the problem of ownership and control separation. The primary focus of agency theory is to understand and address the conflicts of interest that arise when individuals delegate decision-making authority to others to act on their behalf. According to Josua and Vera (2020), this relationship is characterized by an inherent conflict of interest because the agent may have different objectives or motivations from the principal (Jensen & Meckling, 1976). Agency theory emphasizes the presence of information asymmetry, where the agent typically possesses more information about the actions and outcomes than the principal. This information asymmetry can lead to adverse selection and moral hazard problems, where the agent may not act in the best interests of the principal due to hidden information or incentives (Prastowo, 2020). The goals and objectives of the principal (maximizing shareholder wealth) may not always align with those of the agent (maximizing personal gain, job security, or influence). This misalignment of interests can result in agency costs, such as monitoring expenses, bonding costs, and residual losses, which can impact organizational performance and governance effectiveness.

In the context of cash flow management and financial performance, the principal-agent relationship refers to the conflict of interest between shareholders (principals) who seek to maximize wealth through dividend payments and managers (agents) who may have differing priorities, such as retaining earnings for growth or personal gain. Agency theory provides a framework for understanding the potential conflicts of interest between shareholders and management, highlighting the importance of effective cash flow management and financial performance in aligning management's interests with those of shareholders (Kieso & Weygandt, 2019).. Imhanzenobe and Adeyemi (2020) also opined that effective cash flow management require aligning the interests of managers and shareholders to ensure that dividend decisions reflect the long-term value creation goals of the company. Agency theory highlights the importance of monitoring and incentives to mitigate agency costs and promote behavior that benefits all stakeholders.

3.0 METHOD

Ex post facto research design was adopted for this study and this design was suitable because the data employed was historical. The population of this study consisted of 21 listed consumer goods companies in Nigeria. The sample size was sixteen (16) consumer goods companies purposively selected. Secondary data were employed and data were analyzed using the Generalized Method of Moment (GMM) regression analysis.

Model specification

In line with the previous researches, the study adapted and modified the Model of Nangih *et al.* (2020) in determining the effect of cash flow management on financial performance of listed consumer goods firms in Nigeria. This is given as;

Financial performance = (Cash flow management) (1)

$ROCE_{it} = a_0+b_1OPCF_{it} +b_2INCF_{it} + b_3FICFt_{it} +e_{it}$

Where:

ROCE	=	Return on capital employed
OPCF	=	Operating cash flows
INCF	=	Investing cash flows
FICF	=	Financing cash flows
a_0	=	constant
b_1,b_2,b_3	=	slope coefficient (to be determined in the study)
i	=	i^{th} firm
t	=	time period
e	=	stochastic error

Measurement of variables

Table 3.1: Operationalization of Variables

S/N	Variable	Measurement	Apriori sign
1	Return on capital employed (dependent variable)	Ratio of profit before interest and tax and total long term fund	
2	Operating cash flows	Ratio of net cash flows from operating activities to total assets	+
3	Investing cash flows	Ratio of net cash flows from investing activities to total assets	+
4	Financing cash flows	Ratio of net cash flows from financing activities to total assets	+

4.0 RESULTS AND DISCUSSION

Table 1: Descriptive statistics of the effect of cash flow management on financial performance

Variable	Obs	Mean	Std. Dev.	Min	Max
ROCE	160	0.364	0.616	0.080	0.400
OPCF	160	0.142	0.879	0.260	0.380
IVCF	160	0.213	0.570	0.190	0.850
FICF	160	0.275	0.706	0.210	0.480

Source: Author's computation (2025)

The descriptive statistics in table1 provide an overview of the key variables in the study. The average return on capital employed (ROCE) stands at 0.364, with a considerable standard deviation of 0.616, indicating a wide variability in return on equity among firms. Operating cash flows (OPCF) shows an average of 0.142, but the high standard deviation of 0.879. Investing cash flows (IVCF), with a mean of 0.213 and a standard deviation of 0.570, shows less variability, yet the range from 0.190 to 0.850 implies notable differences in firms' management of their investing activities. Financing cash flows (FICF) has a mean of 0.275, with a standard deviation of 0.706, and ranges from 0.210 to 0.480.

Table 2: Correlation analysis of the relationship between cash flow management and financial performance

Variables	ROCE	OPCF	IVCF	FICF
ROCE	1.000			
OPCF	0.399	1.000		
IVCF	0.355	0.622	1.000	
FICF	0.155	0.686	0.307	1.000

Source: Author's computation (2025)

In the case of the correlation between return on capital employed (ROCE) and operating cash flows, table 2 shows that there exists a positive association between Operating cash flows (0.399) and ROCE. Similarly, investing cash flows (0.355) and financing cash flows (0.155) are positively associated with return on capital employed. The results indicate that the associations between these variables are generally weak to moderate, suggesting that multicollinearity may not be a significant concern.

Table 3: Regression analysis

Variables	(1) GMM I- ROCE	(2) GMM I- ROCE
OPCF	0.021	0.023***
	(0.655)	(0.000)
INCF	0.099	0.025
	(0.921)	(0.115)
FICF	0.691	0.505
	(0.288)	(0.024)
Intercept	4.666	2.775
	(0.797)	(0.684)
Observations	216	216
R^2		
Endo:		
VIF		
Sargen Test		Chi2:34(0.6534)

*(*** =sig @ 5% significance level and P values are in parenthesis)*

Due to endogeneity problems between cash flow management and return on capital employed, ordinary least squares (OLS) could not produce consistent and unbiased results (Nguyen *et al.*, 2014). Therefore, to address the endogeneity issue, this study used GMM by following the prior studies (Bryl & Fijałkowska, 2020). Hambali *et al*., 2024).). In the case of GMM step one and step two, the result as presented in table 3 shows that the Chi2-statistics value is significant across the two models indicating that on the overall, the GMM step one and step two results for the models are fit for statistical inference. However, this study employed fixed-smoothing asymptotic to compare the one-step and two-step procedures. For the one-step procedure, the long run variance (LRV) estimator was used in computing the standard errors, leading to the popular heteroskedasticity and autocorrelation robust (HAR) standard errors .On the other hand, for the two-step procedure, the LRV estimator not only appears in the standard error estimation but also plays the role of the optimal weighting matrix in the second step GMM criterion function. Under the fixed-smoothing asymptotic, the weighting matrix converges to a random matrix. As a result, the second step GMM estimator was not asymptotically normal but rather asymptotically mixed normal. The asymptotic mixed normality reflects the estimation uncertainty of the GMM weighting matrix and is expected to be closer to the finite sample distribution of the second step GMM estimator. Based on the foregoing, the power benefit of the two step GMM was justified and thus relied upon for hypotheses testing in this study.

Operating Cash Flows and Financial Performance

The results obtained from the GMM II regression model presented in Table 4 revealed that operating cashflows [coef. = 0.023 (0.000)] has significant positive effect on the return on capital employed (ROCE). This implies that firms with strong operating cash flows tend to achieve better financial outcomes, as these cash flows indicate a company's ability to generate income from its core business activities. Positive operating cash flows provide liquidity for reinvestment, debt servicing, and shareholder returns, ultimately enhancing profitability and stability. This finding aligns with the work of Odo and Theophilus (2021) who investigated the effect of cash flow on financial performance of food and beverage firms in Nigeria and found that cash from operating activities significantly affect profit for the year of those companies. However, this finding conflicts with study of Liman and Mohammed (2018) who examined the impact between operating cash flow on corporate financial performance of listed conglomerate companies in Nigeria and found a positive and insignificant impact between cash flow from operating activities (CFO) and financial performance.

Investing Cash Flows and Return on Capital Employed

The GMM II regression results indicated that investing cash flows [coef. = 0.025 (0.115)] have significant positive effect on return on capital employed. This indicates that investment decisions play a crucial role in determining a firm's profitability and value. Investing cash flows often represent expenditures on long-term assets, acquisitions, or securities, which can either enhance or deplete financial performance depending on their effectiveness. A well-managed investment strategy can lead to higher returns, innovation, and competitive advantage, whereas excessive or unproductive investments may strain financial resources and negatively impact profitability. This finding supports the study of Akpan (2024) who found that investing cash flow has significant positive effect on dividend pay-out of listed healthcare firms in Nigeria. Also this finding is in support of Odo & Theophilus (2021) whose findings revealed cash flow from financing activities has significant effect on profit for the year of food and beverage firms in Nigeria. However, this study contradicts the work of Odhowa and Mutswenje (2022) who found insignificant relationship between cash flow management from investing activities and financial performance.

Financing cash flows and return on capital employed

The findings from the GMM II regression model show that financing cash flows [coef. = 0.05 (0.024)] have significant positive effect on return on capital employed. This could be so because adequate financing is essential for funding investments in growth opportunities as positive financing cash flows support firm's expansion plans and drive long term growth. Effective management of financing cash flows allows firms to optimize their capital structure, fund expansion, and increase shareholder value. However, while financing cash flows contribute positively to performance, excessive reliance on debt may introduce financial risks if not properly managed. This aligns with the study of Nangih *et al.* (2020) who investigated the relationship between cash flow management and the financial performance of quoted oil and gas firms in Nigeria and found that cash flow from financing activities had a positive and significant influence on firm performance in the oil and gas sector. Similarly, Ebimobowei *et al.* (2021) found positive and significant relationship between financing cash flow and profit after tax of listed consumer goods manufacturing companies. In contrary, Soet *et al.* (2018b) found that financing cash flow management has significant but negative effect on return on assets and return on equity

5.0 CONCLUSION AND RECOMMENDATIONS

The findings of this study confirm that operating, investing, and financing cash flows significantly influence financial performance. Operating cash flows provide the necessary liquidity for sustaining business operations and enhancing profitability. Investing cash flows impact financial performance based on the efficiency of asset acquisitions and capital expenditures. Financing cash flows, when effectively managed, contribute to financial growth and stability. Therefore, companies must strategically manage their cash flows to maximize financial performance and shareholder wealth. On the whole, it was concluded that cash flow management significantly affect the financial performance of listed consumer goods firms in Nigeria. Therefore, management of consumer goods companies in Nigeria should enshrine strategies that enhance operating cash flows in their long-term. They should ensure strong cash flow from core business activities as this enhances liquidity, reduce reliance on external financing, and sustain long-term profitability. Also, these firms should align investments in technology, infrastructure, and market expansion with long-term financial goals to maximize returns and enhance financial performance.

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