

Cash Management and the Effectiveness of Companies in Thailand

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Abstract

This research aims to investigate a relationship between cash management and the effectiveness of companies in Thailand by employing correlation study method. 478 companies registered in the stock exchange of Thailand were the samples of this study and the data collection was their financial statements. The data was analyzed by correlation and multiple regression. The results revealed that cash flow management of the companies belong to SET ESG Ratings on Cash Flow from Operation (CFO) and Cash Flow from Investment (CFI) did not show relationship with the effectiveness on company's performance on Return of Assets (ROA), Return of Equity (ROE) and Net Profit Margin (NPM). Besides, the results also showed that Cash Flow from Fund (CFF) of these companies did not have an effect on Net Profit Margin (NPM); however, it showed negative relationship with Return of Assets (ROA) and Return of Equity (ROE) with statistical significance at 0.01 and 0.05 respectively.

Keywords: Cash Management, Effectiveness, Cash flow

Introduction

Cash flow information is now placed as important data because it has been a decade that high inflation has an effect on businesses. The rising of selling prices could be assumed to help increasing cash flow; however, rising costs, increased investment in working capital and the higher replacement costs of fix assets, all mentioned, are the causes of high pressure on cash flow. Inflation and the problem of climate changes contribute to an ultimate attention from management and users of financial statement on cash flow information. Inadequacy of cash flow information may lead investors and analyst have improper conclusion on effectiveness, financial flexibility and performance of a company. After an investigation on cash flow, the results found that many authors agree on how important it is.

Cash flow may be assumed as a company's core and company's performance according to a research of Jooste, L. (2006) about identity and stability of cash flow ratios from operating activities compared with financial ratios on accrual basis to examine a company's payment. Moreover, Palepu et al., 2000 also stated that cash flow ratios can be used to answer questions on a company's performance since debt obligations are met with cash. That analysis causes an unlimited of credit, unrestricted cash availability, debt maturity schedules with respect to financing requirements and the willingness to issue common equity. In addition, cash flow

ratios also support to analyze a company's financial health and how a company manage cash flow from operating activities, investment and financial supply

Objective

This research aims to examine relationship between cash management and the effectiveness of companies in Thailand

Hypotheses

1. Cash flow has positive relationship on the effectiveness of Return of Equity
2. Cash flow has positive relationship on the effectiveness of Return on Assets
3. Cash flow has positive relationship on the effectiveness of Net Profit Margin

Literature Review

Afrifa, G. A. (2016) conclude in his research that cash flow has an effect on a company's performance. For example, Guney, Y., Ozkan, A. and Ozkan, N. (2003) found that on average, companies in England own their assets as cash for 10.3% of the total assets, so they are able to pay debt on time. Deloof, M. (2003) stated in his study that unrestricted cash flow could improve a company's performance by reducing external financial supply especially for SMEs because the more cash flow, the more operating activities since SMEs' cost is, compared with large company, higher in terms of business transactions. Tauringana, V. and Afrifa, G.A. (2013) suggested that cash flow availability can contribute a company to meet primary obligations and avoid financial problems compared with a company that facing cash flow fluctuation.

Adequacy of cash flow has an effect on a company's performance. The research showed that unrestricted cash flow helps increase higher investment on working capital. Baños-Caballero, S., García-Teruel, P.J. and Martínez-Solano, P. (2014) conclude in their research that even though financial cost contributes to a negative effect on working capital, a better access to capital market plays an important role to increase working capital and the proper level of investment on working capital depends on each company's financial strength.

In terms of accounting, an idea of cash flow has been mentioned for years; therefore, the availability of cash flow information help to set standard for company's evaluation. On the other hand, if cash flow is excluded, such result may not authenticate. Cash flow ratios is appeared in many professional business documents or used in financial statements in countries. As suggested by Jooste, L. (2006), users of financial statements evaluate company's financial statement to create strategies for liquidity, operating activities, assets, profitability and performance. Management team may involve for the inspection including for effectiveness. Normally users of financial employ traditional balance sheet and profit and loss statement to evaluate operating activities which is considered as main revenue-producing. Therefore, together with traditional operation, cash flow ratios also play an important role for performance. Moreover, cash flow helps comparing each company's performance. According to FASB, main purpose of cash flow is to evaluate liquidity, solvency, viability and financial adaptability. Cash flow ratios from operating activities could serve as indicator for company's performance.

Conceptual Framework

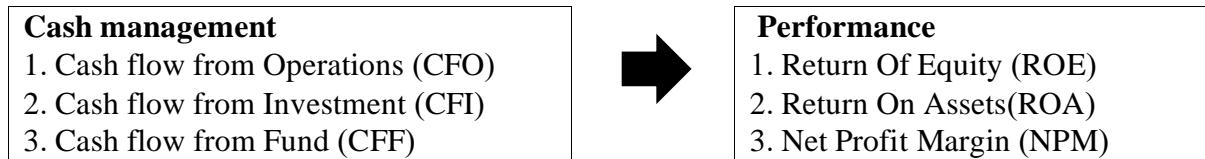


Figure1: conceptual framework of cash management on performance of registered companies in SET

Research Methodology

Population and sample

The population in this research were 511 companies belonged to SET, ESG Rating who registered in the Stock Exchange of Thailand with 5 years of business operation from period of 2017-2021. their financial statements and annual reports were used as research data. The sample were 478 out of 511 companies because some companies must be excluded due to the lack of some information.

Research Tools

This study used the following models to analyze relationship between cash flow management and performance of companies belonged to SET, ESG Ratings group registered in the Stock Exchange of Thailand.

Model 1: relationship between cash flow management and Return of Equity (ROE)

$$ROE_{it} = \alpha_0 + \beta_1 CFO_{it} + \beta_2 CFI_{it} + \beta_3 CFF_{it} + \varepsilon_{it}$$

Model 2: relationship between cash flow management and Return of Assets (ROA)

$$ROA_{it} = \alpha_0 + \beta_1 CFO_{it} + \beta_2 CFI_{it} + \beta_3 CFF_{it} + \varepsilon_{it}$$

Model 3: relationship between cash flow management and Net Profit Margin (NPM)

$$NPM_{it} = \alpha_0 + \beta_1 CFO_{it} + \beta_2 CFI_{it} + \beta_3 CFF_{it} + \varepsilon_{it}$$

when

CFO_{it}	=	cash flow from operations of company i at time t
CFI_{it}	=	cash flow from investment of company i at time t
CFF_{it}	=	cash flow from fund of company i at time t
ROE_{it}	=	Return of Equity of company i at the end of t
ROA_{it}	=	Return of Assets of company i at the end of t
NPM_{it}	=	Net Profit Margin of company i at the end of t
ε_{it}	=	Deviation of estimation of company i at time t

Data collection

The data used in this research were obtained from financial statements and notes to financial statements for the period from 2017-2021(5 years) of 478 companies belonged to SET ESG Ratings group that registered in Stock Exchange of Thailand (SET). Their information appeared in the database website of SET.

Data Analysis

This study used 2 types of statistics which were

1. Descriptive statistics: frequency, percentage, mean and standard deviation to explain independent variables
2. Inferential statistics: correlation analysis and multiple regression to test relationship between variables and hypotheses.

Research Findings

The results of relationship between cash flow management and performance of companies belonged to SET ESG Ratings group that registered in the Stock Exchange of Thailand are shown in Table1-Table 5

Table 1: Descriptive statistics of variables

Variables	Min	Max	Mean	S.D.
CFO	-88.54	1,308.70	15.11	70.34
CFI	-385.31	127.86	-10.44	34.31
CFF	-162.50	90.04	-1.25	16.69
ROE	-67.06	67.27	10.28	11.44
ROA	-23.37	49.62	5.82	6.51
NPM	-230.35	512.90	12.23	31.75

Table 1 shows that the companies registered in the Stock Exchange of Thailand (SET ESG Ratings group) acquire cash flow from operations, on average, 15.11 billion (THB), cash flow from investment is approximately -10.44 billion (THB). They also receive cash flow from fund -1.25 billion (THB). Their ROE, ROA and NPM are 10.28, 5.82 and 12.23 respectively.

Table 2: Correlation analysis of variables

Variables	CFO	CFI	CFF	ROE	ROA	NPM
CFO	1					
CFI	-0.426**	1				
CFF	-0.181**	-0.076	1			
ROE	0.035	-0.042	-0.134**	1		
ROA	-0.017	-0.041	-0.100*	0.691**	1	
NPM	0.000	-0.014	-0.045	0.348**	0.261**	1

**.Correlation is significant at the 0.01 level (2-tailed).

*.Correlation is significant at the 0.05 level (2-tailed).

Table 2 reports the results of relationship between variables from Pearson Correlation that cash flow from Fund (CFF) has 0.01 statistical significance of negative relationship with Return on Equity (ROE) and shows 0.05 statistical significance of negative relationship with Return of Assets (ROA) which interpreted that short-term and long-term debt caused from investor's finances, owners or other activities creates changes about size and proportion of owners and loan that might affect company's performance

Table 3: relationship between cash flow management on performance of Return of Equity (ROE)

variables	Coefficient	P-Value	VIF
CFO	-0.003	0.758	1.295
CFI	-0.020	0.244	1.259
CFF	-0.097	0.003*	1.066

**.Correlation is significant at the 0.01 level (2-tailed).

$R^2 = 0.021$, Adj. $R^2 = 0.015$, F-Value = 3.382, Dubin-Watson = 1.848

Table 3 shows that management of cash flow on operations (CFO) and investment (CFI) have no relationship with Return of Equity (ROE). And cash flow on fund (CFF) shows negative relationship with Return of Equity (ROE).

Table 4: relationship between cash flow management on performance of Return of Assets (ROA)

variables	Coefficient	P-Value	VIF
CFO	-0.002	0.609	1.295
CFI	0.004	0.665	1.259
CFF	-0.040	0.029*	1.066

*.Correlation is significant at the 0.05 level (2-tailed).

$R^2 = 0.012$, Adj. $R^2 = 0.006$, F-Value = 1.882, Dubin-Watson = 1.698

Table 4 reports that management of cash flow on operations (CFO) and investment (CFI) shows no relationship with Return of Assets (ROA). management of cash flow on fund (CFF) has negative relationship with Return of Equity (ROE).

Table 5: relationship between cash flow management on performance of Net Profit Margin (NPM)

variables	Coefficient	P-Value	VIF
CFO	-0.009	0.696	1.295
CFI	-0.025	0.606	1.259
CFF	-0.097	0.284	1.066

$R^2 = 0.003$, Adj. $R^2 = -0.004$, F-Value = 0.422, Dubin-Watson = 1.987

Table 5 shows that management of cash flow on operations (CFO) along with cash flow on investment (CFI) and cash flow on fund (CFF) have no relationship with Net Profit Margin (NPM).

Discussion

Management of cash flow on operations has no relationship with performance of the companies of SET ESG Ratings group registration in the Stock Exchange of Thailand. This results is consistent with the study of Sawatkulsiri, T. & Mokhavesa, B. (2021) that cash flow from operating activities showed no relationship with Return of Assets of set50 group registration in the Stock Exchange of Thailand.

Management of cash flow on investment shows no relationship with performance of SET ESG Ratings group registration in the Stock Exchange of Thailand. The findings show same result as the study of Seribudh, T. (2017) that Return of Equity did not relate with cash flow from investments. And also, Sawatkulsiri, T. & Mokhavesa, B. (2021) did the research and found that cash flow from investment showed no relationship with Return of Assets (ROA) of set50 group registration in the Stock Exchange of Thailand.

Management of cash flow on fund shows negative relationship with ROE and ROA. While it does not relate with NPM of SET ESG Ratings group of registration in the Stock Exchange of Thailand. The results has a consistency with the studies of Seribudh, T. (2017) and Chalodhorn, N. & Rangkakulnuwat, P. (2021) respectively that ROA and ROE showed significant statistic relationship with cash flow on fund and every change of 1 THB of cash flow on fund had opposite effect on 0.094 THB of NPM.

Conclusion

Management of cash flow on operations, investment of SET ESG Ratings group registration in the Stock Exchange of Thailand has no relationship with performance on ROA, ROE and NPM. In addition, their cash flow management on fund also shows no relationship with NPM; however, shows negative relationship with ROA and ROE with 0.01 and 0.05 significant statistic respectively. Therefore, it can be implied that cash flow management is performance analysis to evaluate core value of the organizations and it could not be assumed as a method to forecast profits

Suggestion

Suggestion for using this research

the findings of this research could be a useful source for executives and share holders to analyze company's performance. Moreover, investors and interested person also use this study for their better decision-making.

Suggestion for the next study

1. a researcher could extend the population and sample by collecting more data in order to compare cash flow management in a different situation.

2. a researcher could extend his/her study by investigating other groups registration in SET and MAI.

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