

AN EXAMINATION OF AWARENESS LEVEL ABOUT CASH MANAGEMENT PRACTICES IN AN ORGANISATION

Dr. P. PRAVEEN KUMAR

Asst. Professor, Saveetha School of Management,
Saveetha Institute of Medical and Technical Sciences, Chennai – 77.

Mail Id: praveenkseelva@gmail.com

Ms. N. LAVANYA

Student, Saveetha Institute of Medical and Technical Sciences, Chennai – 77.

Mail Id: lavanamm@gmail.com

ABSTRACT: This study examines the awareness of finance department employees about cash management in business. Cash management helps to ensure the level of resources that are available for a business. One of the chief responsibilities of the cash management is to sustain a business in the legal state. It is the role of CFO to ascertain an obvious way for every concerns relating to cash management. This communication necessitates undeviating information from all the department heads. It also rallies round in forecasting and cash collection. We can reduce the smash ups by forecasting in the direction of cash management. A high-quality record of the cash management can show the way to have a better control and enhanced opportunities in the future. Cash flow can also be a trouble for the small business which has plentiful clients. They may perhaps experience hitch in mobilizing funds for the business expansion and innovation. Ultimately, poor cash management crafts it complicated to hire and retain good employee within the business. Factor analysis has been adopted to find the varieties of awareness related to cash management. It finds three sets of awareness namely aspects of turnover, payments and receipts.

INTRODUCTION

The cash is referred as the king. The cash can be used for diverse things to different people. Cash plays a major role in every individual's life because it has the ability to pay off our obligations on time even if bad instance thumps. Cash means that people are not dependent on being employed. Being an employee and getting abused by boss just because people badly need their job. The proper amount of cash on hand helps both businesses and consumer households' entities without any major snag. For any business to survive in the market, cash is the only imperative financial factor. The growth of the business is fully depending up on the investment decisions like plant location, machinery, technology etc. These are one time cost that requires funds. By mobilizing enough cash, a business can run effectively as well as efficiently and shun taking risk in addition to debts. Money is significant for general people also, because it gives finest education, best health care and superlative start in life. Cash management is a day to day task of every business. It consigns to the collection, concentration and manages short term investments. Cash management helps to measure liquidity position. The current ratio measures current assets against current liabilities through cash management.

REVIEW OF LITERATURE

Zhang and Chan (2018) studied the brunt of bank shareholding towards cash management in corporate with reference to China. It is documented to facilitate cash holdings value in the market which is well-built for enterprises that are non state owned than the state owned enterprises and they also experience a stronger pyramidal structure.

Salas-Molina (2018) stated that the organization makes use of models for cash management in order to have power over the equilibrium for preventing overdrafts and acquire profit for short term savings. The management representation depends upon the control derived from probability distribution. This study also introduces cash management models.

Chang et al. (2018) declared that the real earnings administration makes worse cash holdings value. It is obvious from the fact that firms have impending agency predicaments in addition to pecuniary constraints. The results exhibit that the various ways of real earnings management impacts cash flow commencing a variety of operating, investing as well as financing activities.

Seifert and Gonenc (2018) studied the affiliation between the cash policy and governance across the world. The study examines the governance at both country as well as firm level with reference to the value of cash. The findings display that cash value is boosted with the firm level governance in a stronger country.

Greiner (2017) inspected the association between the hostile income growing real activities management and corporate cash holdings. The study uses the empirical models from the earlier researches. The verdict of the study is that income growing ram is directly related with the elevated cash holdings in addition to this kind of constructive relationship is strapping in the feebly governed organizations.

Moraes and Nagano (2014) applied genetic algorithms as well as it implements particle swarm optimization for the cash decisions. This study proposes that these applications can be used to diminish the total cost incurred in the money maintenance with the support of three assets such as cash in addition to two investments.

Imhof and Seavey (2018) consider over the voluntary disclosure as an important apparatus for compressing information irregularity in corporate background. Both the univariate and multivariate analyses are performed in this study. The results show that the committed forecasting is adversely linked with measures of information that are acknowledged and is coupled with higher market significance of cash, operating flow of cash as well as surplus cash.

Cabello (2017) explained about the liquidity management as an imperative activity in the banking sector. The study is performed under the assumption that branch efficiency is the foundation for effective performance of the firm. The study suggests that the results will aid the managers to be aware of the time validity of existing cash holdings.

Cabello and Lobillo (2017) devised a reverberate and cheap algorithm that optimizes the branch cash holdings. The data is collected on the basis of 60,000 banking testimonies. This study is the pioneer in this kind of research. It is found that the algorithm developed in the study is capable of predicting the cash amounts which may possibly be required by the bank to fulfil its obligations.

Righetto et al. (2016) furnish a valuable optimization approach in order to help the decisions taken in management of cash. This study expresses a model characterized by network flows through gains along with losses. The study also projects the cash flows for taking advantage of indecisive pecuniary resources in a specified multi-period as well as limited forecasting horizon.

Florackis and Sainani (2018) assess the capacity of the CFO's to pressurize the outcomes of the firm. The study supports the CFO's to make a distinction sandwiched between the strong and weak officers. The study concludes that the strong CFO's clasp minimal amount of cash when compared to that of the weak CFO's because the strong CFO's can lift funds even during financial pressure.

Alvarez and Lippi (2017) make use of cash management model in order to examine whether the agents desire to pay in terms of cash or credit at each point of time. The study also explains how to use this model across countries. This model can be taken to scrutinize the welfare cost of the household's in phasing out cash.

Orlova and Rao (2018) investigated the speediness of modifications in holding the cash. The study spotlights the benefits of accounting for the purpose of heterogeneity of the speed for the adjustment of the cash holdings. The findings display that the rated firms, firms with surplus finance and cash deficits have slower speed towards adjustment than the firms having excess cash, deficit finance and non rated firms.

AWARENESS ABOUT CASH MANAGEMENT

Data related to the awareness level about cash management practices have been grasped from 46 financial executives by issuing drafted questionnaire. Executives who work in top and medium level of finance department have been considered for this study. Their information is shown in Table 1.

Table 1: Information about Employees

| <i>Gender</i> | <i>Frequency</i> | <i>%</i> |
|--------------------------------|------------------|----------|
| Male | 18 | 39.1 |
| Female | 28 | 60.9 |
| <i>Total</i> | 46 | 100.0 |
| <i>Age</i> | <i>Frequency</i> | <i>%</i> |
| Less than 25 years | 33 | 71.7 |
| 25 to 35 years | 11 | 23.9 |
| Greater than 35 years | 2 | 4.3 |
| <i>Total</i> | 46 | 100.0 |
| Education qualification | Frequency | % |
| UG | 16 | 34.8 |
| PG | 29 | 63.0 |
| Others | 1 | 2.2 |
| <i>Total</i> | 46 | 100.0 |

Table 1 discusses frequency analysis related to gender, age group and education qualification of employees. Female (60.9%) dominate in finance department followed by men of 39.1 percent. Majority of the employees (44 employees) belong to the age group of less than 35 years. Finance department carries more number (63%) of post graduated professionals. Their awareness level about cash management is shown in Table 2.

Table 2: Awareness about Cash Management

| <i>S. No.</i> | <i>Awareness about Cash Management</i> | <i>Mean</i> | <i>Rank</i> |
|---------------|--|-------------|-------------|
| 1. | Cash Management streamlines the process of payments. (Process of Payments) | 3.74 | 8 |
| 2. | It allows tracking the cost associated with expenses. (Cost Association) | 3.9130 | 3 |
| 3. | Reduction in the “guesswork” is possible out of cash management practices. (Reduction) | 3.6522 | 11 |
| 4. | Through register of accounts, internal audit made trouble-free. (Internal Audit) | 4.4348 | 1 |
| 5. | Turnover periods are made available through cash management cycle. (Turnover Period) | 3.7391 | 9 |
| 6. | It helps in standardisation of procedures. (Procedures) | 3.9565 | 2 |
| 7. | Cash management cycle streamlines cash flows. (Cash Flows) | 3.7609 | 7 |
| 8. | Inventory turnover is also a part of cash management cycle. (Inventory Turnover) | 3.5652 | 12 |
| 9. | It enhances the relationship with vendors. (Vendor’s Relationship) | 3.7174 | 10 |
| 10. | Planning of capital expenditures is made easy through cash management practices. (Capital Expenditure) | 3.8478 | 5 |
| 11. | It allows taking decision on credit policies. (Credit Policies) | 3.9130 | 3 |
| 12. | Special purchases can be possible. (Special Purchases) | 3.7826 | 6 |

Mean scores and rank values of awareness about cash management are included in Table 2. internal audit has the highest mean value of (4.4348) followed by procedures (3.9565), cost association and credit policies (3.9130), capital expenditure (3.8478), special purchases (3.7826), cash flow (3.7609), process of payment (3.74), turnover period (3.7391), vendor’s relationship (3.7174), reduction (3.6522) and inventory turnover (3.5652). The resemblance among 12 stated variables has been addressed by factor analysis. Kaiser-Meyer-Olkin (KMO) test has to be conducted to find out data adequacy. The result of KMO test is shown in Table 3.

Table 3: KMO and Variance

| <i>Components</i> | <i>KMO</i> | <i>Total</i> | <i>% of Variance</i> | <i>Cumulative %</i> |
|-------------------|------------|--------------|----------------------|---------------------|
| 1. | 0.807 | 3.925 | 32.708 | 32.708 |
| 2. | | 1.809 | 15.073 | 47.782 |
| 3. | | 1.665 | 13.879 | 61.660 |

KMO value is 0.807 and it is more than 0.6. Table 3 is indicating 3 components and cumulative percentage of 61.660. It means that KMO test gives green signal to conduct factor analysis. Moreover, all 12 variables have formed into 3 factors. The components explain 61.660 percent of variance.

Table 4: Rotated component matrix

| <i>Awareness about Cash Management</i> | <i>Components</i> | | |
|--|-------------------|----------|----------|
| | <i>1</i> | <i>2</i> | <i>3</i> |
| Inventory Turnover | 0.781 | - | - |
| Cost Association | 0.747 | - | - |
| Turnover Period | 0.744 | - | - |
| Vendor's Relationship | 0.738 | - | - |
| Credit Policies | 0.724 | - | - |
| Capital Expenditures | 0.716 | - | - |
| Special Purchases | 0.646 | - | - |
| Process of Payment | - | 0.871 | - |
| Reduction | - | 0.731 | - |
| Internal Audit | - | - | 0.809 |
| Procedures | - | - | 0.528 |
| Cash Flows | - | - | 0.447 |

Rotated component matrix table shows that variables of inventory turnover (0.781), cost association (0.747), turnover period (0.744), vendor's relationship (0.738), credit policies (0.724), planning (0.716) and special purchases (0.646) are grouped under factor 1. Factor 2 comprises of process of payments (0.871) and reduction (0.731). Factor 3 covers internal audit (0.809), procedures (0.528) and cash flows (0.447).

The three factors have been named as "Turnover Aspect", "Payment Aspect" and "Receipt Aspect". Analysis of variance is used to locate the difference between employee's awareness level about aspect related to turnover, payment and receipt in cash management and their demographic profile.

Table 5: Demographic Profile and Awareness Level

| <i>Awareness about Cash Management</i> | <i>Educational Qualification</i> | <i>Age</i> |
|--|----------------------------------|------------|
| | <i>F Value</i> | |
| <i>Turnover Aspect</i> | | |
| Inventory Turnover | 3.187** | 1.089 |
| Cost Association | 1.107 | 0.008 |
| Turnover Period | 0.662 | 0.124 |
| Vendor's Relationship | 1.183 | 2.204 |
| Credit Policies | 2.780 | 1.726 |
| Capital Expenditures | 0.815 | 0.531 |
| Special Purchases | 2.513 | 1.114 |
| <i>Payment Aspect</i> | | |
| Process of Payment | 1.612 | 0.418 |
| Reduction | 1.287 | 1.111 |
| <i>Receipt Aspect</i> | | |
| Internal Audit | 0.360 | 0.287 |
| Procedures | 1.133 | 1.167 |
| Cash Flows | 0.030 | 3.140** |

**Five percent sig. level.

Table 5 shows F value and its significant intensity. F values are insignificant at all levels. It indicates that there is no diversity between employee's awareness level about cash management and their demographic details. Irrespective of age and educational qualification, employees possess similar awareness level about cash management.

CONCLUSION

A business or an individual must prioritize the significance of cash. Cash represents one of the safest investment which helps in uncertain time. Every quarter in a year, business has to go for financial check-up as required by Securities and Exchange Commission (SEC). After getting an approval from them, a company can go for listing their shares in the stock market. In business the term creditor and debtors are the parties who are involved in borrowing funds. In general most of the business transactions are done in credit bases. The credit changes the relationship between buyer and seller into creditor and debtor. The balance between paying to creditors and receiving payments from debtors has a higher endeavour on the cash management. When the company has increased amount of debtors, it leads to high liquidity position of the company. The contract will state role and responsibilities of both debtor and creditor.

REFERENCES

1. Alvarez, F., & Lippi, F. (2017). *Cash burns: An inventory model with a cash-credit choice*. *Journal of Monetary Economics*, 90, 99-112.
2. Cabello, J. G. (2017). *The future of branch cash holdings management is here: New Markov chains*. *European Journal of Operational Research*, 259(2), 789-799.

3. Cabello, J. G., & Lobillo, F. J. (2017). *Sound branch cash management for less: A low-cost forecasting algorithm under uncertain demand*. *Omega*, 70, 118-134.
4. Chang, C. C., Kao, L. H., & Chen, H. Y. (2018). *How does real earnings management affect the value of cash holdings? Comparisons between information and agency perspectives*. *Pacific-Basin Finance Journal*.
5. Da Costa Moraes, M. B., & Nagano, M. S. (2014). *Evolutionary models in cash management policies with multiple assets*. *Economic Modelling*, 39, 1-7.
6. Florackis, C., & Sainani, S. (2018). *How do chief financial officers influence corporate cash policies?*. *Journal of Corporate Finance*, 52, 168-191.
7. Greiner, A. J. (2017). *An examination of real activities management and corporate cash holdings*. *Advances in accounting*, 39, 79-90.
8. Imhof, M. J., & Seavey, S. E. (2018). *How investors value cash and cash flows when managers commit to providing earnings forecasts*. *Advances in accounting*, 41, 74-87.
9. Orlova, S. V., & Rao, R. P. (2018). *Cash holdings speed of adjustment*. *International Review of Economics & Finance*, 54, 1-14.
10. Rigbetto, G. M., Morabito, R., & Alem, D. (2016). *A robust optimization approach for cash flow management in stationery companies*. *Computers & Industrial Engineering*, 99, 137-152.
11. Salas-Molina, F. (2018). *Fitting random cash management models to data*. *Computers & Operations Research*.
12. Seifert, B., & Gonenc, H. (2018). *The effects of country and firm-level governance on cash management*. *Journal of International Financial Markets, Institutions and Money*, 52, 1-16.
13. Zhang, H., & Chan, K. C. (2018). *Bank shareholding and corporate cash management: Evidence from China*. *The North American Journal of Economics and Finance*, 44, 235-253.