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COMMERCIAL PAPER MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF LISTED FOOD PRODUCTS COMPANIES IN NIGERIA

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ABSTRACT

The study examined the relationship between commercial paper management and financial performance of listed food products companies in Nigeria. The objectives among others were to Identify the relationship between Commercial paper management practices (CPMP) and Return on Assets (ROA) of listed food products companies in Nigeria. The study adopted ex-post facto design. The population and sample size of the study include 9 listed food products companies in the Nigerian Stock Exchange (NSE) as at 31 August 2021. The instrument for this study was secondary data. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the Ordinary Least Square (OLS) Model regression analysis with the aid of E-view (10). The findings of the study were that; there is a significant relationship between Commercial paper management practice (CPMP) and Return on assets (ROA). Based on the findings of this study, the following recommendations are made among others: Liquidity management practices such as commercial paper management practices positively impact on performance of listed food products companies. Therefore, its sources are recommended in short term financing a firm's project.

Key words: Commercial Paper Management, Financial Performance, Return on Access

INTRODUCTION

Before now, trade by batter has been the talk of the day, most organizations engaged into business as a result of double coincident of wants, this has been erased off from the business operation due to the disadvantages of double coincident of wants (you have what I want and I have what you want). Presently, organizations engaged in so many volumes of transactions, volumes of transactions could be as a result of return on asset. An organization who failed to meet up its short and long term liabilities is said to be insolvent and therefore be liquidated. However, it is utmost to see that an organization should be able to meet up its immediate obligation and this could be measured through current ratio, acid test ratio and or net operating cash flow otherwise cash ratio therefore, current asset is part of an asset. Asset therefore, is a resource held by an entity as a result of past events, that is measurable and reliable through which its economic benefits could be flown down to the entity and return on asset is an obligation an entity incurred as a result of past event that is of the interest of the business in generating revenue through which its economic benefit could be out flown from the entity. Most organization is not able to meet up its financial obligation due to overtrading and excess inventory system. However, most organization sometimes due to tax deductions and in order to avoid taxes, most organization moves into various ways of raising funds in other to carry out a smooth operation in production, choosing various methods of raising capital might not really be the problem, but the impact these might generate on the financial performance such as return on assets, return on equity and earnings per share. It is on this, we came up with the study liquidity management practices and financial performance of listed food products companies in Nigeria

Research Hypothesis

The following null hypothesis (H_O) were stated for the study:

$H0_1$: There is no significance relationship between Commercial paper management practice (CPMP) and Return on assets (ROA) of listed food products companies in Nigeria.
$H0_2$: There is no significance relationship between Commercial paper management practice (CPMP) and Earnings per share of listed food products companies in Nigeria.
$H0_3$: There is no significance relationship between Trade receivable management practices (TRMP) and Return on asset (ROA) of listed food products companies in Nigeria.

Commercial Paper Management Practices
History of Commercial Paper
Commercial paper was first introduced over 100 years ago when New York merchants began to sell their short-term obligations to dealers that acted as intermediaries. These dealers would purchase the notes at a discount from their par value and then pass them on to banks or other investors. The borrower would then repay the investor an amount equal to the par value of the note. Marcus Goldman of Goldman Sachs was the first dealer in the money market to purchase Commercial paper, and his company became one of the biggest Commercial paper dealers in America following the Civil War. The Federal Reserve also began trading Commercial paper along with Treasury bills from that time until World War II to raise or lower the level of monetary reserves circulating among banks. (Cussen 2021), After the war, Commercial paper began to be issued by a growing number of companies, and eventually, it became the premier debt instrument in the money market. Much of this growth was facilitated by the rise of the consumer credit industry, as many credit card issuers would provide cardholder facilities and services to merchants using money generated from Commercial paper. The card issuers would then purchase the receivables placed on the cards by customers from these merchants (and make a substantial profit on the spread).

Concepts of Commercial Paper: According to Cussen (2021), The world of fixed-income securities can be divided into two main categories. Capital markets consist of securities with maturities of more than 270 days, while the money market comprises all fixed-income instruments that mature in 270 days or fewer. The Commercial paper falls into the latter category and is a common fixture in many money market mutual funds. This short-term instrument can be a viable alternative for retail fixed-income investors who are looking for a better rate of return on their money. Commercial paper is a common form of unsecured, short-term debt issued by a corporation. Commercial paper is typically issued for the financing of payroll, accounts payable, inventories, and meeting other short-term liabilities. Maturities on most Commercial paper ranges from a few weeks to months. Commercial paper is usually issued at a discount from face value and reflects prevailing market interest rates. Commercial paper, also called CP, is a short-term debt instrument issued by companies to raise funds generally for a time period up to one year. It is an unsecured money market instrument issued in the form of a promissory note and was introduced in India for the first time in 1990. Companies that enjoy high ratings from rating agencies often use CPs to diversify their sources of short-term borrowings. This gives investors an additional instrument. They are typically issued by large banks. Companies that enjoy high ratings from rating agencies often use CPs to diversify their sources of short-term borrowings. This gives investors an additional instrument. They are typically issued by large banks or corporations to cover short-term receivables and meet short-term financial obligations, such as funding for a new project. CPs have a minimum maturity of seven days and a maximum of up to one year from the date of issue. However, the maturity date of the instrument should typically not go beyond the date up to which the credit rating of the issuer is valid. They can be issued in denominations of N5 or multiples thereof. Since such instruments are not backed by collateral, only firms with high ratings from a recognized credit rating agency can sell such Commercial papers at a reasonable price. CPs are usually sold at a discount to their face value, and carry higher interest rates than bonds (The Times Market 2020). According to an online research, (https://byjus.com/commerce 2021), Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance and inventories and temporary liabilities. The maturities in this paper do not last longer than 270 days. These papers are like a promissory note allotted at a huge cost and exchangeable between the All-India Financial Institutions (FIs) and Primary Dealers (PDs). Most of the Commercial paper investors are from the banking sector, individuals, corporate and incorporated companies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), etc. However, FII can only invest according to the limit outlined by the Securities and Exchange Board of India (SEBI). In India, Commercial paper is a short-term unsecured promissory note issued by the Primary Dealers (PDs) and the All-India Financial Institutions (FIs) for a short period of 90 days to 364 days. Commercial papers are short-term debt financing securities consisting of unsecured and discounted promissory notes issued by large corporations with good credit ratings, which can be readily traded. They don't go longer than 270 days in tenor. Due to their relatively short maturity period, Commercial papers are referred to as low-risk investments, offering competitive returns to investors in compensation for the issuer's credit risk. Commercial papers are not usually backed by any form of collateral making it an unsecured debt. Consequently, only firms with high-quality debt ratings has easily find buyers without having to offer a substantial discount (higher cost) for the debt issue. Other corporations, financial institutions, wealthy individuals, and money market funds are usually buyers of Commercial paper. In Nigeria, investment in Commercial papers is regulated by the Securities and Exchange Commission. (Interstate Securities, 2019)

Financial Performance

The process of this, we state the three types of financial performance discussed in this study on which are liquidity ratio and Profitability ratio. It's a ratio which tells one's ability to pay off its debt as and when they become due. In other words, this ratio tells how quickly a company can convert its current assets into cash so that it can pay off its short term liability on a timely basis. (www.igi-global.com › dictionary › firm-performance.2021). According to Bener et al. (2020), the financial performance of businesses plays a key role in achieving this aim, financial performance analysis is an effective criterion for businesses to achieve their goals, to adapt to changing conditions in the market, to improve the way of doing businesses and to be able to take measures against possible problems. Therefore, financial performance is an increasingly important issue not only for businesses but also for economies of countries. Financial performance analysis is an essential tool in evaluating the Commercial activity of businesses. This evaluation is important for many interest groups such as business owners, managers, suppliers, credit institutions, employees, customers, competitors, investors, and government. While the businesses are analyzing their financial situations, they try to calculate and evaluate the financial ratios through the statistical and econometric analysis with the data they obtain from financial statements such as statement of financial position, statement of profit or loss and statement of cash flow. Evaluating the financial status of businesses is a complex and multivariate process based on predicting the future using historical data.

Pecking Order Theory

The Pecking Order Theory, also known as the Pecking Order Model, relates to a company's capital structure. Made popular by Stewart Myers and Nicolas Majluf in 1984, the theory states that managers follow a hierarchy when considering sources of financing. The pecking order theory states that managers display the following preference of sources to fund investment opportunities: first, through the company's retained earnings, followed by debt, and choosing equity financing as a last resort. It's a fact of life, and it's how the common English phrase "pecking order" originated. Pecking order originally described the way chickens assert dominance over each other, eventually creating a hierarchy of chickens. Now, we use it to describe a hierarchy of anything, from people to finance strategies. Pecking order theory is the idea that company managers decide how to finance company operations based on a hierarchy for instance we can say payment of short term liabilities or current liabilities where we use current assets as to knock off current liabilities, by so doing, we take the current assets as against current liabilities according to hierarchy (most important obligations to meet) (Maddie 2019). If a firm incurred debt or debt that obligation within one-year duration, this has increase the working capital ratios as in turns to increase current ratios, quick ratios, and net operating cash flow. The accumulated or accrued liability has increase the ratios in a down turn. If firms follow the pecking order, there may be new asset pricing implications from the nature of the time-varying short time obligation and investments in working capital. (Murray 2020). The pecking order theory of corporate capital structure also could be used to analyze the working capital structure which states that firms finance short term deficits with internal resources when possible. If internal funds are inadequate, firms obtain external debt such as bank overdraft to meet up its short term obligation. Bank over draft, personal contribution and money from various sources of long term loans is the last resort. Some financing patterns in the data are consistent with pecking order: firms with moderate deficits favor debt issues; firms with very high deficits rely much more on current asset than current liabilities. (Murray etal. 2020).

RESEARCH METHODOLOGY

Thus, the study adopted ex-post facto design, investigators have no control over the variables in the sense of being able to manipulate them. Population is a complete set of count derived from all objects possessing one or more common characteristics, it refers to the aggregate of all cases that conform to the designated specification. The population of this study include all 9 listed food products companies in the Nigerian Stock Exchange (NSE) as at 31 August 2021. The probability technique was adopted in this study because it concerns a selection among a population. Sampling techniques also provides range of methods that will enable the researcher reduce the quantity of data he needs to collect by considering only a data from a subgroup rather than all possible cases. The sample size therefore was determined by using the Taro-Yame formula. The instrument for this study was secondary data of the nine (9) listed food products company's financial statements and Nigeria Stock Exchange (NSE) from the period of 2012 - 2020. Precisely, data were obtained from the annual financial reports of the sampled companies.

The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the Ordinary Least Square (OLS) Model regression analysis with the aid of E-view (10). The regression analysis was adopted because according to Baridam, (2001), in studies of independent and dependent variables that are both measurable in terms of scales, the regression method is most suitable as it expresses the relationship between the variables. In the linear regression model, the criterion variable (y) is assumed to be a function of the predictor/explanatory variable (x).

Results

Hypotheses One

The First Model: The first hypothesis test model; shows the relationship between Return on assets and Commercial paper management practice,

$ROA_{it} = \beta o + \beta_1(\text{CPMP})$ ....*(i)*

Dependent Variable: ROA
Method: Least Squares
Date: 11/30/21 Time: 08:26
Sample: 2011 2020
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPMP	0.457104	0.320260	3.398728	0.0105
C	5536.582	23608.18	0.234520	0.8160
R-squared	0.559391	Mean dependent var		56590.29

Adjusted R-squared	0.236948	S.D. dependent var	123371.7
S.E. of regression	107768.7	Akaike info criterion	9.306881
Sum squared resid	3.83E+11	Schwarz criterion	2.615768
Log likelihood	-454.2041	Hannan-Quinn criter.	2.609949
F-statistic	0.755791	Durbin-Watson stat	2.379012
Prob(F-statistic)	0.000080		

Source: Researcher's Statistical Computation from E-view (v.10), 2021.
From the table output above, the coefficient of CPMP and ROA is 0.457104. This value implies that for every unit increase in ROA is predicted to be accompanied by 0.457104-unit decrease in CPMP. The T-statistics is above 1, which is sufficient statistical evidence of significant @ 1% T-stat confidence level. The Prob value of CPMP is 0.0105, which means the relationship between CPMP and ROA is statistically significant at the 5 percent significant level.
The result also showed that the R2, which measures the goodness of fit, is 0.559391, meaning that 55 percent of the variation in the Return on assets can be explained by the dimension of the independent variables. The result indicates that the model is proper and adequate for the study. The model's goodness of fit and appropriateness is also supported by the outcomes of F-statistics and probability of F-statistics of 0.755791 and 0.000080 respectively. The Durbin-Watson statistics of 2.379012 also indicate the absence of serial autocorrelation.

Hypotheses Two
The Second Model: The second hypothesis test model; shows the relationship between Earnings per share and Commercial paper management practice,
$EPS_{it} = \beta o + \beta_2(\text{CPMP})$ ....(ii)
Dependent Variable: EPS
Method: Least Squares
Date: 11/30/21 Time: 08:26
Sample: 2011 2020
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNCPMP	11.37036	0.010218	1.451122	0.0204
C	25270.33	14711.56	1.717720	0.0952

R-squared	0.567512	Mean dependent var	56590.29
Adjusted R-squared	0.554407	S.D. dependent var	123371.7
S.E. of regression	82354.06	Akaike info criterion	25.53089
Sum squared resid	2.24E+11	Schwarz criterion	25.61977
Log likelihood	-444.7905	Hannan-Quinn criter.	25.56157
F-statistic	43.30275	Durbin-Watson stat	2.539359
Prob(F-statistic)	0.000000		

Source: Researcher's Statistical Computation from E-view (v.10), 2021.
From the table output above, the coefficient of LNCPMP and NLEPS is 11.37036. This value implies that for every unit increase in NLEPS is predicted to be accompanied by a 33.58081unit decrease in LNCPMP.
The T-statistics is above 1, which is sufficient statistical evidence of significant @ 1% T-stat confidence level. The Prob value of LNCPMP is 0.0204, which means the relationship between LNCPMP and NLEPS is statistically significant at the 5 percent significant level.
The result also showed that the R2, which measures the goodness of fit, is 0.567512, meaning that 56 percent of the variation in the earnings per share can be explained by the dimension of the independent variables. The result indicates that the model is proper and adequate for the

study. The model's goodness of fit and appropriateness is also supported by the outcomes of F-statistics and probability of F-statistics of 0.930275 and 0.000039 respectively. The Durbin-Watson statistics of 2.539359 also indicate the absence of serial autocorrelation.

Hypotheses Three

The Third Model: The third hypothesis test model; shows the relationship between return on asset and Trade receivable management practices,

$ROA_{it} = \beta o + \beta_3(\text{TRMP})$ ....(iii)

Dependent Variable: ROA
Method: Least Squares
Date: 11/30/21 Time: 08:26
Sample: 2011 2020
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNTRMP	0.650511	0.201618	0.316070	0.0078
C	6903.498	24302.30	0.284068	0.7781

R-squared	0.532629	Mean dependent var	56590.29
Adjusted R-squared	0.209375	S.D. dependent var	123371.7
S.E. of regression	109698.5	Akaike info criterion	26.10430
Sum squared resid	3.97E+11	Schwarz criterion	6.619318
Log likelihood	-454.8253	Hannan-Quinn criter.	2.613499
F-statistic	9.000396	Durbin-Watson stat	2.202757
Prob(F-statistic)	0.003044		

Source: Researcher's Statistical Computation from E-view (v.10), 2021.

From the table output above, the coefficient of LNTRMP and NLROA is 0.650511. This value implies that for every unit increase in NLROA is predicted to be accompanied by 0.650511-unit decrease in LNTRMP.

The T-statistics is above 1, which is sufficient statistical evidence of significant @ 1% T-stat confidence level. The Prob value of LNTRMP is 0.0078, which means the relationship between LNTRMP and NLROA is statistically not significant at the 5 percent significant level.

The result also showed that the R2, which measures the goodness of fit, is 0.532629, meaning that 53 percent of the variation in the return on asset can be explained by the dimension of the independent variables. The result indicates that the model is proper and adequate for the study. The model's goodness of fit and appropriateness is also supported by the outcomes of F-statistics and probability of F-statistics of 9.000396 and 0.000044 respectively. The Durbin-Watson statistics of 2.202757 also indicate the absence of serial autocorrelation.

There is a significant relationship between Commercial paper management practice (CPMP) and Return on assets (ROA).

The result of the descriptive statistics analysis of table 4.1 for Commercial paper management Practices and Return on assets revealed a mean of 233382.3 and 185.9663, respectively. On the other hand, null hypothesis one was rejected with a (P-Value of 0.0105 0.05 and a coefficient value of 0.457104). Hence, there is a significant relationship between Commercial paper management practice (CPMP) and Return on assets (ROA. This finding was in line with Ndum, and Oranefo, (2021), did a work to examined the effect of human resource cost on financial performance of quoted brewery firms in Nigeria. The study adopted Ex-Post-Facto research design. The population of the study is made up of 5 breweries companies quoted on the floor of the Nigerian Stock Exchange (NSE) as at 2019 and have consistently submitted their annual reports to the NSE from 2007 to 2019. The analysis revealed that staff cost has positive and significant effect on the net profit margin of quoted brewery firms in Nigeria, while staff cost has positive and insignificant effect on the return on assets of quoted brewery firms in Nigeria, and recommended that Nigeria breweries should imbibe to the culture of capitalizing and reporting investment on human resource that can improve the quality and productivity. This will impact positively on their financial performance consequently on the share price value.

CONCLUSION

Every organization needs a well-defined liquidity management practice be it large, medium or small. This is because the operational success of any organization depends on the ability of managing liquidity effectively and efficiently to maximize short term objectives. The significance of the liquidity management practices theory therefore is that it regards Commercial paper management practices, trade receivable management practices and trade payable management practices in generating short term liquidity in terms of short term operation. The real short health of the organization is indicated by an organizational liquidity, like short term sourcing of finance in financing a project by an organization.

RECOMMENDATIONS

Based on the findings of this study and the conclusion drawn thereof, the following recommendations are made:

(i) Liquidity management practices such as commercial paper management practices, trade receivable management practices, and trade payables management practices would positively impact on performance of listed food products companies. Therefore, its sources are recommended in short term financing a firm's project.

(ii) An organization without a good liquidity management practices, will not perform well when compared to their competitors that maintains a good liquidity management. It is therefore recommended that listed food products companies should take it as a serious activity in operating an effective and efficient liquidity management practices as it contributes to an increase in organizational short term objectives.

(iii) Liquidity management practices, is very essential in facilitating not only the level of productivity but also to increase earnings per share of the firm in any organization. The listed food products companies therefore, should take liquidity management seriously as it has positive impact on the firm's performance in terms of earnings per share.

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