Innovations

Liquidity Management, Corporate Qualities and Financial Performance of Banks in Cameroon

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Abstract: *The study examines liquidity management, corporate qualities and financial performance of banks in Cameroon. This research adopted ex-post facto research design and data collected from eighteen sampled banks in Cameroon. The collected data was analysed using partial least square structural equation modelling technique and applying SMART-PLS version 4.4. The results revealed that the total effect of liquidity management on financial performance was significant. The result also revealed that with the inclusion of the mediating variable corporate qualities, the effect of liquidity management on financial performance became insignificant. Also the relationship between liquidity management and the mediator corporate qualities was significant. Furthermore, a significant relationship was found between corporate qualities and financial performance. Finally the result revealed that the indirect effect of liquidity management on financial performance through corporate qualities was found significant. The study concludes that corporate qualities are relevant for improving financial success and that the relationship between liquidity management and financial performance is thus totally mediated by corporate qualities. The study therefore, recommended that banks in Cameroon should think it reasonable to use other methods to fulfill these responsibilities, such as borrowing and discounting bills, rather than holding onto excess cash to cover unforeseen client withdrawal requests. They should also invest their excess capital in money market products on a regular basis. Customers of Cameroonian banks should have access to a forum where they may learn about the various deposit options and the terms and conditions that apply to them. Banks can predict that if customers use any of the deposits as needed, the liquidity level will be maintained.*

Keywords: *Corporate Qualities, Financial Performance, liquidity, Liquidity Management, Net Interest Margin*

Introduction

Bank financial performance is an important ingredient of financial development, its relevance spans through banking firm performance to macroeconomic stability. At the firm level, a higher return to a large extent reduces bank fragility. At the macro level, increased profitability makes for a sustainable banking sector that can finance economic growth and development. However, due to the intermediation role of the banking system, higher returns may imply higher interest rates on loans. This informs a reason why monetary authorities are always poised to regulating the banking system. Increased regulations and counter deregulations have encouraged competition in the banking sector, and hence exposed banks to increased fragility. Financial performance relates to the measures that indicate a company's financial health (Okeke, 2024). Financial performance refers to a firm's ability to achieve planned financial results as measured against its intended outputs (Mutende et al, 2017 as cited in Okeke, 2024). In business, the analysis of performance, whether financial, production, marketing (even managerial), or general activity is very necessary because the outcome of the very present decision lies in the projection of the future. The concept of performance reaches out to operations within and without an organisation (Okeke, 2024).

Corporate qualities have been observed as the major determinates of performance and long-run survival of organizations, (Mohammed & Usman 2016). In line with the thoughts of Kabiru et al, (2019), the maximization of firm values is essential for the company because it indicates an increase in the shareholders' wealth which essentially is the major goal of the organization. Kabiru et al, (2019) also pointed out that the attraction of other stakeholders' interests to join the firm is also a good firm value which also means that the performance of a firm in the stock market is a measure of its success or failure. Uzoka and Ifurueze (2020) citing Shehu (2009) categorized corporate attributes into corporate performance and corporate structural attributes. Uzoka and Ifurueze (2020) further analyzed corporate performance to include corporate growth and profitability while corporate structural attributes are represented by corporate size, corporate leverage, corporate age, and management efficiency. Succinctly narrated that firm characteristics entail different kinds of information captured in a firm's annual reports which serve as predictors of its quality of accounting information performance (Kabiru et al, 2019). From the foregoing descriptions, it is obvious that what makes a firm stand out are its characteristics which define its worth and its propensity to attract investors. For this study, bank size, bank age, and audit type were used a proxies for corporate qualities.

Through financial inter-mediation role, banks reactivate the idle funds borrowed from the lenders by investing such funds in different classes of portfolios. Such business activity of the bank is not without problems since the deposits from these fund savers which have been invested by the banks for profit maximization, can be recalled or demanded when the later is not in position to meet their financial obligations. Considering the public loss of confidence as a result of bank distress which has bedeviled the financial sector in the last decade; and the intensity of competition in the banking sector due to the emergence of large number of new banks, every commercial bank should ensure that it operates on profit and at the same time meets the financial demands of its depositors by maintaining adequate liquidity.

The problem then becomes how to select or identify the optimum point or the level at which a commercial bank can maintain its assets in order to optimize these two objectives since each of the liquidity has a different effect on the level of financial performance. This problem becomes more pronounced as good numbers of banks are engrossed with profit maximization and as such they tend to neglect the importance of liquidity management. However, the profit maximization becomes a myth as the resulted liquidity can lead to both technical and legal insolvency with the consequence of low patronage, deposit flight, erosion of asset base. This research seeks to examine how corporate qualities (Proxy with bank size, bank age and audit type) mediate the relationship between liquidity management and financial performance of banks in Cameroon.

Literature review

Conceptual model

The diagram depicts the path and the intervention of corporate attributes on the relationship between liquidity management and financial performance. The liquidity management component is proxy by liquid ratio, and loans to deposit ratio. Corporate qualities proxy with bank size, bank age and audit type. While financial performance is proxy by net interest margin, return on assets, and return on equity.

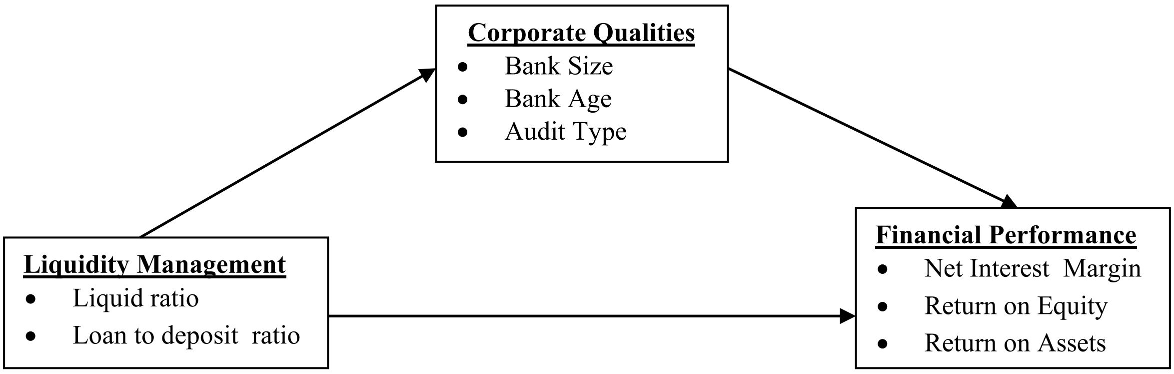

Fig. 2: Conceptual Model of the mediating effect of corporate qualities on the relationship between liquidity management and financial performance

Liquidity management

Liquidity management refers to the planning and control, necessary to ensure that the organization maintains enough liquid assets either as an obligation to the customers of the organization so as to meet some obligations incidental to survival of the business. Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short term obligations on one hand and avoids excessive investment in these assets on the other hand (Eljelly, 2014). Effective liquidity and working capital management consists of applying the methods which remove the risk and lack of ability in paying short term commitments in one side and prevent over investment in these assets in the other side by planning and controlling current assets and liabilities (Lazaridis & Tryfonidis, 2016)

For any business to survive, the organization or firm should have the required degree of liquidity, which should neither be excessive or inadequate (Bhunia, 2010). When the liquidity is excessive it means that there is accumulation of ideal funds and this may lead to lower market performance of securities and profitability whereas inadequate liquidity may result in interruptions of the business operations. For the efficient operation of the business a proper balance between these two extremes should be attained.

According to Bhunia (2010) the amount of liquidity required by a firm depends on various factors such as the nature of business or industry, operating efficiency, size of business or scale of operations; business cycle; manufacturing cycle; operating cycle and rapidity of turnover; profit margin; profit appropriation and depreciation policy; growth prospects; taxation policy; dividend policy and government regulations. It is of utmost significance to maintain a constant eye on the liquidity position of an organization since without it, it cannot survive. In order to avoid liquidity crisis, management of businesses and financial institutions in particular needs to have a well-defined policy and established procedures for measuring, monitoring, and managing liquidity. Managing liquidity is therefore a core daily process requiring managers to monitor and project cash flows to ensure that adequate liquidity is maintained at all times (Berger & Bouwman, 2018).

Corporate qualities

Corporate qualities are company characteristics that can influence the relationship between liquidity management and financial performance such as firm size, firm age, and audit type. Firm size is the most consistently reported significant corporate attribute in previous empirical studies (Street & Bryant, 2000; Meek et al, 1995). According to Owusu – Ansah (1998), theory, intuition and empirical studies suggested that size positively influences mandatory disclosure practices. On the other hand, Wallace et al (1994) admit that although there is overwhelming support for a positive relationship between firm size and level of disclosure, the theoretical basis is unclear. The direction can be positive or negative. On the positive, it can be argued that since large companies usually operate over wide geographical areas and deal with multiple products and have several divisional units, they are likely to have well-built information system that enables them to track all financial and non-financial information for operational, tactical and strategic purposes. With this type of well structured internal reporting system, the incremental costs of supplying information to external users will be minimised. This will make them disclose more information than their smaller counterparts.

Watts and Zimmerman (1990) argue that larger companies are likely to show more information in order to improve the confidence of stakeholders and to reduce political costs. Generally, large firms disclose more information than smaller ones (Meek et al, 1995). On the other hand, it can also be argued that large firms are visible and susceptible to political attacks, in the form of pressure for the exercise of social responsibility, greater regulation such as price control and higher corporate taxes. Firms may react to this political action by avoiding attention which disclosure of some significant facts could have brought to them. Therefore, large firms disclose less detailed information in their annual reports to avoid attention (Wallace et al 1994; Wallace & Naser, 1995).

Financial performance

The financial performance is often measured using traditional accounting Key Performance Indicators such as return on assets, return on equity, dividend per share, earnings per share, gross profit margin and net profit margin (Filbeck & Kruegar, 2005).

Net interest margin (NIM)

This is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue. The formula for net profit margin is;

$$\frac{\textit{Net Profit Margin}}{\textit{Total Revenue}} \text{ X } \frac{100}{1}$$

By using this formula, we can see what percentage of revenue made it all the way to the bottom line, which is good for investors. Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders. Changes in net profit margin are endlessly scrutinized. In general, when a company's net profit margin is declining over time; a myriad of problems could be to blame, ranging from decreasing sales to poor costumer experience to in adequate expense management. Net profit margin is often used to compare companies within the same industry in a process known as 'margin analysis'. Net profit margins is a percentage of sales, not an absolute number, so it can be extremely useful to compare net profit margins among a group of companies to see which are most effective at converting sales into profits (Timothy, 2018).

Return on equity (ROE)

Return of equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as;

$$\frac{Net\ Income}{Shareholders\ Equity}$$

Where; Net income = Profit after Interest and Tax.

This ratio shows the earning power on shareholder's book value investment and is frequently used in comparing two or more firms in an industry. Shareholders equity does not include preferred share. It is also known as 'Return on net worth'. The ROE is useful for comparing the profitability of a company to that of the other firms in the same industry. There are several variations on the formula that the investors may use:

Return on assets (ROA)

ROA is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). Return on Asset is a key profitability ratio which measures the amount of profit made by a company per naira of its assets. It shows the company's ability to generate profits before leverage, rather than using leverage. The ROA ratio often called the return on total asset is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period. It can be calculated as;

$$\frac{Net\ Income}{Total\ Assets}$$

Where; Net income = Profit after Interest and Tax.

This ratio shows the relative profitability of the business. A positive ROA ratio is usually indicated as upward profit trend as well. It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. The Return on Assets ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits.

Liquidity management practices and financial performance

The terms liquidity is defined by Nwaezeaku (2016) as the degree of convertibility to cash or in other words, the ease with which any assets can be encashed or converted to cash is called liquidity in financial literature. He also added that assets must be sold at a fair market price. In line with Sanghani, (2014) by employing financial ratio analysis the firm's liquidity can be judged. These ratios including current ratio, liquid ratio extracted from balance analysis and operating cash flow ratio extracted from cash flow analysis. In line with Bolek and Wolski (2012), the capacity of organization to meet its current liabilities and measured by different financial ratios. The firm can get together its debt and give its client long time payments. The firm will more focused in the commercial place and face the cash issue so the cost of capital contributed will be high. By expanding development of liabilities and short-term deposits bank can cover its liquidity requirements. Moreover , Priya and Nimalathsam, (2013) documented the ability of banks to meet money , check and other commitment immediately when required and furthermore justify new credit request taking after the current reserve requirements. Liquidity demonstrates that how instantly assets can be changes over into money while relating towards organization. Amengor (2010) reported that liquidity of banks refers the banks' ability to satisfy its short terms financial obligations and requirements as and when they come due and these commitments or dues include withdrawal of lending, deposits, and investment, which come about in the normal progress of the Bank actions. According to Das (2015) profitability refers to the company net income left after payments of expense. The income of banks is generating from the operational activities of banks and the term expenses are the rate or cost of resources is used up in generating that profit or income. The leading objectives of almost all banks are to gain profit.

The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a banks return but also increases its liquidity risks and the inverse in is true. Thus a high liquidity ratio indicates a less risky and less profitable bank. Thus management is faced with the dilemma of liquidity and profitability.

Obida and Owolabi (2012) emphasized the adverse effect of increased liquidity for financial Institutions stating that, although more liquid assets increase the ability to raise cash on short-notice, they also reduce management s ability to commit credibly to an investment strategy that protects investors which, finally, can result in reduction of the firm's capacity to raise external finance in some cases.

In Kenya the statutory minimum liquidity requirement is 20%. However, according to CBK Bank Supervision Annual Report (2009), the average liquidity ratio for the sector was 39.8% in 2009, 37.0 % in 2008, and way above the minimum requirements. This has baffled many financial analysts as to how could banks withhold such amount of cash in a credit needy economy (Nasr & Reheman, 2007). The CBK attributes this to the banking industry's preference to invest in the less risky government securities, while Padachi (2016) attributes this liquidity problem to the restrictions placed on commercial banks at the discount window, coupled with thin interbank market, a high reserve requirement and preference of government securities.

Theoretical framework

This study anchored on liquidity preference theory. Liquidity preference theory is described as individuals' value money for both the transaction of current business and its use as a store of wealth. The three reasons why liquidity is important, the speculative motive, the precautions motive and the transaction motive. This theory specifically talked about liquidity and its management.

Liquidity preference theory

Liquidity preference theory was propounded by Keynes (1936). Liquidity preference theory is described as individuals' value money for both the transaction of current business and its use as a store of wealth. Thus, they will sacrifice the ability to earn interest on money that they want to spend in the present, and that they want to have it on hand as a precaution. On the other hand, when interest rates increase, they become willing to hold less money for these purposes in order to secure a profit. One needs money because one has expenditure plans to finance, or is speculating on the future path of the interest rate, or, finally, because one is uncertain about what the future may have in store so it is advisable to hold some fraction of one's resources in the form of pure purchasing power.

Keynes (1936) in his study "The general Theory of employment, interest and money" identified three reasons why liquidity is important, the speculative motive, the precautions motive and the transaction motive. Money needed by financial institutions for their day to day activities in order to complete economic transactions is known as the demand for money for transactions motive and is usually dependent on the size of the income, time gap between the receipts of income and spending habits. Precautionary motive on the other hand is when financial institutions want to keep some liquid money to meet some unforeseen emergencies, contingencies and accidents while speculative motive is when the financial institutions keep cash with them to take advantage of the changes in the prices of bonds and securities. The banks' liquidity preference approach suggests that banks pursue active balance sheet policies instead of passively accommodating the demand for credit.

Empirical review

Zaharum, Latif, Isa, and Hanafi (2022) examined the relationship between liquidity management and profitability of commercial banks in Malaysia. A sample of top 5 commercial banks listed in Bursa Malaysia has been used to examine the relationship between the liquidity and profitability for the period of 10 years from 2011-2020. The data has been taken from the annual financial statements of the banks. In order to analyze data, the current ratio (CR), cash deposit ratio (CDR), loan to total deposit (LTD), capital to asset ratio (CAR) and non-performing loan (NPL) were used as a proxy for liquidity as an independent variable while the return on assets (ROA) was used as proxies for banks' profitability as dependent variables. The study reveals that non-performing loan (NPL) is negatively related to return on assets (ROA).

Egbide, Uwuigbe & Uwalomwa (2021), investigated the relationship between liquidity and profitability. The analysis is based on a sample of 30 manufacturing companies listed on the Nigeria Stock Exchange for the period 2006-2010. The result suggests that current ratio and liquid ratio are positively associated with profitability while cash conversion period is negatively related with profitability of manufacturing companies in Nigeria. The association in all the cases was however, statistically insignificant, indicating low degree of influence of liquidity on the profitability of manufacturing companies. Hence, the overall state of liquidity should be improved by establishing more realistic credit policy which would engender shorter cash conversion period (CCP), hence have a favourable impact on the profitability of the company.

Ravivathani (2020) analyzed the nature of the liquidity and its impact of profitability from listed companies in Sri Lanka. In this study an attempt has been made to analyze the liquidity and its impact on profit earning capacity during 2008 to 2012.To evaluate the profitability it has been used the ratio of ROE and ROA. Based on the nature of data collection through different tools, the following statistical techniques were employed: Descriptive analysis, correlation and regression. The research findings show that there is no significant relationship between liquidity and profitability. These results are consistent with prior empirical studies.

Hoa and Zainab (2018) examined the impact of liquidity management on firm's leverage. The study was carried out using secondary data and the data were analyzed using regression analysis. The findings revealed that the high liquidity of a company leads to reduction in leverage and the lower liquidity increase the leverage. It is crucial to highlight the significance and role of cash in liquidity. The cash or the cash equivalent, that is used to pay the dues, appears to be an important indicator of liquidity for Croatian firms. In comparison to other current assets (stocks, bills receivable etc.), cash is a limited resource. So, the managers must be conscious about the significance of liquid asset management.

Hakimi and Zaghdoudi (2017) scrutinized the impact of liquidity on Nigerian bank performance over the period 2004 to 2012, by employing generalized method of moment and the results demonstrates that there is a positive liaison between liquidity and Nigerian bank performance. They suggest that the bank should upsurge their liquidity to get improved performance. Moreover, the liquidity, historical performance smooth, debt structure and board size is main drivers of banks' revenue. The study determines that banks must focus on retain the high level of liquidity to mend their performance as well. Correspondingly, they a reasonable level of debt must be loaned out to keep their performance smooth.

Methods

This research adopted ex-post facto research design which involves the collection of data across firms on same key characteristics over specific time for the purpose of identifying a common trend of behavior amongst the firms. The design is useful in determining the prevailing behaviors in a population at a certain point in time, and is considered appropriate for the present study in other to explore the mediating effect of corporate qualities in the relationship between liquidity management and financial performance of banks in Cameroon.

The population consisted of twenty (20) banks in Cameroon out of which eighteen (18) were used for the study as samples (See appendix). Access Bank and Africa Golden Bank were excluded from the list as samples because they commenced operation in Cameroon on May 23, 2022 and July 15, 2024 respectively. The study collected secondary data from the annual reports of the 18 sampled banks under review which included reports on the independent variable liquidity management proxy by liquid ratio; loan-to-deposit ratio and the dependent variable financial performance also measured with net interest margin; return on asset; return on equity while corporate qualities was proxy with bank size, bank age and leverage. These data were collected for a period of ten years for each bank ranging from 2014 - 2023.

The structural equation modelling (SEM) approach was adopted in this study by applying the partial least square (PLS) technique. Mediation tests were thus conducted to be sure that the conditions suggested by Baron and Kenny (1986) are met. According to Baron and Kenny (1986); Kenny, Kashy and Bolger (1998) as cited in Duke, Igwe, Tapang and Obal, 2022; Tapang et al. (2022); Tapang et al. (2023) mediation occurs if the following conditions are met:

i) Variations in the independent variable significantly account for variance in the presumed mediator;
ii) Variations in the mediator significantly account for variance in the dependent variable;
iii) Variations in the independent variable significantly account for variance in the dependent variable; and
iv) The effect of the independent variable on the dependent variable significantly reduces when the mediator is included in the equation.

The structural equation modelling stated as follows:

$$FP = \beta_0 + \beta_1 LM + \varepsilon \quad \ldots\ldots 1$$
$$CQ = \beta_0 + \beta_1 LM + \varepsilon \quad \ldots\ldots 2$$
$$FP = \beta_0 + \beta_1 CQ + \varepsilon \quad \ldots\ldots 3$$
$$FP = \beta_0 + \beta_1 LM + \beta_2 CQ + \varepsilon \quad \ldots\ldots 4$$

Where:

FP = Financial Performance (Measured by return on equity, net interest margin, and return on assets)

LM = Liquidity Management (Measured by loans to deposit ratio and liquidity ratio)

CQ = Corporate qualities (Measured by bank size, bank age and audit type)

ε = Error term

Results and interpretations

Table 1: Mediation Analysis

Effect	Path	Coefficient (β)	SD	T-Value	P-Values
Total effect	LM → FP	11.137	4.241	2.626	0.030
Direct effect	CQ → FP	0.711	0.344	2.067	0.041
	LM → CQ	0.745	0.322	2.314	0.032
	LM→ FP	0.643	0.811	0.793	0.657
Indirect effect	LM → CQ→ FP	8.612	3.414	2.523	0.022

Key: LM = Liquidity Management; CQ = Corporate Qualities; FP = Financial Performance.

Mediation analysis was performed to assess the mediation effect of corporate qualities (CQ) on the linkage between liquidity management (LM) and financial performance (FP). The results (see Table 1 revealed that the total effect of liquidity management (LM) on financial performance (FP) was significant (β = 11.137, t = 2.626, p = 0.030). This result is in line with the works of Ravivathani (2020); Hakimi and Zaghdoudi (2017; Egbide, Uwuigbe & Uwalomwa (2021)). With the inclusion of the mediating variable corporate qualities (CQ), the effect of liquidity management (LM) on financial performance (FP) became insignificant (β = 0.643, t = 0.793, p = 0.657), the null hypothesis is accepted and the alternate rejected. This signifies that liquidity management has no significant relationship with financial performance of banks in Cameroon. Also the relationships between liquidity management (predictor) and the mediator corporate qualities (β = 0.745, t = 2.314, p = 0.032) is significant. This finding supports that liquidity management (LM) and corporate qualities (CQ) are significantly related. The result did corroborate that of Yinusa, , Ismail, Yulia and Olawale (2019); Hamid *et al* (2019). Also, a significant relationship was found between corporate qualities and financial performance (β = -0.711, t = 2.067, p = 0.041). This implies that corporate attributes has a significant relationship with financial performance of banks in Cameroon. This is in line with the work of Yinusa, Ismail, Yulia and Olawale (2019).

The indirect effect of liquidity management (LM) on financial performance (FP) through corporate qualities (CQ) was found significant ($\beta = 8.612$, $t = 2.523$, $p = 0.022$). This shows that the relationship between liquidity management (LM) and financial performance (FP) is mediated by corporate qualities (CQ).

Conclusion/Recommendations

Conclusion

According to the results, corporate qualities are relevant for improving financial success. The relationship between liquidity management and the financial performance of Cameroonian banks is thus totally mediated by corporate qualities, according to the study's findings. The management of liquidity continues to be a powerful element in raising the caliber of financial performance of Cameroonian banks.

Recommendations

The following recommendations were made.

1) Banks in Cameroon should think it reasonable to use other methods to fulfill these responsibilities, such as borrowing and discounting bills, rather than holding onto excess cash to cover unforeseen client withdrawal requests. They should also invest their excess capital in money market products on a regular basis.
2) Customers of Cameroonian banks should have access to a forum where they may learn about the various deposit options and the terms and conditions that apply to them. Banks can predict that if customers use any of the deposits as needed, the liquidity level will be maintained.

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Appendix

List of banks in Cameroon

S/N	Banks	Year of commencement
1 2 3	Access Bank Cameroon Africa Golden Bank Afriland First Bank	May 23, 2022 July 15, 2024 1987
4	Attijariwafa Bank	2008
5	Banque Atlantique Cameroun	2008
6	Banque Gabonaise Et Finacaise Internationale (BGFI)	1971
7	Banque Internationale Du Cameroun Pour L'epargne Et Le Crédit (BICEC)	1997
8	Banque Nationale de Guinée Equatoriale	1990
9	Banque Cameroonaise Des Petites Et Moyennes Enteprse	1999
10	Citibank Cameroon	1999
11	Commercial Bank Cameroon (CBC)	1997
12	Credit Lyonnais	2003
13	Ecobank Cameroon	2008
14	National Financial Credit (NFC) Bank	1987
16	SBC (Societe De Banque Commerciale Du Cameroun)	1974
17	Societe Commerciale De Banque Cameroun	1989
16	Société Générale Cameroun des Banques au Cameroun (SGBC)	1960
18	Standard Chartered Bank Cameroon	2007
19	United Bank For Africa (UBA)	2008
20	Union Bank of Cameroon	1999