



## A Correlational Study on the Cash Flow Management Utilization and Financial Performance of Specialty Beverage Businesses

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### ABSTRACT

This study sought to examine the relationship between cash flow management and financial performance of specialty beverage businesses in Pagadian City. A quantitative, descriptive-correlational study designed to investigate the potential correlation between cash flow management and financial performance. The participants in the study were shop owners specializing in the production and marketing of specialty beverages, currently having their operations in Pagadian City. It showed that the level of cash flow management in terms of planning, monitoring, and controlling has a result of "High". Hence, the overall weighted average mean indicates a high level of cash flow management. Furthermore, the financial performance level of specialty beverage businesses circulates a results of "High" interpretation. Using the Pearson correlation test, the level of cash flow management and financial performance showed a significant relationship. This study gives into account that cash flow management has a significant impact on the overall financial performance of the business. In line with this, the importance of effective cash management becomes increasingly essential, to meet the financial obligations. This study emphasizes that cash management plays a substantial role in explaining fluctuations in financial performance. However, it is essential to recognize that there may be external factors beyond the scope of this study that also contribute significantly to influencing financial performance.

**Keywords:** Cash Flow Management, Financial Performance, Specialty Beverage Business

### 1. INTRODUCTION

This study is fueled by the industry's rapid growth and popularity in the local area. It sets out to explore the relationship between cash flow management practices, specifically in terms of planning, monitoring, and controlling of cash flow, and the financial performance of specialty beverage businesses. Also, this study aims to bridge the research gap by providing a comprehensive examination of how financial decisions, particularly those related to cash flow, contribute to the overall financial health of these businesses.

### 2. REVIEW OF RELATED LITERATURE

"Cash is king" has been a widely embraced phrase since the 1987 stock market crash. It emphasized that cash is valued better than other assets during market declines. This idea remains significant today, particularly when we witness such an event (Gyurova, 2022). Nickolas (2021) substantiated this concept by highlighting that cash, a liquid asset, allows investors to manage through uncertain times competently, endure temporary financial challenges, and regulate or expand the business. Whether a company is facing difficulties or experiencing growth, managing cash flow remains crucial as it can ensure its survival (Katre, 2016; Thangavelu, 2022).

Effective cash flow management helps businesses meet financial obligations, seize growth opportunities, maintain stability in their daily operations, and mitigate financial risks (Ruparelia, 2023). Zarzycki (2021) stated that it links to strategic planning, monitoring, and controlling cash inflows and outflows within an organization. Asokan (2022) defined cash flow planning as the initial step in effective cash flow management, which is the most critical component. As stated by McCann (2021), cash controls refer to internal regulations implemented by management to prevent unauthorized payments, theft, and fraudulent activities. The projection of cash flow needs also can be improved to be more accurate when there is control of cash (Waters, 2023). Additionally, when firms monitor their cash flow, they can anticipate and identify potential cash surpluses and deficits (Sullivan, 2022).

Miller et al. (2013) noted that a firm's financial performance is assessed based on its profitability, measured through financial ratios. This assessment pertained to their ability to operate efficiently, generate profits, maintain sustainability, and facilitate growth (Eton et al., 2019). Similarly, it measures the economic condition of an entity by evaluating the outcomes that arise from managerial decisions made by stakeholders of an entity (Harash et al., 2013).

Specialty beverage businesses refer to establishments that offer customers unique and specialized beverages. Jacobsen (2019) enumerated several specialty beverage businesses, such as coffee shops, tea houses, juice bars, smoothie shops, bubble tea shops, craft breweries, and specialty cocktail bars. Food and beverage businesses face challenges due to tough competition and changing customer demand (Iyer, 2023).

Odhowa and Mutswenje (2022) gauged the interrelation between cash flow related to operational activities and corporate efficiency within Nigeria's beverage and food industry. The study's outcome revealed a noteworthy correlation between the two variables. It employed descriptive statistics as a research methodology.

Previous empirical studies about cash flow management and financial performance have yielded mixed findings. Research indicates a favorable association between effective cash flow management and improved financial effectiveness (Stom et al., 2019). According to Woods (2022), effective cash flow management practices generate higher profits, as they can allocate resources optimally, reduce costs, and take advantage of favorable investment opportunities. One of these practices that Munasinghe and Wijewaradana (2015) suggested is the evaluation of cash flow statements. It holds significant importance within financial reporting because it can help stakeholders collect essential financial information regarding cash in an accounting period (Warnes, 2021). The objectives of the cash flow statement are to present data for analyzing the timing, the amount, and the predictability of future cash flows (Kumar, 2023). It is a versatile tool to anticipate future certainty and forms the basis for budgeting (Murphy, 2023). The primary aim of the cash flow statement is to disclose information concerning a company's cash receipts and cash disbursements from various sources. Furthermore, it serves a secondary purpose by providing details on a company's operating, investing, and financing activities (Bhandari & Iyer, 2013).

According to a quantitative descriptive study conducted by Stom and Wepukhulu (2019), an examination of 23 insurance companies in Jordan showed that operating activities were the primary source of cash flows, and it has a good correlation with financial performance. The study also indicated that these companies had no significant liquidity issues. About managing investment cash flows, Odhowa and Mutswenje (2022) found that it is essential for a company's long-term viability and profitability when they conducted their research on Karachi Stock Exchange-listed companies. Effective utilization of financing cash flows, derived from equity, debt, dividends, repayment, and share repurchase, was crucial for corporate effectiveness in London Stock Exchange-listed companies (Odhowa & Mutswenje, 2022). Alternatively, others suggested that the link between administrating the flow of cash and business performance concerning finance might be contingent on firm size, industry, and economic conditions (Ndirangu, 2020).

The study by Aparece and Madelo (2014) on "Cash Management Techniques of Selected Appliance Stores in Tagbilaran City" showed that inadequate cash management, insufficient cash resources, and limited access to suitable financing facilities influenced the financial performance of every business. In contrast, cash management techniques enable businesses to optimize their cash flow, maintain sufficient liquidity, and seize potential investment opportunities. Consequently, it is crucial to implement effective cash management techniques in all business firms, especially within the context of appliance stores. One of which is the control of cash. This activity pertains to double-checking and verifying the accuracy of cash receipts. Additionally, involving at least two individuals in documenting transactions is essential to ensure accuracy and prevent errors (Miranda, 2021).

Previous studies about the interconnection between cash flow management and financial performance, particularly within specialty beverage businesses, were limited. Despite the increasing number of shops offering specialized flavored drinks in the market, there needs to be more understanding regarding how effective cash flow regulation contributes to the profitability and sustainability of these businesses. Therefore, more research must explore these businesses' strategies and mechanisms to manage cash flows and effectively enhance their financial performance.

These previous studies play a significant role in helping businesses survive in the local context. According to Adomako and Danso (2014), the financial performance of an entity is crucial in determining the effectiveness of operational practices. Previous research from other countries also serves as a basis for studying industry phenomena. To explore the cash flow management utilization of specialty beverage firms, researchers can inquire about their foundations for managing cash flows. This study aims to benefit specialty beverage businesses in Pagadian City by discovering their cash flow management practices. This study primarily intends to discern potential elements that could enhance the financial performance of these businesses. Thus, it will provide valuable insights to all stakeholders involved in research.

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### 3. CONCEPTUAL FRAMEWORK

This study incorporated the independent variable and its indicators from Uwonda et al.'s (2013) research on "Cash flow management utilization by Small Medium Enterprises (SMEs) in Northern Uganda" while adopting the dependent variable and its underlying indicator from Eton et al.'s (2019) study on "Cash Management and Financial Performance of Business Firms in Northern Uganda: A Case of Lira District." By utilizing these established indicators, this study extended the existing research and contributed to the collective understanding of the link between the two variables.

This study was anchored in research from Ndirangu (2017), Eton et al. (2019), and Odhowa and Mutswenje (2022) on the Free Cash Flow Theory, initially formulated in 1986 by Michael C. Jensen. This theory emphasizes the significance of effective cash flow management in preventing the accumulation of free cash flow (cash over what the operational needs require) that can lead to misuse or remaining idle. By managing cash flows, firms can maintain liquidity for their day-to-day operations and invest excess cash to generate higher returns, ultimately improving their financial performance.

## 4. OBJECTIVES

1. What is the level of cash flow management of the owners-respondents as to;
  - 1.1 Planning the flow of cash
  - 1.2 Monitoring the flow of cash
  - 1.3 Controlling the flow of cash
2. What is the financial performance level of specialty beverage businesses?
  - 2.1 Profitability
3. Is there a significant relationship between cash flow management utilization and profitability among specialty beverage businesses?

### 4.1 Hypothesis

The hypothesis is going to be put on a test using the 0.05 significance level.

Null Hypothesis (H<sub>0</sub>): The cash flow management utilization is not associated to financial performance of specialty beverage businesses.

### 4.2 Research Methodology

- Quantitative, descriptive-correlational research design to investigate the potential correlation between cash flow management and financial performance in specialty beverage businesses.
- Automatic inclusion to minimize bias in participant selection, ensuring a more objective and fair study sample.
- Close-ended questionnaires to collect, measure, and analyze the data from owners of specialty beverage businesses.
- Four-point Likert scale by Taib (1996) “with ranges; 1.00-2.00= Low, 2.01-3.00= Moderate, 3.01-4.00= High” to interpret the mean score.

## 5. RESULTS AND DISCUSSIONS

### 5.1 Results

**Table 1 - Level of Cash Flow Management in terms of Planning**

Planning the Flow of Cash	Mean	Std. Deviation	Interpretation
1 The business prepares cash flow projections.	3.37	.500	High
2 The business prepares cash budgeting.	3.56	.512	High
3 The business takes into consideration tax avoidance in its expansion decisions.	3.19	.544	High
4 The business determines the level of operating at neither profit nor loss.	3.44	.512	High
5 The business prepares cash flow, income, and balance sheet statements.	3.63	.500	High
Overall (Planning the Flow of Cash)	3.44	.514	High

*Hypothetical Mean Range: 1.00-2.00 –Low, 2.01-3.00 –Moderate, 3.01-4.00 –High*

**Table 2 - Level of Cash Flow Management in terms of Monitoring**

Monitoring the Flow of Cash	Mean	Std. Deviation	Interpretation
1 The business determines and interprets its financial ratios.	3.38	.619	High
2 The business matches its cash flows with its cash inflows.	3.31	.602	High
3 The business routinely checks its credit policies.	3.06	.680	High
4 The business sticks to a prepared budget during implementation.	3.44	.814	High
5 The business ensures program review and budgetary control.	3.50	.516	High
6 The business ensures expenditures are explained and justified.	3.56	.512	High
Overall (Monitoring the Flow of Cash)	3.38	.624	High

*Hypothetical Mean Range: 1.00-2.00 –Low, 2.01-3.00 –Moderate, 3.01-4.00 –High*

**Table 3 - Level of Cash Flow Management in terms of Controlling**

Controlling the Flow of Cash	Mean	Std. Deviation	Interpretation
1 There is a good relationship with creditors.	3.50	.632	High
2 The business ensures that all payments are authorized by the accounting officers.	3.50	.632	High
3 The business always budgets for petty cash.	3.25	.775	High
4 All the business payments, receipts, deposits, and withdrawals are done by the cashier.	3.19	.834	High
5 The business has sufficient stocks in its stores.	3.31	.479	High
6 Profitable items are in place and controlled.	3.38	.619	High
7 The business grows by its retained profit.	3.38	.500	High
8 The business has cheaper sources of finance.	3.13	.619	High
9 Redundant fixed assets are turned to cash.	3.06	.574	High
10 The business avoids non-business expenses.	3.50	.730	High
11 The business avoids giving too much credit.	2.75	.683	Moderate
12 There are cash/early payments trade discounts.	2.69	.704	Moderate
13 The business often does bank reconciliation.	3.00	.730	Moderate
14 The business ensures safe custody of cash.	3.25	.775	High
15 There is an efficient internal control system.	3.37	.619	High
Overall (Monitoring the Flow of Cash)	3.22	.660	High

*Hypothetical Mean Range: 1.00-2.00 –Low, 2.01-3.00 –Moderate, 3.01-4.00 –High*

**Table 4 - Level of Financial Performance**

Profitability		Mean	Std. Deviation	Interpretation
1	This business avoids exposure to financial risks.	3.06	.680	High
2	My business' cash flow is positively improving.	3.44	.512	High
3	This business has a stable financial position.	3.25	.447	High
4	This business rarely runs into bankruptcy.	2.50	.966	Moderate
5	This business properly utilizes its resources to generate revenue.	3.38	.619	High
6	This business ensures avoidance of indebtedness.	3.25	.683	High
7	This business is ever making prudent management decisions.	3.25	.577	High
8	This business is highly productive.	3.56	.629	High
9	This business lays much emphasis on optimizing capital.	3.25	.683	High
10	This business has adequate free cash flows.	3.25	.577	High
11	This business is surviving efficiently.	3.19	.403	High
12	This business carefully plans for funding liquidity management.	3.44	.629	High
13	This business is positively affected by its size.	2.94	.772	Moderate
14	This business is highly profitable.	3.25	.683	High
15	This business has the relevant skills required to manage finances effectively.	3.50	.632	High
16	Managing finances has improved entrepreneurial activities.	3.69	.479	High
17	This business is growing steadily.	3.31	.602	High
18	This business has potential strategies for achieving financial goals.	3.75	.447	High
19	This business has a sound human capital development policy.	3.44	.512	High
Overall (Financial Performance)		3.30	.607	High

Hypothetical Mean Range: 1.00-2.00 –Low, 2.01-3.00 –Moderate, 3.01-4.00 –High

**Table 5 - Test of Significant Relationship in the Levels of Cash Flow Management and Financial Performance**

Variables	Pearson "r"	p-value	Interpretation	Interpretation
Cash Flow Management and Financial Performance	.436	.092	Moderate Positive Relation	Significant

Significance level for correlation is  $p < 0.05$  (two-tailed), \*N = 16

Pearson "r" Scale: 0.00 – 0.20 = Negligible to Low; 0.20 – 0.40 = Low; 0.40 – 0.60 = Moderate;

0.60 – 0.80 = High; 0.80 – 1.00 = Very High

## 5.2 Discussions

Table 1 presents the data result on the first underlying factor of the independent variable. The cumulative weighted mean of 3.44 corresponds to a "High" interpretation, indicating a high level of cash flow management with regard to planning. The result shows that the participants acknowledge the value of planning the flow of cash, such as devising projections, drafting tax expenditures, budgeting the cash, determining if the bottom line is breakeven, and preparing a balance sheet statement. Udounwa et al. (2022) states that the initial step in managing the flow of cash is to plan for it, with cash flow predictions typically being the most essential component. Additionally, Uwonda et al. (2013) agreed that before venturing into an investment, cash flow planning should be done first to predict the firm's financial position and determine what it can invest without putting pressure on itself. It informs management of more foreseeably dangerous situations, which is helpful when planning difficult financial decisions.

Table 2 showcases the data result on the second underlying factor of the independent variable. The cumulative weighted mean of 3.38 corresponds to a "High" interpretation, indicating a high level of cash flow management with regard to monitoring. The result showcases that the participants acknowledge the value of monitoring cash flow. Having a high level of cash flow management allows businesses to take remedial action before a cash issue arises (Qudratovich, 2023).

Table 3 illustrates the data result on the third underlying factor of the independent variable. The cumulative weighted mean of 3.22 corresponds to a "High" interpretation, indicating a high level of cash flow management with regard to controlling. The findings indicate that the participants acknowledge the value of controlling cash flow. It relates to the statement of Hasibuan and Handriyani (2023). They said that management must have a professional vision and attitude to advance or improve the results it has already obtained.

Table 4 presents the findings raised on the level of profitability of financial performance. As presented, it gathered the overall weighted mean of 3.30 which indicates a high level. It only means the owners improved their entrepreneurial activities to increase profit and manage business finances in the long run. It backs up the assumption that innovative ability has a substantial, positive, and profound impact on financial performance (Donkor et al., 2018).

As indicated in Table 5, the examination of financial performance resulted in a Pearson "r" value of 0.436, surpassing the threshold of significance at the 0.05 level. Thus, the hypothesis was rejected, and a significant relationship was established between cash flow management utilization and financial performance.

## 6. CONCLUSION

The pivotal discovery of this study lies in the positive and statistically significant correlation established between cash flow management and financial performance. In addition, the analysis reveals a noteworthy and statistically significant relationship between how cash flow is managed and the financial performance of business entities within the scope of this study and the examined data. This finding highlights the importance of effective cash flow management in influencing the financial outcomes of the businesses under consideration. It suggests that business owners and new entrants should prioritize strategic financial plans that incorporate robust cash flow management practices to enhance their overall financial performance. While recognizing the significance of cash flow management, it's essential to continually explore and optimize other operational aspects to maintain a comprehensive and well-rounded approach to sustaining financial positions in the specialty beverage industry.

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## 8. APPENDIX

### Appendix A. Research Tool

#### A.1. Questionnaire on Cash Flow Management

(Adapted from Uwonda et. al., 2013)

Instructions. Below are statements which describe the manner of managing your cash flow. Please feel free to answer by encircling the number that corresponds to your agreement or disagreement of these statements with the following scale:

1 - Strongly Disagree (SD)

3 - Agree (A)

2 - Disagree (D)

4 - Strongly Agree (SA)

1. The business prepares cash flow projections.	1	2	3	4
2. The business prepares cash budgeting.	1	2	3	4
3. The business takes in to consideration tax avoidance in its expansion decisions.	1	2	3	4
4. The business determines the level of operating at neither profit nor losses.	1	2	3	4
5. The business prepares cash flow, income, and balance sheet statements.	1	2	3	4
6. The business determines and interprets its financial ratios.	1	2	3	4
7. The business matches its cash flows with its cash inflows.	1	2	3	4
8. The business routinely checks its credit policies.	1	2	3	4
9. The business sticks to prepared budget during implementation.	1	2	3	4
10. The business ensures program review and budgetary control.	1	2	3	4
11. The business ensures expenditures are explained and justified.	1	2	3	4
12. There is good relationship with creditors.	1	2	3	4
13. The business ensures that all payments are authorized by the accounting officers.				
14. The business always budget for petty cash.	1	2	3	4
15. All the business payments, receipts, deposits, and withdrawals are done by the cashier.	1	2	3	4
16. The business has sufficient stocks in its stores.	1	2	3	4
17. Profitable items are in place and controlled.	1	2	3	4
18. The business grows by its retained profit.	1	2	3	4
19. The business has cheaper sources of finance.	1	2	3	4
20. Redundant fixed assets are turned to cash.	1	2	3	4
21. The business avoids non business expenses.	1	2	3	4
22. The business avoids giving too much credit.	1	2	3	4
23. There is cash/early payments trade discounts.	1	2	3	4
24. The business often does bank reconciliation.	1	2	3	4
25. The business ensures safe custody of cash.	1	2	3	4
26. There is an efficient internal control system.	1	2	3	4

#### A.2. Questionnaire on Financial Performance

(Adapted from Eton et. al, 2019)

Instructions. Below are statements which describe the manner of managing your cash flow. Please feel free to answer by encircling the number that corresponds to your agreement or disagreement of these statements with the following scale:

1 - Strongly Disagree (SD)

3 - Agree (A)

2 - Disagree (D)

4 - Strongly Agree (SA)

1. This business avoids exposure to financial risks.	1	2	3	4
2. My business' cash flow is positively improving.	1	2	3	4
3. This business has a stable financial position.	1	2	3	4
4. This business rarely runs into bankruptcy.	1	2	3	4
5. This business properly utilizes its resources to generate revenue.	1	2	3	4
6. This business ensures avoidance of indebtedness.	1	2	3	4
7. This business is ever making prudent management decisions.	1	2	3	4
8. This business is highly productive.	1	2	3	4
9. This business lays much emphasis on optimizing capital.	1	2	3	4
10. This business has adequate free cash flows.	1	2	3	4
11. This business is surviving efficiently.	1	2	3	4
12. This business carefully plans for funding liquidity management.	1	2	3	4
13. This business is positively affected by its size.	1	2	3	4
14. This business is highly profitable.	1	2	3	4
15. This business has the relevant skills required to manage finances effectively.	1	2	3	4
16. Managing finances has improved entrepreneurial activities.	1	2	3	4
17. This business is growing steadily.	1	2	3	4
18. This business has potential strategies for achieving financial goals.	1	2	3	4
19. This business has a sound human capital development policy.	1	2	3	4

#### Appendix B. SPSS Pearson Correlation Result

		Cash Flow Management	Financial Performance
Cash Flow Management	Pearson Correlation	1	.436
	Sig. (2-tailed)		.092
	Sum of Squares and Cross-products	909.438	363.438
	Covariance	60.629	24.229
	N	16	16
Financial Performance	Pearson Correlation	.436	1
	Sig. (2-tailed)	.092	
	Sum of Squares and Cross-products	363.438	765.438
	Covariance	24.229	51.029
	N	16	16