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# Evaluating the Impact of Financial Management Practices on an Organization's Financial Performance: A Case Study of Hwange Colliery Company

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**ABSTRACT**

The purpose of the study was to establish the impact of financial management practices on an organization's financial performance. This analysis was driven by the organization's declining profitability despite the efforts to deploy cost-cutting initiatives. As a consequence, the research looked into the impact of existing procedures in working capital management, fixed assets management, capital structure and investment practices. The descriptive research design was used in the study and quantitative research approach was adopted. The administrative personnel at Hwange Colliery Company, which numbered forty-six, comprised the population and a sample of 30 was used. A questionnaire survey with structured questions was utilized. In the study, regression analysis and Pearson coefficient of correlation were employed to determine the link between the factors of financial performance and financial management techniques. It emerged that the financial management strategies had a substantial impact on Hwange Colliery Company financial performance. To maintain resource efficiency, the research recommends improvements in the areas of accounts receivable management and investment decision that is leading to losses if wrong decision is made.

**Keywords:** Financial Management Practices, Fixed Assets Management, Capital Structure, Investment Practices
**JEL Classifications:** M41, M42

## 1. BACKGROUND OF STUDY

The purpose of this study was to establish the impact of financial management practices on the financial performance of the Hwange colliery Company. Financial management is the mechanism whereby the resources of a company are organized, controlled, evaluated, and maintained to ensure that business objectives are accomplished (National Audit Office, 2020). Financial management, according to Ali and Isak (2019), is a set of procedures. Techniques, and processes used by relevant department managers to control a company's income, spending, obligations, assets, and contingencies. Organizational success is determined by good financial management procedures, which should be reinforced through strategic planning and organizational change (Atayah et al., 2021). Financial management methods also evaluate the direction of a corporation by the sort of assets possessed for long-term usage, and long-term survival is dependent on appropriate financial policy development and execution (Nthenge and Ringera, 2017). According to Somathilake and Pathirawasam (2020), strong accounting systems help management to maintain and monitor budgets and future financial predictions. The Hwange Colliary Company employs a variety of financial management strategies such as working capital management, capital structure management, capital budgeting techniques and fixed assets management. Working capital management practices are the most commonly used to manage finance, followed by accounting information and financial reporting practices, capital structure management, capital budgeting approaches, and fixed asset management, in that order.

Due to poor financial management practices, mining companies have faced a high risk of closure. As a result, mining corporations must have excellent strategies that may lead Zimbabwe from economic challenges to a significant economic potential, despite the fact that the pace of economic development continues to shrink. Zimbabwe's growth rate has increased by 12.1% in 2021, following a significant decline from −6.14% in 2020 to −6.25% in 2019.

According to Hwange Colliery company's annual reports for 2018, the firm had a poor revenue collection rate, a significant credit risk, an operating cash difficulty, and operational problems. Furthermore, in its 2018 audit report, Messrs Grant Thornton Chartered Accountants (Zimbabwe) reveals that the firm failed to pay its USD169 393 312 long-term debt, indicating going rate concerns. Furthermore, the top manager indicated that the firm experienced serious cash flow problems and difficulties in operating in 2018, which affected the profitability of the company. Table 1 outlines the statistics given by the firm.

The results in Table 1 show that the company's gross profit margin has been fluctuating. Hwange Colliery Company had a loss of USD78 442 683 and a gross profit margin of −5% in 2018. According to the 2018 management report, the company's cost of sales had increased by 36% as result of increased output costs that was driven by the parallel market exchange rate.

The gross profit margin improved by 53% in 2019, owing mostly to cost-cutting efforts adopted in capital investment, employee expenditures, and logistic management fees (Edouard, 2021). In 2020, the gross margin fell by 25% while the operating profit increased by ZWL 118721860. In 2021, the gross margin fell by 1%, and the operating profit decreased to ZWL 28604000 on an inflation-adjusted basis. This was largely driven by poor financial management practices adopted by the management. The Hwange Colliery firm failed to pay its trade payables due to financial and operational challenges, leading in an 18.3% rise in creditors in 2019 compared to USD 38644022 owed in 2018 (Annual Report, 2019). Furthermore, Muzvimwe (2017) stated that due to operational and liquidity issues, the preference is given to providers of critical components and services. Practices such as debt financing for major projects have also had an impact on the organization's operational performance.

However, the top management stated in the 2021 end of year report that the organization requires a change in tone measures aimed at improving investment, risk profile, and revenue maximization. The company also had several issues in servicing bank loans, as well as in paying trade payables. This prompted the research work to asses the impacts of financial management strategies on an organization's financial perfomace.

### 1.1. Research Objective

To assess the effects of financial planning strategies on a company's financial performance.

## 2. WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE

Working capital management, according to Nareswari and Nurimasari (2021), is a routine task that will determine the company's resource availability. Working capital management is defined as the routine operational activities to ensure that adequate funds are offered and carried out by a company, according to Nthenge and Ringera (2017). Working capital is also defined as the short-term assets of an entity. The financial performance of a corporation depends on working capital management since it illustrates the relationship between liquidity and profitability (Alvarez et al., 2021). Businesses need to be aware of how assets and short-term obligations interact in order to survive and expand as well as to lessen the likelihood of financial problems. According to Paul and Mitra (2018), the goal of working capital management is to maximize profits and reduce the danger of not being able to settle approaching short-term debt. The four elements of working capital are cash, inventories, accounts receivable, and account payable.

Working capital management can be identified internally by organization-specific factors like size, age, profitability, growth in revenue, market share, operating risk, and operating cash flow. It can also be identified externally by macroeconomic factors like the gross domestic product, rate of interest, and tax rate. Financial performance is a gauge of how effectively a company can use its resources to generate revenue in its main mode of operation. Financial performance can be used to assess an organization's long-term financial health and to compare it to other companies in the same industry (Nthenge and Ringera, 2017). Matongo (2017) asserts that profitability ratios, liquidity ratios, and efficiency ratios are the three most crucial presentation indicators.

Given its significant impact on business profitability, working capital management is a crucial consideration that all organizations must make, according to Potwana et al. (2022). The choice regarding working capital is even more crucial because it ultimately increases the worth of the company and the wealth of the shareholders.

**Table 1: Financial reports for the period 2018-2021**

| Year | 2018 USD | 2019 ZWL | 2020 ZWL | 2021 ZWL |
|---|---|---|---|---|
| Revenue | $69 144 019 | $881 483 368 | $4 468 640 000 | $9 430 726 000 |
| Cost of sales | $72 540 235 | $459 305 628 | $3 450 666 000 | $7 377 043 000 |
| Gross Profit | ($3 396 216) | $422 177 740 | $1 017 974 000 | $2 053 683 000 |
| Operating profit/loss | ($78 442 683) | $1 545 235 140 | $1 633 957 000 | $28 604 000 |
| Gross Margin (%) | −5% | 48% | 23% | 22% |

Source: Audited financial reports 2018-2021 (HCC)

Using a descriptive and inferential methodology, Potwana et al. (2022) study examines the relationship between the policy frameworks of the five JSE-listed South African clothing retailers and the profitability of the working capital components over a seventeen-year period (i.e. 2003-2019). The study discovers a strongly negative association between company profitability and inventory turnover, payables repayment, and the cash conversion cycle when looking at the working capital management (WCM) components. However, there is a strong correlation between profitability and the collection of outstanding receivables. Therefore, in order to boost profitability, clothing companies operating in the South African market should focus on increasing inventory turnover and implementing an extended payables management strategy, while also managing their investment in accounts receivable in a way that promotes growth in both sales and profits. According to the study, an aggressive working capital policy has a high negative correlation with profitability. An aggressive working capital financing strategy will hurt profitability and reduce the value of the company. A conservative WCM approach, on the other hand, is positively and significantly associated with increasing profitability. In order to boost profitability, South African textile companies are encouraged to invest more in current assets.

Working capital management and profitability of Nigerian manufacturing businesses were compared from 1988 to 2019 by Oladipo et al., The study's findings suggest that cash and bank balances, trade payables, and trade receivables had a positive and significant impact on Nigerian manufacturing firms. The autoregressive distributed lag technique was used for data analysis. Additionally, Wambia and Jagongo (2020) investigated working capital management in Kenya. The research design included a sample of 47 insurance companies and was descriptive. Data was gathered by a questionnaire survey, and it was then analyzed using social science-specific statistical tools. The choice of working capital management, they concluded, has a positive effect on the financial performance of insurance organizations. Kader and Khan (2019) did another empirical study on the effect of financial management methods on the financial performance of insurance businesses in Bangladesh using a sample of 52 enterprises. The findings indicate that whereas fast and current ratios have a strong, significant, and positive impact on the profitability of deposit money institutions in Somalia, cash ratio has a big, significant, and negative impact on bank performance.

Research on the effect of financial management techniques on the financial performance of Kenyan microfinance firms was done by Ongosi and Otinga in 2020. They looked into how asset management, dividend distribution, working capital management, and financial reporting affect financial performance. A sample size of 48 institutions was used in the descriptive research design for the study. The findings show that working capital management has a significant and advantageous impact on financial success. The research advised management to adopt good working capital management procedures in order to increase their efficiency and financial performance.

Although they conducted research on the effects of non-linear working capital on business performance and examined the variations in the level of optimal working capital across financially restricted and unconstrained enterprises, Nareswari and Nurimasari (2021) offer a different perspective. The information was derived from OSIRIS using observational data from 2010 to 2019. The net trade cycle serves as a proxy for working capital. Fixed effect regression and random effect regression models for panel data are used in this study. When ROA and ROE are used as performance proxies, the study's findings indicate that working capital has a non-linear effect (U-shaped inverted) on firm performance, indicating that the company has an ideal level of working capital. The result also shows that organizations with lower optimal working capital, as measured by cash flow, interest coverage, and the cost of external financing, are those that are not financially limited, suggesting that non-financially constrained enterprises take advantage of working capital's benefits more.

The aforementioned research demonstrates a relationship between working capital management practices and organizational financial success, notwithstanding some adverse relationships. The studies, however, were based on international research, so the current study aims to analyze this association at a local level. Here are a few working capital management factors.

### 2.1. Cash Management Practices

According to Mrefu and Gichure (2022), managing cash in a business entails managing the ability of the entity or firm to acquire assets, service business debts, meet operating expenses, and control operations. Effectively translated, this translates to proper cash management practices, which are associated with the ability of firms to realize their mission, goals, and objectives. With a primary focus on cash internal controls and cash and cash equivalents as some of the research independent variables, Mrefu and Gichure (2022) investigate the impact of cash management methods on the performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya. The return on assets ratio was used to gauge the performance of manufacturing companies registered on the Nairobi Securities Exchange in Kenya. The Monetary Theoretic Approach to Cash Management and the Financial Theoretic Approach to Cash Management were the key study hypotheses. According to CMA data, the study's scope was established to comprise seven listed companies from the manufacturing and Allied sector of the NSE. Correlational research methodology was applied to answer the study's research objectives. The capital Markets Authority-approved audited and published financial statements of the listed manufacturing firms for the 7-year period starting in 2015 and ending in 2021 were downloaded in order to obtain the data. The analysis's findings demonstrated that independent variables significantly impacted the performance of the listed companies.

Additionally, the study offered suggestions for management to take into account for upcoming decision-making processes for each of the variables.

In addition, Pangaribuan et al. (2021) conducted study on the influence of forecasting (FOR) and cash mobilization (CML), two contemporary practices in cash management, on the financial performance metrics of return on assets (ROA) and gross profit

**Table 2: Extract of financial statements information**

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Profit for the year | (78442683) | 1 545 235 140 | 1 633 957 000 | 28 604 000 |
| Investment in assets | 44 156 211 | 443 038 695 | 900 974 990 | 843 281 303 |
| Current assets | 50 452 188 | 287 462 324 | 1 247 797 000 | 2 518 199 000 |
| Current liabilities | 56 162 426 | 202 622 526 | 1 283 068 000 | 2 232 282 000 |
| Non-current assets | 108 172 006 | 2 684 853 322 | 12 564 446 000 | 19 583 828 000 |

Source: Hwange Colliery Company Annual Reports

margin (GPM) for SMEs in Indonesia. From April to July 2018, the study collected data from 90 SMEs on the Java and Bali islands using a quantitative methodology. Using a 4-point scale questionnaire, the data were descriptively analyzed. To identify significant relationships between the variables, a regression analysis was added. The study discovered that SMEs' owners and managers frequently use forecasting but infrequently use cash mobilization techniques. According to the regression study, there is a substantial correlation between cash management techniques and return on assets (ROA), but not between them and gross profit margin (GPM). Novelty- This study sheds light on how, in the context of SMEs, cash management methods affect financial performance.

The studies that came before this one shows a connection between effective cash management practices and an organization's ability to make money. The studies, however, were based on international research, thus the current study tries to investigate this association at a local level.

## 3. RESEARCH METHODOLOGY

The descriptive research design was used in the study and quantitative research approach was adopted. The administrative personnel at Hwange Colliery Company, which numbered forty six, comprised the population and a sample of 30 was used. A questionnaire survey with structured questions was utilized. In the study, regression analysis and Pearson coefficient of correlation were employed to determine the link between the factors of financial performance and financial management techniques.

## 4. RESULTS

### 4.1 The Company Prepares Cash Budgets

55% (12/22) of respondents strongly agreed that cash budgets are generated that offer recommendations for the usage of cash in the firm, whereas 23% (5/22) and 14% (3/22) of respondents were unsure about whether cash budgets were made in the organization. 95% of respondents agreed with Waithaka (2018) that cash budgets should be developed because they give the organization a road map for how the money will be used over the course of the anticipated time. This conclusion was reached based on the overall response rate.

At Hwange Colliery Company, typical procedures include the use of written policies, the development of cash budgets, the computerization of the cash management system, and the handling of the best available cash to cover immediate needs. According to studies by Mrefu and Gichure (2022) and Pangaribuan et al. (2021), the existence of such procedures enables proper cash management, which improves the company's financial performance. These methods have confirmed those conclusions.

**Table 3: ANOVA**

| Model | Sum of squares df | Mean square | F Sig |
|---|---|---|---|
| Regression | 454.237 3 151 | 412 20 | 151.412 |
| Residual | 1525 | 349 | 2107.264 |

Source: Field work data

The study by Olajide and Adobowale (2022) and the practices recommended by Deloitte (2018) both emphasize the need for a department that is in charge of determining a debtor's credit worthiness and eligibility for credit services in order to reduce debtor defaults. As a consequence, 12/22 respondents were divided on whether a credit control department should exist.

### 4.2. Regression Analysis

The researcher used SPSS software to determine the association between financial performance (the dependent variable) and the independent variables (working capital, investment decisions, non-current assets management and capital structure). According to Table 2 below, the return on net assets was used to assess financial success, whereas the current ratio was used to assess working capital management. Non-current assets management was reflected by the non-current assets kept at the conclusion of each period, while investment activities were measured in total assets. The return on equity was used to asses capital structure.

### 4.3. Analytical Model

The study used the following regression model.

$Y=\alpha+\beta1x1+\beta2x2+ \beta3x3+\varepsilon$

$\alpha$- Constant (Financial performance)
X1= (working capital)
X2 =Investment decisions
X3=noncurrent asset structure and accounting information systems

To ensure that no multi co-linearity existed between the variables with the aim of including them in the multiple regression analysis as well as determining the ones that had significant influences on financial performance dimensions that will be used in the study the SPSS software was used.

From the results in Table 3 above, the resulting model of the study becomes,

$Y=-4.515-2.129\times1+1.857\times2+0.853\times3$

**Table 4: Correlation analysis**

| | Working capital management | Investment decision | Non-current assets | Return on net assets |
|---|---|---|---|---|
| Working capital management | 1 | | | |
| Investment decision | −0.2024 | 1 | | |
| Non-current assets | 0.0565 | 0.2369 | 1 | |
| Return on net assets | −0.6722 | −0.5646 | −0.4027 | 1 |

The resulting model means that financial performance (independent variable) leads to a loss of 4.515 if wrong investment decisions are made units of the financial performance of the companies through fraud activities. A wrong investment decision made would lead to decrease in financial performance by 2.129 and mismanagement of working capital will lead to poor running of the day to day activities of the business and as a result other factors constant would lead to a decrease in financial performance by 1.857 units. The return on net assets response variable and the predictor factors have a good correlation, as shown by the ANOVA findings.

Table 4 above, at the 5% level of significance displays the correlation between the investigated variables. Statistics reveal a strong negative association between working capital management and financial success, measuring −0.6722. A significantly negative link between investment activities and financial performance, as measured by metrics like return on net assets and return on equity, is also suggested by the findings. Additionally, the research found a −0.4027 weak negative association between non-current assets and financial performance.

The purpose of the study was to investigate the effects of financial management practices on the profitability of Hwange Colliery Company. According to the findings, there is a strong significant relationship between financial management techniques and financial performance. Working capital management, non-current assets, capital structure, and investment decisions are all connected to a business's strategic success, according to the study results.

The results indicate that working capital mobility has a significant relationship with profitability. With the exception that the firm has had severe cash constraints, the firm's cash management strategies have been effective in this regard. Those who agreed on the suitability of existing approaches similarly rated Hwange Colliery Company's accounts receivable management processes as competent. However, there was criticism about the credit laws' inadequacy and the absence of a the credit management division which led to lengthy debtors.

The correlation coefficient implies that fixed asset management techniques are related to the financial performance of Hwange Colliery Company. Hwange colliery Company's fixed asset processes were judged effective, with the exception of the implementation of an asset performance management system, which received a negative reaction. Furthermore, exorbitant maintenance expenses have impacted the organization's current success that must be decreased in order to boost profitability.

The analysis found a relatively positive relationship between investing approaches and corporate profitability. The study's findings show that Hwange Colliery Company's investment methods were compatible with usual acceptable financial investments, as it employed suggested project assessment methodologies, net present value and payback time are two examples.

## 5. CONCLUSION

The research sought to assess the influence of economic management methods on Hwange Colliery Company's financial performance, as well as to identify industry standards for financial management adoption. The study concludes that the financial management procedures used by Hwange Colliery Company had a negative influence on financial performance.

## 6. RECOMMENDATIONS

- Hwange Colliery Company should improve its debtor's management by tightening its rule on credit to ensure that days to collect debtors are kept to a minimum. Debtors may be improved by improving internal procedures to ensure the collection process is carried out appropriately, allowing for accurate reporting.
- Hwange Colliery Company might consider keeping an ideal cash balance on hand to guarantee that day to day obligations are satisfied when they occur, as well as implementing policies that shorten the cash conversion period in order to optimize performance.
- Fixed assets may be handled effectively with an asset performance management system and an asset life cycle management system, ensuring that decisions to replace and dispose of assets are made before the asset reaches the worst-case situation.
- It is suggested that management create a more equitable capital structure with a higher debt-to-equity ratio. Organizations should choose a finance structure with more debt than equity.
- Additionally, investment decision-making techniques must be directed toward long-term investment while restricting the quantity of investments made by the company in successive financial periods.

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