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ASSESSMENT OF FINANCIAL MANAGEMENT PRACTICES ON A COMPANY'S FINANCIAL PERFORMANCE: A CASE OF HWANGE COLLIERY COMPANY (HCC)

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Abstract:
The aim of the study was to examine how financial management practices influence the financial performance of an organization. This investigation was motivated by the company's decreasing profitability despite attempts to implement cost-saving measures. Consequently, the research scrutinized the effects of existing practices in managing working capital, fixed assets, capital structure, and investments. The study utilized a descriptive research design and adopted a quantitative research approach. The population consisted of the 46 administrative personnel at Hwange Colliery Company (HCC), with a sample size of 30. A structured questionnaire survey was conducted. Regression analysis and Pearson correlation coefficient were employed to assess the relationship between financial performance factors and financial management practices. The findings revealed a significant impact of financial management strategies on the company's financial performance. To enhance resource efficiency, the study suggests improving accounts receivable management and ensuring sound investment decisions to mitigate potential losses

Keywords: Financial Management Practices, Fixed Assets Management, Capital Structure, Investment.

INTRODUCTION

The objective of this research was to assess how financial management practices influence the financial performance of Hwange Colliery Company. Financial management involves the systematic organization, control, assessment, and maintenance of a company's resources to achieve its business objectives (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. Company's 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 HCC utilizes diverse financial management tactics, including managing working capital, capital structure, capital budgeting techniques, and fixed assets. Among these methods, working capital management is the most frequently utilized for financial control, with accounting information and financial reporting practices next, followed by capital structure management, capital budgeting techniques, and fixed asset management.

Due to inadequate financial management, mining companies have been at risk of closure, prompting the need for effective strategies to transition Zimbabwe from economic challenges to notable potential, although the pace of economic advancement has been slowing. Zimbabwe's growth rate saw a notable rise to 12.1% in 2022, rebounding from significant downturns of -6.14% in 2021 and -6.25% in 2020.

As per the 2019 annual reports of HCC, the company faced challenges with revenue collection, credit risk, cash flow, and operations. Additionally, the 2019 audit report by Grant Thornton Chartered Accountants (Zimbabwe) disclosed that the company did not settle its long-term debt of USD 169,393,312, raising concerns about its financial stability. The company's top executive also noted significant cash flow issues and operational difficulties in 2018, impacting its overall profitability. These details are presented in Table 1 of the company's reports.

The results in Table 1 show that the company's gross profit margin has been fluctuating. HCC had a loss of USD78 442 683 and a gross profit margin of −5% in 2019. According to the 2019 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

2020, owing mostly to cost-cutting efforts adopted in capital investment, employee expenditures, and logistic management fees (Edouard, 2021). In 2021, the gross margin fell by 25% while the operating profit increased by ZWL 118721860. In 2022, 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 2020 compared to USD 38644022 owed in 2019 (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.

Yet, in the 2022 year-end report, senior management indicated the need for a shift in strategies to enhance investment, manage risk, and increase revenue. The firm encountered challenges with servicing bank loans and settling trade payables, prompting a study to evaluate how financial management approaches affect a company's financial performance.

LITERATURE REVIEW

Managing working capital, as described by Nareswari and Nurimasari (2021), is a regular responsibility crucial for determining a company's resource availability. It involves the day-to-day operational tasks aimed at ensuring that a business has sufficient funds, as articulated by Nthenge and Ringera (2017). Working capital is further defined as the short-term assets owned by an organization. The financial success of a company hinges on effective working capital management, as it showcases the connection between liquidity and profitability (Alvarez et al., 2021). To thrive and grow while minimizing financial risks, businesses must understand how assets and short-term liabilities interact. According to Paul and Mitra (2018), the primary objective of working capital management is to enhance profits and mitigate the risk of being unable to meet upcoming short-term obligations. The key components of working capital encompass cash, inventory, accounts receivable, and accounts payable.

Monitoring working capital involves examining factors like company size, age, profitability, revenue growth, market position, operational risk, and cash flow internally. Externally, it can be influenced by macroeconomic aspects such as GDP, interest rates, and taxes. Financial performance reflects how well a company utilizes its resources to generate revenue in its core activities. It serves to evaluate long-term financial well-being and comparative analysis within the industry. Matongo (2017) highlights that the most critical indicators for performance assessment are profitability ratios, liquidity ratios, and efficiency ratios.

As emphasized by Potwana et al. (2022), effective working capital management plays a vital role in influencing business profitability, making it a crucial aspect for all organizations to prioritize. The decision-making process related to working capital becomes even more pivotal as it directly contributes to enhancing the company's value and the shareholders' wealth in the long run.

Table 1: Financial reports for the period 2019-20222

Year	2019 USD	2020 ZWL	2021 ZWL	2022 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: Financial reports 2019-2022 (HCC)

Potwana et al. (2022) conducted a study utilizing descriptive and inferential methods to analyze the impact of working capital management policies on the profitability of five JSE-listed South African clothing retailers over a seventeen-year span from 2003 to 2019. The research revealed a strong negative relationship between company profitability and factors such as inventory turnover, payables repayment, and the cash conversion cycle in terms of working capital management. However, a positive correlation was observed between profitability and the efficient collection of outstanding receivables. To enhance profitability, South African clothing firms are advised to focus on improving inventory turnover, implementing effective payables management strategies, and optimizing accounts receivable investments to stimulate sales and profit growth. The study also highlighted that an aggressive working capital policy is inversely correlated with profitability, leading to potential negative impacts on company value. Conversely, a conservative approach to working capital management was found to have a positive and significant effect on profitability. Thus, the recommendation for South African textile companies is to prioritize investments in current assets as a strategy to enhance profitability.

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 2023. 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

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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.

3. RESEARCH METHODOLOGY

The descriptive research design was used in the study and quantitative research approach was adopted. The administrative personnel at HCC, which numbered 46, 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

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 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.

Table 2: Financial statements data

	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: HCC Annual Reports

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.

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.

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.

ANALYTICAL MODEL

The study used the following regression model.

$Y=\alpha+\beta 1x1+\beta 2x2+ \beta x3+\varepsilon$

α- 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,

$Y=-4.515-2.129\times 1+1.857\times 2+0.853\times 3$

Table 4: Correlation analysis

	Working capital management	Investment decisio	Non-current asset	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 HCC'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 HCC. HCC'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 HCC'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 HCC's financial performance, as well as to identify industry standards for financial management adoption. The study concludes that the financial management procedures used by HCC had a negative influence on financial performance.

6. RECOMMENDATIONS

• HCC should enhance its management of debtors by enforcing stricter credit policies to reduce the time taken to collect payments. Improving internal processes for debt collection can ensure accurate reporting and efficiency.

• The company could also maintain an optimal cash reserve to meet daily financial obligations promptly and consider strategies to shorten the cash conversion cycle to enhance operational efficiency.

• Utilizing an asset performance management system and asset life cycle management system can effectively manage fixed assets, allowing for timely decisions on replacing and disposing of assets before they deteriorate significantly.

• Management is advised to establish a balanced capital structure with a higher debt-to-equity ratio, opting for more debt than equity in the finance structure.

• Furthermore, investment decision-making

processes should prioritize long-term investments and limit the number of investments made in consecutive financial periods.

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