INTANGIBLE ASSETS AND THE LEVEL OF CASH FLOW AMONG LISTED BANKS IN EMERGING ECONOMIES IN AFRICA

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Abstract

The importance placed on intangible assets in todays' world has necessitated the need to examine empirically the impact on the three levels of cash flow. The study employed the expo-facto research method and subjected data obtained from the financial statements of listed banks in Emerging Economies in Africa to a regression analysis using STATA software tool. The result revealed a significant P value between intangible assets and operating cash flow and an insignificant relationship was obtained when the financial and investing level of cash flow were regressed. The study recommends that listed banks should tread cautiously in utilizing this corporate strategies as it has both an upside and downside to its utilization.

Keywords: Intangible Assets, Cash flow, Corporate Strategies.

1. INTRODUCTION

Corporate strategies and dynamics are an important aspect of every organisation because flexible strategies are being required of any organisation or institution that seeks to remain relevant in today's world. The popular slogan 'innovate or die' was birthed as a result of the study of the recent trends in the business world (Stevens, 2017). Management is expected to constantly make decisions that would elongate the life span of the firm and increase the productivity, viability and liquidity through each financial year.

This study examined has identified 'intangible assets' as one of the corporate strategies relevant in todays' business world, most especially in emerging economies like Africa.

For assets to be capitalized as an intangible asset, it has to meet certain criteria stipulated by IAS 38. Intangible assets vary from one listed bank to the other. They generally include goodwill, software development, research and development etc. Most listed banks employ various software and bank application to enable smooth banking and lure customers. Hence this study assessed how intangible assets affect the amount of money that a given listed bank earns in emerging economies in Africa. Cash flow is employed as the dependent variable in this study, mainly because it depicts the true financial health of a given enterprise (Tutor, 2018) and it has been empirically proven to be one of the most important ways of assessing the financial wellbeing of a given organisation (Osagie 2016; Liman & Mohammed, 2018). Cash

flow consists of three important activities- the operating activities, the financing activities and the investment activities and this is in accordance with International Accounting Standard IAS 7 (Omag, 2016). Operating activities simply switch the expenses and revenue contained in the income statement or profit or loss account from the accrual basis of accounting to the cash basis. This explains to us, the activities of the organisation in a reporting period.

The operating activities of a given business inform us of the main activities of a given organisation i.e. the reason for the establishment of the company. The organisation might be a service-oriented one, a manufacturing or a film production company. This means that only cash income in a given financial year, related to the core activity of the organisation appear in the operating activity segment. For example, a film production company's core activity is selling films, i.e. revenue flows in mainly from the sales of films and the number of cinema audience that purchase movie tickets. Therefore, any activity outside that such as the selling of a building or a company car would not be found in the production company's operating cash flow segment. The sale of land or property would be found in the operating activity segment of a real estate company. All non-operating activities or non- cash transactions added in the income statement or profit or loss account is added back and only actual cash generated and expensed from the core activity is recorded in this segment of the cash flow statement. (Omag, 2016; Tutor 2018).

The investing activity section of a given organisation reveals the amount spent on properties, plants and equipment and this varies with different organisations. This section also includes the sales of assets and investment of a given organisation, provided the sale is not a core activity of the given organisation. The financing activity accounts for the dividends paid out to shareholders, interest paid on loans, issuance of shares, loan obtained and the re-purchase of company's shares. It also involves any transaction that provides funds to a given organisation are recorded in this section. This section also reveals whether or not an organisation is investing in assets and long-term growth (Bingilar & Oyadonghan, 2014; Singh, 2016; Tutor, 2018).

Studies such as Oyewale (2011) and Tutor (2018) have revealed that if the figure obtained from the operating activities segment of a cash flow statement is greater than that obtained from the net profit figure of the financial statement, then the earnings of the organisation is of high quality. This means the organisation's financial health is certified good. If, however, the reverse is the case, then there is a need for management to re-examine the profit figure obtained (Omag, 2016; Singh, 2016; Mendoza, 2017; Liman & Mohammed, 2018).

In recent times there has been an outcry from stakeholders for a more reliable figure that reveals the true state of affairs of a given organisation (Oyewale, 2011). Various empirical studies such as (Ijeoma, 2014; Ezeagba 2014; Umukoro & Inua 2017) have revealed that the profit figure of a given enterprise does not depict the exact state of affairs of the enterprise. Many profitable companies and institutions have folded up in the past although they had a positive net profit figure. Some of these companies include, Enron, Cresta bank, Intercontinental bank, Oceanic bank, Parmalat, Northern Rock bank, Lehman Brothers, Nebraska bank, Etisalat, Skye Bank and Diamond Bank (Oyewale, 2011; Unuafe & Afolabi, 2014; Ijeoma, 2014; Ezeagba 2014; Umukoro & Inua, 2017). The collapse of various giant companies and Institutions around the world have reduced the confidence and reliance placed on the net profit figure of any given financial statement. The media, research and other past experiences have revealed that most profit figures are doctored and undergone some creative accounting practices before being released to stakeholders. This therefore explains the shift from basing decision on the net profit figure alone. Savvy investors now inspect the cash flow statement to determine whether or not to invest in a particular organisation or institution. A high return of investments, availability of funds and the investment portfolio are put into consideration before going into any business relationship (Amuzu, 2010; Ijeoma, 2014; Osagie, 2016).

Listed banks were selected for this study because research have shown that the banking industry has proven to be a highly susceptible one (Oyewale, 2011 & Hiligen, 2015). The risky nature of the business of banks and her mode of operation require adequate attention in order to avoid errors that might reduce the confidence depositors and other third parties have in it. Most members of the public have one interest or the other in one or more money deposits bank hence their reason for monitoring their operations (Oyewale, 2011). They want to know if they would continue to fulfil their going concern objective, how much   their shares are worth and how much interest would accrue on their deposits. They are also interested in knowing what listed banks have the highest share price and highest capital, some even go further to verify how seriously the banks take social responsibility (Umukoro & Inua, 2017).

2. STATEMENT OF THE RESEARCH PROBLEM

Intangible assets are those assets that are not physically present but add to the business, such as goodwill.

Other cost included in the intangible asset figure consists of novel applications generated by listed banks or companies for the sole use of the organisation such as various online mobile applications and codes, software development, etc. IAS 38 states that research costs should be expensed and that of development should be capitalized.

The use of codes such as *737# for Guaranty Trust Bank, *894# for First Bank of Nigeria, *901# Access bank etc. and the use of various banking online applications that aid banking transactions have become a trend for easier banking. For these applications to be birthed, some research and development would have taken place and once these costs meet the criteria listed in IAS 38 intangible assets, all costs that belong to this category are capitalized. Listed banks in different countries all over the world engage in corporate social responsibility. This is done to increase organizational goodwill and publicity. Research has proven that customers, investors, and stakeholders enter into business relationships with companies and listed banks that have good records. Companies therefore invest a lot of money in improving intangible assets and public image of their organisations in a bid to attract customers (Gamanuyi, 2015 & Mendoza, 2017).

Listed banks spend huge amounts of money on research, visibility studies, prototypes, corporate social responsibility as well as other services. This is in a bid to increase their goodwill and put them in a positive light with the general public and by so doing, increase cash inflows. The problem, however, is that firstly in the event of liquidation, certain assets can be revalued and these figures might be reduced to its current worth which might be less than the original figure it was valued at. Secondly, it has not been empirically proven that a high intangible assets value guarantees increase in cash inflows in developing countries. In the Philippines, there exist a significant relationship between intangible assets and cash flow (Mendoza, 2017). This study, therefore, intends to ascertain if intangible assets have a significant effect on the cash flow of listed banks in Emerging Economies in Africa. Research has shown that various listed banks have tilted to investing heavily in intangibles (Mendoza, 2017).

2.1. Research Questions

It is against the backdrop of the above research problem, that this study will find answers to the following questions:

i. In what way would intangible assets cost affects the operating level of cash flow in listed banks of Emerging Economies in Africa?

ii. How would intangible assets affect the financing level of cash flow in listed banks of Emerging Economies in Africa?

iii. To what extent would intangible assets affect the investing level of cash flow in listed banks of Emerging Economies in Africa?

2.2. Objectives of the Study

i. Examine the effect intangible assets has on the operating level of cash flow in listed banks of Emerging Economies in Africa.

ii. Assess the effect intangible assets has on the financing level of cash flow in listed banks of Emerging Economies in Africa.

iii. Determine the effect intangible assets has on the Investing level of cash flow in listed banks of Emerging Economies in Africa.

Hypothesis 1

H_0: There is no significant relationship between social media cost and the operating level of cash flow in listed banks of Emerging Economies in Africa.

Hypothesis 2

H_0: There is no significant relationship between social media cost and the financing level of cash flow in listed banks of Emerging Economies in Africa.

Hypothesis 3

 H_0: There is no significant relationship between social media cost and the investing level of cash flow in listed banks of Emerging Economies in Africa.

2.3. Intangible assets

Many organisations and Institutions have in recent times invested in computer software and assets such as

goodwill that cannot be touched or seen. Listed banks also invest in research and development because they develop various applications and services to help serve their customers better. Almost all financial institutions in the West and South Africa have various bank applications and different sort codes to enable faster and efficient banking. Once such service has passed all the criteria of the development listed in 1AS 38, such costs are accounted for in the financial statements.

Gamayuni (2015) core reason for the study was to investigate the relationship between intangible assets, financial performance and financial policies of a given organisation. The study's population was limited to Malaysia and only examined organisations from the year 2007-2009. Path analysis was employed in the analysis, similar research studies made use of panel data analysis. In another study by Matis, Vladu and Negrea (2009), the main objective was to discover if companies and institutions make use of the cash flow statement for dubious reasons such as to employ creative accounting practices or take advantage of hedging opportunities. This study was limited to Romania and other aspects that influenced cash flow were not examined, the research work did not include variables such as liquidity, intangible assets and debt ratio, this is because the use of questionnaires was employed to tackle the research questions that emanated from the study.

In conclusion, Mendoza (2017) examined the relationship between intangible assets and cash flow statement in companies listed in the Philippines stock exchange market. The study was focused strictly on how intangible assets which influence the cash flow statements, other factors were not captured in this study. In line with the above subheading,

Merino, Srinivasan and Srivastava (2007) examined how intangible assets and advertisement affect cash flow. The study was limited to companies listed in the United States of America. Factors other than intangible assets and advertisement were not considered in this variable. Due to the peculiarity of the US economy, the result obtained from this study might not yield the same result in developing and emerging nations.

3. THEORETICAL REVIEW

3.1. Stakeholder Theory

This study is adopting stakeholders theory because all stakeholders are interested in longevity of a given listed bank or enterprise. It is therefore important for them to be properly educated on corporate strategies that increases the amount of money that come into a given organisation and this guarantees their stake in the organisation,

3.2. Empirical Review

Merino, Srinivasan and Srivastava (2007) revealed that research and development which is accounted for in the intangible assets section of the financial statement has a significant relationship with the cash flow of a given firm. Mendoza (2017) discovered that financing activities have an impact on intangible assets. While Gamayuni (2015) revealed that intangible has a significant relationship on the financial performance of a given firm but no relationship was obtained when correlated with financial policies.

Sasaki, (2016) study discovered that firms that are financially constrained are more research and development sensitive than organisations that have large operating cash flows. Tayem, (2017) concluded that firm size and cash substitutes have a negative and significant effect on cash holdings, meanwhile Mendoza (2017) results showed that intangible assets impact significantly on total cash flow (91.07%) and cash flow from investing activities (68.13%), operating activities (29.56%), and financing activities (6.07%).

4. METHODOLOGY

4.1. Research Design

This study employed the expo-facto research design. A panel data regression analysis was further carried out. Secondary data was used to empirically validate this work as data would be collated from the financial statements of the selected listed banks.

4.2. Population

The Population of this study consists of all listed banks in Emerging Economies in Africa 2019, (IMF, 2019: Africa business, 2019) and they include: Nigeria, Uganda, Zambia Ghana, Botswana, Kenya and Tanzania (IMF 2019). These countries were ranked up by IMF and are included in the Emerging Markets. South-Africa was added to the sample size of this study because it is the only African country ranked among the BRICS emerging economies in the world (BRICS, 2019).

4.3. Sample size and Sampling Technique

The countries selected includes Ghana, Nigeria, South-Africa, Botswana, Kenya and Tanzania. The countries were selected based on the availability of the financial statements for the time frame (2013-2018) of the study. Financial statements of some listed banks in Emerging Economies in Africa between the years 2013-2018 were not available for public consumption and research purposes, hence their exclusion from the sample size. This study employs data from only listed banks in these regions majorly because the Stock Exchange Markets are regulated and data obtained from there have at least been validated by external auditors. A total of thirty-eight listed banks in Africa have been selected as the Sample size.

4.4. Research Models

$OPCF = \beta_0 + \beta_1 INTA_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it}$ .... Model 1

$FINCF = \beta_0 + \beta_1 INTA_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it}$ .... Model 2

$INVCF = \beta_0 + \beta_1 INTA_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it}$ .... Model 3

Where:

β_0 is the intercept

β_{1-4} is the coefficients of the explanatory variables

U_{it} is the error or disturbing term that absorbs the influence of omitted variables in proxies used.

4.5. Regression Results

Regression Table for hypothesis One (A)

Prob >F = 0.1466 (Fixed Result).

Operating cash flow	Coefficient	Standard error	t	Probability
Intangible Assets	15.94417	5.639839	2.83	0.005
Board Size	1.310297	2.423792	0.54	0.590
Leverage	-1.387329	.755478	-1.84	0.068
Business Comp.	-4.04055	37.23465	-2.00	-0.047

Author's Computation (2019).

4.6. Statistical Decision

Accept Alternate Hypothesis: There is a significant relationship between intangible assets and the operating level of cash flow in listed banks of Emerging Economies in Africa.

Regression Table for hypothesis One (B)

Prob >F = 0.2054 (Fixed Result).

Financial cash flow	Coefficient	Standard Error	t	Probability
Intangible Assets	.1663775	.1541024	1.08	0.282
Board Size	-.2411218	.9470263	-0.25	0.799
Leverage	-.0002976	.3122744	-0.00	0.999
Business Comp.	44.21456	20.03743	2.18	0.031

Authors Computation (2019).

4.7. Decision

Accept Null Hypothesis

There is no significant relationship between intangible assets and the financing level of cash flow in listed banks of Emerging Economies in Africa.

Regression Table for hypothesis One (C)

Prob >F = 0.2054 (Fixed Result).

Investing cash flow	Coefficient	Standard Error	t	Probability
Intangible Assets	-1.04088	1.295751	-0.80	0.423
Board Size	-6.949694	7.932604	-0.88	0.382
Leverage	0.152041	2.62553	0.01	0.995
Business comp.	110.3252	186.9797	0.65	0.519

Author's Computation (2019).

4.8. Statistical Decision

Reject Null Hypothesis: There is no significant relationship between Intangible Assets and the Investing level of cash flow in listed banks of Emerging Economies in Africa.

5. DISCUSSION OF STATISTICAL RESULTS

The regression table above reveals a significant relationship between the independent variable intangible assets and dependent variable operating cash flow. The coefficient obtained reveals a 1% increase in the intangible assets figure would result into a 16% increase in the operating cash flow figure. The t- value obtained is 2.83 and the probability is 0.005. The result obtained has aided the statistical decision that there is a significant relationship between operating cash flow and intangible assets in Emerging Economies in Africa. This result is in tandem with prior studies such as (Mendoza, 2017) who empirically confirmed that intangible assets have a significant relationship with the levels of cash flow in Philippines. Gamayuni (2015) also empirically established a relationship between intangible assets and financial performance in Indonesia. Sasaki (2016) also established a significant relationship between financial cash flows and a component of intangible assets.

The table above reveals an insignificant relationship between intangible assets and financial cash flow. Although a 2% increase was statistically established when a 1% increase in intangible asset is attained. This is not in line with prior researches such as (Gamayuni, 2015; Mendoza, 2017 & Sasaki, 2016).

Examining the regression between Investing cash flow and intangible assets. An inverse relationship of -1% was statistically derived signifying a 1% increase in intangible assets would result to a decrease of investment cash flow by 1%. This simple means investing more in intangible assets reduces the cash flow available for investment purposes. An insignificant relationship of 0.282 was derived and this is higher than the 5% level of significance utilised in this study. This result is contrary to prior related studies such as (Mendoza, 2017; Sasaki 2016 & Gamayuni, 2015).

6. SUMMARY AND RECOMMENDATION

The study above concludes that there is a significant positive relationship between intangible assets and operating cash flow in listed banks of emerging economies. The study recommends that banks should continue to embark on strategies that would increase the operating cash flow balance. The study also recommends that list banks in emerging economies should thread cautiously as a negative and insignificant results were obtained when other levels of cash flow were examined.

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