The Effect of Funds Management on the Profitability of Commercial Banks in Cameroon

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Abstract: The main thrust of this study was to establish the effect of funds management and profitability of commercial banks in Cameroon. The study adopted a correlation research design where data was retrieved from the financial statements of the commercial banks from 2013 to 2019. Multiple regression analysis was applied to assess the impact of funds management on the bank's profitability of the banks under consideration. The level of cash reserves was found to positively affect the bank's profitability. Also the amount of liquidity and loan to deposit ratio was also found to positively affect bank's profitability. This goes hand in hand with the objectives of the study ne of the main challenges was access to access to adequate information which let the researcher to secondary plus the presence of a pandemic. Since there is a relationship between deposits and profitability, large deposits should be properly hedged or matched, so that operational liquidity will not be greatly affected if these deposits were withdrawn.

Keywords: Funds Management, Profitability, Leverage, Cash, Profit before tax, Non-performing loans, Return on Assets, Return on Equity

1. INTRODUCTION

Banks are pivotal to the growth and development of the economy. Sustaining profitability and institutional growth has become a paramount aspect for the institution and of interest to other sectors of the economy, as they have a multiplier effect on these sectors. To have an edge in the competitive economic environment, good performance is not optional but a key pointer of meeting its goals and day-to-day operational obligations for banks. Poor banking performance has been cited as the major cause of banking failure and crisis which have negative repercussions on economic growth Ongore et al. (2011). A financial institution needs to hold liquid assets to meet the cash requirements of its customers. Inability to meet its customers' demands leaves financial institutions exposed to a run and, more importantly, a systemic lack of confidence Moore (2009).

Such a mismatch of liquidity, in which a bank’s liabilities are more liquid than its assets, causes problems for banks when too many depositors attempt to withdraw at once as it affects the liquidity position of banks. For some banks, despite having a lot of assets, the sudden withdrawals and the lack of liquid funds lead to a huge loss as a result of taking out emergent loans. This was identified as the major causes of bank failures and nationalization in 2008 Barrel & Davis (2008), alongside the inability to make adequate profit.

Mistakes in the planning and implementation of Funds Management can affect banks' operations and might have a long-term effect on the economy. Profitability does not translate to liquidity in all cases (Edem, 2017). A bank may be profitable without necessarily being liquid and vice versa. This research seeks to examine the impact of Funds Management on the Profitability of Banks in Cameroon, the case of selected commercial banks.

1.1. Research Objectives

- To assess the impact of liquidity on the profitability of commercial banks in Cameroon;
- To investigate the impact of cash reserve on the profitability of commercial banks in Cameroon
2. LITERATURE REVIEW

2.1. Conceptual Review

2.1.1. The Concept of Funds Management

The main variables used here are the net-working capital ratio and the cash ratio. Working capital, also known as net working capital (NWC), is the difference between a company’s current assets, such as cash, accounts receivable (customers’ unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. Net operating working capital is a measure of a company’s liquidity and refers to the difference between operating current assets and operating current liabilities. In many cases, these calculations are the same and are derived from company cash plus accounts receivable plus inventories, fewer accounts payable and less accrued expenses. Working capital is a measure of a company's liquidity, operational efficiency and short-term financial health. If a company has substantial positive working capital, then it should have the potential to invest and grow. If a company's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt. Liquidity is another factor that has been seen to determine the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors.

The cash ratio is a measurement of a company's liquidity, specifically the ratio of a company’s total cash and cash equivalents to its current liabilities. The metric calculates a company’s ability to repay its short-term debt with cash or near-cash resources, such as easily marketable securities. This information is useful to creditors when they decide how much money, if any, they would be willing to loan a company. The cash ratio is almost like an indicator of a firm’s value under the worst-case scenario, where the company is about to go out of business. It tells creditors and analysts the value of current assets that could quickly be turned into cash, and what percentage of the company’s current liabilities these cash and near-asset could cover.

According to Dang (2011), an adequate level of liquidity is positively related to bank profitability. According to the above author, the most common financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratios to measure liquidity. For instance, Ilhomovich (2009) used the cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that the liquidity level of banks has no relationship with the performances of banks Said and Tumin (2011). Forecasts are vital for liquidity management because they give out an early warning signal for liquidity problems by estimating how much cash will be needed, when, for how long and whether it will be available from planned sources Coyle (2000), p. 16.

2.2. Theoretical Framework

2.2.1. Trade-off Theory

The trade-off theory of capital structure is the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to Kraus and Litzenberger who considered a balance between the dead-weight costs of bankruptcy and the tax-saving benefits of debt. The term is employed by several authors to explore related theories. In all the theories, decision-makers running an entity evaluate distinct costs as well as benefits of different leverage plans Çerkezi, (2013). Modigliani and Miller (1963) established the debt’s tax benefit. Subsequent research revealed optimal capital structure derived from the theory of trade-off. López-Gracia&Sogorb-Mira (2008) explain that this theory states that a firm has to choose between its quantity of equity financing and debt financing. It does this by weighing benefits against the costs or expenses on the two. The main objective of this theory is to expound on the contention that firms are partially equity-financed and partly debt-financed. According to Cotei and Farhat (2009), a firm exhibits distress financially when it is not able to surpass debt obligations. In case it carries on with failure in making its payments to the holders of debt, the entity can be considered insolvent. The trade-off theory identifies tax advantage as one of the benefits of debt-financing López-Gracia & Sogorb-Mira (2008). The theory also points out debt-financing disadvantages, one of these being costs associated with financial distress like non-bankruptcy costs (high staff turnover, supplier’s withdrawal) and bankruptcy costs. As leverage shoots up, there is a
trade-off which is between bankruptcy and tax shield of interest; hence optimum cash balance will be realized in the capital structure. Citing the trade-off theory, optimal debt amount is equivalent to one dollar of debt emanating from interest rate tax deductibility with dollar marginal cost regarding the debt that arises from enhanced default exposure Hack Barth, Hennessy & Leland (2007). The theory can explain why capital structures are distinct among industries, while it fails to explain the reason profitable entities within the domain depict lesser debt ratios. The theory of trade-off estimates the opposite while profitable companies depict larger scopes with regards to tax shields, as such implying higher levels of debt Adair & Adaskou (2015). Citing the terms of trade, related trade credit is a signal to company creditors without private information concerning the entity; accessing credit depends on guarantees. This theory is therefore relevant to the study which seeks to establish the effect of managing credit on the financial performance of Banks.

2.3. Empirical Review

2.3.1. Liquidity and Performance

Efficient and effective liquidity management is very important for survival, especially for smaller businesses Sardakis et al (2007), since they operate with fewer sources of both short- and long-run financing than bigger companies Moss (1993). Liquidity means the level of cash and near-cash assets held, together with cash in and outflows of the assets Ekanem (2010). It is possible to measure a firm’s liquidity with a different type of cash flow ratio Jooste (2006). How they are calculated is presented later on. These ratios are very helpful to determine firm’s health as well Jooste (2006). One can measure the cash flow ratios on suppliers and potential buyers in order to see if they are healthy and confirm that they do not have any liquidity problem Figlewicz & Zeller (1991). The concept of performance ratio is not new, but the availability of the data is easier today and firms should take advantage of that information Carslaw & Mills (1991). As discussed earlier, an optimum liquidity position is a decision to shorten the cash-to-cash cycle Farris & Hutchison (2002). That improves the profit and shows that the firm does not have a great need for external financing Moss (1993). Management of working capital is crucial for both liquidity and profitability. If the management of working capital is poor, it usually means that money is locked up in working capital Ekanem (2010). It is also important to be aware that late payment of invoices can be very expensive Deloof (2003). Efficient management of working capital is important, especially for smaller firms in an economic downturn, as it was the case in 2008.

Agarwal (2012) cited in Bhunia et al. (2012), investigated the relationship between liquidity and profitability, using the current ratios as well as quick ratios and then concluded that excess liquidity positively impacts the profitability of a company. Niresh (2012: 35) upholds that “liquidity refers to the ability of a firm to meet its short-term obligations. Liquidity plays a crucial role in the successful functioning of a business firm”.

A sufficient understanding of liquidity is consequential to both the interior as well as exterior financial analysis due to the importance of liquid assets in the day-to-day running of a business Bhunia et al. (2012). A fragile liquidity position poses a threat to the creditworthiness and profitability of a company. Low liquid asset positions have an impact on the sustainability of business operations and in commercial banks; this may threaten the survival of the entity. Naresh (2012) argues that the liquidity position of a business as evidenced by the level of its working capital is necessary for the business’s short-term survival but profitability is the mainstay for long-term survival.

A good way to manage liquidity is to have a liquidity plan and this can be done by adopting a liquidity-budget. Budget is one of the key elements since the result helps to frame the firm’s future opportunities Lazaridis (2006). Different types of software can be helpful and make it easier. The company can either purchase an already existing programme or create its own. The advantage of creating one is that the programme can be customized for the company’s requirements. The liquidity budget should be supplemented by a very short liquidity plan and focused on having enough money available on the transaction account Tvarsksy & Kahneman (1981). This plan should occur daily. The goal here is to enhance the payments and payouts. The liquidity-budget must be linked to the long-term plans as well. A budget creates a decision frame and it influences mental accounting Sheer et al (2010). Liquidity budget should for a given period include all the payments, payouts and the date. Having a budget is not enough to be sure to have money for different types of transactions. The
company should hedge itself against various surprises that the company can run into Larsson & Hammarlund (2004). The size of the liquidity reserve depends on many factors, one of which is the relationship between the cash cycle and the liquidity reserve. If the cash cycle is long, the minimum liquidity needs will increase and vice versa Farris & Hutchison (2002). Having a minor reserve can be risky while a very large reserve can lead to a reduction in revenue Larsson & Hammarlund (2004). How the profitability is affected can vary. By calculating cash flow ratios, one can determine how well the firm can repay loans, maintain operating capabilities and make investments without external financing Jooste (2006). To measure the liquidity one can measure the relation between the liquid assets and short-term debt in the company’s balance sheet Moss (1993). This means that if the cash liquidity is 100% or more, the company can cover the short-term debts with their liquid assets Moss (1993). The current ratio (balance-ratio) is another way to measure liquidity and it is a static view Gallinger (1997). The current ratio should exceed 200% Gallinger, (1997). The disadvantage with the current ratio is that current assets include assets that cannot be sold immediately as liquid assets. The quick ratio is more interesting because it gives a more precise measurement of the liquidity than the current ratio since it does not include the stock, which is the least liquid of the current asset Moss (1993). These two measurements are static and therefore measure the liquidity for a specific time. Another way to measure liquidity is to compare the account receivable with the account payable Larsson & Hammarlund (2004). The capital will be tied up as a result of the gap between them is too wide.

2.3.2. Cash Reserve and Performance

These comprise required reserves and excess reserves. Required reserves are the proportion of deposits commercial banks are required by law to keep at the Central Bank. When the Central Bank needs to significantly adjust the amount of money circulating in the economy, it can increase or decrease the cash reserves. These reserves are held at the central bank at no interest. They are currently set at 5.25 percent of the total of a bank’s domestic and foreign currency deposit liabilities. To facilitate commercial banks’ liquidity management, commercial banks are currently required to maintain their cash reserves based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below 3 percent on any day (CBK, 2017). Excess reserves refer to any deposit made by a bank in the central bank following the reserve requirement. In a bank’s statement related to its financial position, the cash reserves are referred to as cash and balances with the central bank and they shield the bank against unexpected events such as unusual large withdrawals by depositors or bank runs. A bank always tries to avoid capital injection from the government because it may place it at the government’s mercy Jeanne & Svensson (2007). Therefore, to avoid this, the bank should hold highly liquid assets as reserves since they can be sold or pledged to meet the funding risks in a short time. Goodhart (2008).

Tom (2015) studied the effect of liquidity on the profitability of commercial banks in Kenya using a descriptive research design approach over five years from 2010 to 2014. Secondary data was used and the focus was on current ratio, liquidity ratio, deposits and the interest rate on profitability. He found out that liquidity has a positive effect on the profitability of commercial banks. The study concluded that if liquidity problems are not addressed at the earliest opportunity, depositors demands may prove difficult to meet, bank’s profitability and capital would be impaired and in extreme circumstances, it may cause the collapse of a bank. It recommended that liquidity risk may be mitigated by maintaining sufficient cash reserves. Adequate cash reserves will decrease the bank’s reliance on the repo market which consequently will reduce the cost associated with overnight borrowing and insurance cost. The study did not consider the effect of foregone opportunity to invest in the market despite the need to maintain sufficient reserves. Sufficient reserves were not operationalized in the study. This study will shed light on the level of cash reserves to hold, considering the need to diversify the revenue to the banks and take advantage of current investment opportunities.

In most economies of the world, the Central Bank has the basic role of regulating banking activities and using a monetary policy to ensure a vibrant and stable economy Hoggson, (1926); Gorton & Winton (2002). The Central Bank serves as a moderator of banking activities through its regulations, Investopedia (2014). It sets up regulatory standards for banks’ entry into the industry, as well as the management of banks Gorton & Winton (2002). This is to ensure that the economic interests of banks,
their customers and the economy at large are not jeopardized by banking activities and customer behavior Peydr´o (2010). The Central Bank’s banking regulation is premised on two ideas: to insure banks against bank-runs and therefore against the risk of systemic failure Hoggson (1926); Gray, (2011), and to protect liability and capital providers (depositors and shareholders) from corporate governance problems resulting from the inability of depositors and shareholders to monitor banks Gray (2011). The Central Bank’s regulatory role is critical for the survival of banks because asset transformation activities, which include liquidity and maturity transformations, expose banks to several risks, including bank runs and banking panics Francis & Osborne (2009).

3. METHODOLOGY

This study used the descriptive research design. This design is appropriate for this study since the researcher reports what has happened or what is happening. It involves a description of the relationship between variables Morgan (2007). The strength of this design lies in its ability to enable the researcher to use various forms of data as well as incorporating his experience in analyzing relationships between variables.

Secondary data was the main source of data for this study. Data was collected from published annual reports of the banks under study. The study made use of Inferential Statistics. Data here was analyzed using descriptive statistics such as the frequencies, mean, standard deviation, range, standard error of the mean, and sum. These would be presented in tables and charts.

Multiple regression analysis was applied to the data to examine the effect of the various aspects of liquidity risk on the performance of the commercial banks in Cameroon. The regression model ran from the financial reports of 2013 to 2019. The statement of financial position as well as the statement of financial performance and their notes was studied to get the data for the variables mentioned in the model. The collected data were entered into the Statistical Package for Social Sciences (SPSS 26) where analysis was done.

3.1. Model Specification

The study used the linear regression model below to achieve the objective and results of this study:

\[ Y_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \]

\[ Y_t = \text{Profitability} \]

\[ X_1 = \text{Liquidity management} \]

\[ X_2 = \text{Cash Reserves} \]

\[ \beta_0 = \text{constant term of the model} \]

\[ \beta_i = \text{coefficients of the model} \]

\[ \varepsilon = \text{error term} \]

From the above model, \( \beta_0 \) represents the constants, while \( \beta_1, \beta_2, \) and \( \beta_3 \) measures the percentage change in profitability resulting from a unit change in Liquidity management, Capital Adequacy and Loan Deposit Ratio. Given these variables are measured using proxies such as ROA, LR, CR and LD for Profitability, Liquidity management, and Capital Adequacy respectively, the above model can be rewritten as:

\[ ROA_t = \beta_0 + \beta_1 LR_t + \beta_2 CR_t + \varepsilon_t \]

Where;

ROA represents return on assets

LR represents liquidity ratio (cash and cash equivalent)

CR represents cash reserve
4. ANALYSIS AND DISCUSSION OF FINDINGS

4.1. Descriptive Statistics

Table 1. Descriptive statistics of major variables used in the study

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
</tr>
<tr>
<td>LR</td>
<td>21</td>
<td>0.08</td>
<td>1.6</td>
<td>0.2824</td>
<td>0.31262</td>
<td>4.091</td>
</tr>
<tr>
<td>CR</td>
<td>21</td>
<td>0.68</td>
<td>1.36</td>
<td>1.031</td>
<td>0.19545</td>
<td>0.018</td>
</tr>
<tr>
<td>ROA</td>
<td>21</td>
<td>0.01</td>
<td>0.12</td>
<td>0.0339</td>
<td>0.02951</td>
<td>1.762</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2020

As can be seen from Table 1, all the variables are asymmetrical. More precisely, skewness values for all the variables are positive. The kurtosis value of all the variables also shows data is not normally distributed because the values of kurtosis have deviated from 3. The Jarque-Bera statistics and p-values reject the normality assumption at a 1% level of significance for all the variables. Therefore, the descriptive statistics show that the values are not normally distributed among its mean and variance. In other words, we can say that there is no randomness in the data and therefore, being sensitive to speculation shows a periodic change.

4.2. Regression

Table 2. Regression result of the impact of funds management on the performance of commercial banks in Cameroon

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>6.387</td>
<td>1.288</td>
<td>4.961</td>
</tr>
<tr>
<td>LR</td>
<td>0.213</td>
<td>0.066</td>
<td>0.267</td>
<td>3.202</td>
</tr>
<tr>
<td>CR</td>
<td>0.336</td>
<td>0.086</td>
<td>0.364</td>
<td>3.900</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

R-square = .68

Adj R square = .56

F-statistics = 77.78

The regression result in Table 2 revealed that the coefficient of determination ($R^2$) is 0.68. This indicates that about 68% of the change in the dependent variable return on Asset (ROA) could be accounted for by the explanatory variables of cash reserve, liquidity ratio and loan/deposit ration of commercial banks. This implies that 32% changes in the performance of the banks as measured by the return of Asset (ROA) is caused by other variables not shown in the equation but found in the error term. The adjusted R-squared of 56% further justifies this effect. The F-value of 77.8 which is significant at the 1% level indicates that there is a significant relationship between the dependent and independent variables and that the model does not suffer from specification bias.

The estimated coefficient for liquidity, cash reverse and loan/deposit ratio is all positive. This implies that there is a direct relationship between these variables and the performance of commercial banks in Cameroon, as measured by return on asset (ROA). These results are in order with a priori expectations and are significant at a 5% level of significance.

4.3. Test of Hypotheses

Hypothesis One

H1: Liquidity Management has a Positive Significant Impact on Profitability of Commercial Banks in Cameroon

The correlation analysis between liquidity ratio and return on Asset (ROA) has a coefficient ($r$) of 0.43, meaning that there exists a direct relationship between the two variables. Also, the regression coefficient of the model is positive (0.213), with a p-value of 0.000 significant at 1%. This revealed a
significant effect of liquidity on the financial performance of the selected commercial banks in Cameroon. Based on this result the null hypothesis is rejected and the alternate hypothesis which states that “liquidity management has a positive significant impact on profitability of commercial banks in Cameroon”, as measured by the return of Asset (ROA) is accepted.

**Hypothesis Two**

**H2: Cash reserves Has a Positive Significant Impact on Profitability of Commercial Banks in Cameroon**

The correlation analysis between cash reserve ratio and return on Asset (ROA) has a coefficient (r) of 0.284, meaning that there exists a direct relationship between the two variables. Also, the regression coefficient of the model is positive (.336), with a p-value of .002 significant at 1%. This revealed a significant effect of cash reserve on the financial performance of the selected commercial banks in banks. Based on this result the null hypothesis is rejected and the alternate hypothesis which states that “Cash reserves has a positive significant impact on profitability of commercial banks in Cameroon” as measured by the return of Asset (ROA) is accepted.

**4.4. Discussion of the Findings**

**Discussion of Findings Based on Objective One: To Assess the Impact of Liquidity on the Profitability of Commercial Banks in Cameroon**

The results revealed the regression coefficient of the model is positive (0.336), with a p-value of .002 significant at 1%. This implied that liquidity has a significant positive relationship and impact on profitability (financial performance) of the selected commercial banks in Yaoundé. This let to the rejection of the null hypothesis and therefore acceptance of the alternative hypothesis which states that “liquidity management has a positive significant impact on profitability of commercial banks in Cameroon”. The findings of this study is in line with that of Wanjohi (2013) who worked on an assessment of liquidity management practices of commercial banks and found a direct relationship between liquidity management and profitability. Also, the findings is in concur with the study of Olongo (2013) who found that the performance of commercial banks is significantly affected by liquidity management. The study found a positive correlation between ROA and liquidity management ratios.

Also, the study finding is in line with that of Tom (2015) who studied the effect of liquidity on the profitability of commercial banks in Kenya using a descriptive research design approach over five years from 2010 to 2014. Secondary data was used and the focus was on current ratio, liquidity ratio, deposits and the interest rate on profitability. He found out that liquidity has a positive effect on the profitability of commercial banks. However, the results contradict those of Bassey (2015), Molefe and Muzindutsi (2016) and Vintila and Nenu (2016) who found a negative relationship between the two variables.

**Discussion of Findings Based on Objective Two: to Investigate the Impact of Cash Reserve on the Profitability of Commercial Banks in Cameroon**

Also, the regression coefficient of the model is positive (0.336), with a p-value of .002 significant at 1%. This implies that an increase in the adequacy of cash reserve of these commercial banks will lead to an increase in profitability while a fall in cash reserve will lead to a fall in profitability (financial performance). This revealed a significant effect of cash reserve on the financial performance of the selected commercial banks in banks. Based on this result the null hypothesis is rejected and the alternate hypothesis which states that “Cash reserves has a positive significant impact on profitability of commercial banks in Cameroon” as measured by the return of Asset (ROA) is accepted. This finding is in line with that of Gray (2011) who found that there existed a direct relationship between cash reserve and profitability. Also, it is in tandem with the study of Ma et al. (2011) who had similar results to Gray (2011). They explained that the negative influence of reserve requirement on banks’ financial performance, engagement in corporate social responsibility and employment are often driven by the liquidity problems that banks encounter in the face of cash reserves Gray (2011); Ma et al. (2011).
5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of the Study

Objective One: to Assess the Impact of Liquidity on the Profitability of Commercial Banks in Cameroon

The results revealed the regression coefficient of the model is positive (0.336), with a p-value of .002 significant at 1%. This implied that liquidity has a significant positive relationship and impact on profitability (financial performance) of the selected commercial banks in Yaoundé. This led to the rejection of the null hypothesis and therefore acceptance of the alternative hypothesis which states that “liquidity management has a positive significant impact on profitability of commercial banks in Cameroon”. The findings of this study is in line with that of Wanjohi (2013) who worked on an assessment of liquidity management practices of commercial banks and found a direct relationship between liquidity management and profitability.

Objective Two: To Investigate the Impact of Cash Reserve on the Profitability of Commercial Banks in Cameroon

Also, the regression coefficient of the model is positive (0.336), with a p-value of .002 significant at 1%. This implies that an increase in the adequacy of cash reserve of these commercial banks will lead to an increase in profitability while a fall in cash reserve will lead to a fall in profitability (financial performance). This revealed a significant effect of cash reserve on the financial performance of the selected commercial banks in banks. Based on this result the null hypothesis is rejected and the alternate hypothesis which states that “Cash reserves has a positive significant impact on profitability of commercial banks in Cameroon” as measured by the return of Asset (ROA) is accepted. This finding is in line with that of Gray (2011) who found that there existed a direct relationship between cash reserve and profitability. Also, it is in tandem with the study of Ma et al. (2011) who had similar results to Gray (2011).

5.2. Conclusions

From the results of data analyses, the researcher concludes that, fund management viz. liquidity management, cash reserve adequacy and loan/deposit ratio have a positive significant relationship and impact of on the profitability (financial performance) of the selected commercial banks in Cameroon used in this study. As such, these commercial banks cannot overlook these aspects within the operations and management given it is detrimental to their success and profitability.

5.3. Recommendations

Based on the findings of the study, the following recommendations are made:

The study recommends that the commercial banks should minimize cash reserves and instead invest this money in revenue generating investments that boosts financial performance (profitability). Instead of banks holding their reserves in form of cash, they should hold them in form of near money assets which have a ready market but have also stability in pricing.

Also, management of these banks should adopt a suitable cash management model that minimizes the possibility of running out of cash. This can be achieved by properly forecasting cash needs based on past patterns on minimum and maximum cash levels by the commercial bank.

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