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# A Study On Effect Of Cash Control On Financial Performance Of Commercial Banks In Uttarakhand

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## 1. INTRODUCTION

The banking industry is crucial to maintaining financial markets and has a big effect on how well the economy does. A bank's sound financial standing not only ensures the safety of its depositors but also benefits its shareholders, staff, and the economy. In keeping with this axiom, attempts have sometimes been made to assess each bank's financial standing and manage it properly (Din Sangm, 2010).

Deregulation and growing globalisation are driving a shift in the global banking and financial sector. In the global banking sector, financial innovations like those seen in ATMs, phone banking, Internet banking, debit cards, credit cards, agency banking, and smartcard applications are occurring at an incredibly quick rate. The founding of the Bank of England in 1694 marks the beginning of modern banking. A small group of people who were truly money lenders founded the bank with the intention of making interest-bearing loans. The development of tools and procedures is the history of financial advancements.

The practises and procedures a business does to protect its cash are referred to as cash control. Banks handle both transactions that raise an entity's e-float and those that lower it. In order to retain their e-float, they must thus continue making deposits into their accounts, particularly after handling additional deposit transactions from their consumers. As this is a manner of keeping track of all their financial operations, including revenues from investments, maintaining good and accurate accounts by the agents is essential to their existence and performance. This provides data that may be trusted to affect business operations and upcoming investment choices. During business hours, all kinds of cash should be kept secure in cash registers, cash boxes, or lockable drawers. They should be stored in secure safes or vaults, locked rooms, lockable file cabinets, or closed rooms during non-business hours.

A little amount of cash kept on hand for modest purchases or reimbursements that wouldn't be worth subjecting to the more stringent purchase and reimbursement processes of a business or organisation is referred to as petty cash. To prevent thefts, petty cash funds need to be protected and recorded. Ready money, often known as cash stored in a bank account and banknotes and coins that a company has on hand. For accountability reasons, agency businesses must make sure that a certain individual has access to funds. But cash management practices or techniques cannot be forgotten as it is the lifeblood of the organization. Here, in this research paper we are going to study the effect of cash control on the financial performance of commercial banks in Uttarakhand.

### 1.1. STATEMENT OF THE PROBLEM

The financial performance of Indian commercial banks serves as our dependent variable, and cash control, which is one of the tools used in cash management methods, serves as our independent variable. Our goal is to investigate the relationship between these two variables.

### 1.2. RESEARCH OBJECTIVES

This study's main goal is to ascertain the impact of a cash management strategy called a cash control tool on the financial performance of Indian banks in the Uttarakhand area.

The secondary goals of this investigation are that whether the management reviews all the financial transactions regularly. Banks guidelines are clear and implemented well and followed by employees and most important leads to reliable financial reporting.

### 1.3. SCOPE OF THE STUDY

Due to the fact that there are several banks, the scope of the research is restricted to a chosen group of commercial Indian banks. The research elucidates the relevance of the banks' use of cash budgeting tactics as well as the impacts of such strategies from 2018 through 2020 fiscal years.

## 2. REVIEW OF LITERATURE

### 2.1. CASH CONTROL

This is the general approach taken by management, as seen by their actions, towards the cash control system used by the company. A strong control is one that has tight budgetary control on cash received, cash deposited, cash cheques, and effective control cash balances, cash brought down. This is necessary for a strong control. Hamilton (2001) states that one of a school's most basic financial aims is to maintain minimal cash balances and invest any extra monies. Exemplary cash control procedures. Cash handling. The school takes safeguards against mail interceptions between receipt and opening. The school may lock its mail box and restrict key access. Petty cash must be reconciled by an impartial person, and the number and location of cash floats must be written down and according to corporate rules. Cash sources should be clear and allocated accordingly. For example, school funds should be utilised to purchase essential materials.

Due to business unit cash motivations, Puxty and Dodds (2002) recommend keeping part of the company's resources in cash. Puxty and Dodds (2002) justify cash per business unit. The need to hold cash may be due to transaction motives to protect the school's profitability, precautionary motives to protect against unforeseen problems like electric system failure or emergency work force problems that hurt profitability, or speculative motives to take advantage of profitabilities. Protect the school against emergencies and power outages. The transaction incentive considered that the organisation needs transact everyday to stay profitable. Cash is needed to pay salaries, suppliers, and utilities to keep a firm running (Kakuru 2001).

Van Horne (2005) states that controlling cash balance prevents idle cash reserves or deficits that cannot be employed in short-term initiatives like treasury bills and commercial paper. Avoid idle cash reserves. The investment strategy increases profitability and liquidity since investments are so near to cash. This means the investment should meet the following criteria. They should be reassured that profitability does not increase liquidity risks. To repay interest and principal, instruments must have a low default risk (Kakuru 2001). Ugandan investments include fixed accounts and government treasury notes. Converting investments into cash is quick and risk-free.

Dirk Wolfing and Jurgen Moormann (2018) noted that cash management is crucial for global businesses. These firms face more than currency risks and value-based expenses. This paper reports on a study of cash management in 32 large European companies. The survey finds that most organisations incorporate, institutionalise, and mechanise their cash forms. They also realise payments, in-house banking, and cash pooling. Thus, they are generously reducing adjusting banks and ledgers. Thus, a few global banks will replace local banks. Global companies are also facing a shift to electronic retail payments. The summary demonstrates that local backups or provincial deals groups still dominate their company payment methods. These enterprises should offer sooner or later automated payments via all deal channels. Thus, integrating electronic payments into global cash forms is a requirement for the projects and a challenge for major banks and FinTech firms.

### 2.2. FINANCIAL PERFORMANCE

"Performance" may appear easy, yet the literature has no one definition. Academics also utilise study-specific terms (Langfield-Smith, 1997). Return On Assets, Operational Profit Margin, Earnings Before Interest and Tax, Economic Value Added, and Sales Growth are common financial performance indicators (Ittner&Larcker, 1997; Fraquelli&Vannoni, 2000; Crabtree &DeBusk, 2008). Each profit-driven organisation provides these metrics for its yearly financial reporting, making them widely accessible (Chenhall&LangfieldSmith, 2007). Balance sheet manipulations and accounting system choices may potentially provide data that restrict financial strength comparisons. Ratios work best when compared to a standard or "best in class" in the industry. This comparison helps set financial goals and spot problems. Vertical and horizontal analysis may identify financial balance changes.

Yesmine and Bhuiyah (2015) examined the financial performance factors of various Bangladeshi private and nationalised commercial banks. This research sampled 10 private and 4 nationalised businesses. This study employed 2008–2014 panel data. Return on assets (ROA), bank size, credit risk, asset utilisation, liquidity, operational efficiency, and capital adequacy are dependent and explanatory factors. Multiple regression analysis is used to determine the financial success of analysed Bangladeshi commercials. Asset utilisation, operational efficiency, and credit risk impact the bank's financial performance. Researchers advised Bangladeshi commercial banks to prioritise asset utilisation, credit risk, and operational efficiency to improve financial performance.

### 2.3. CASH CONTROL AND FINANCIAL PERFORMANCE

Financial performance measures how successfully a firm generates revenue from its principal business (Greenwood and Jovanovic, 1990). This statement is often used to compare similar companies or industries. It may also indicate a company's financial health over time. Each financial performance measure should be examined collectively. Operating income, operational revenue, and cash flow from operations may be included with unit sales (Jayawardhera and Foley, 2000).

Said (2011) lists four alternative ways to collect debts outside letters, phone calls, physical visits, and legal action. Letters may be used to express feelings and store information. After a few days, the company will send a polite letter to the client

informing them of any past-due balances. If the account is not paid within a set period, a second, more urgent letter will be delivered. Telephone calls link two parties over a telephone network. If letters don't work, call the individual and demand quick payment. Clients with acceptable reasons for late payments might extend their payment term. Sending the credit controller to meet with the customer may be effective.
Instant payments are ok. An person or group may sue another party for unlawful conduct in court.
Oganda, Mogwambo, and Otieno (2018) examined how cash reserves affect Kenyan commercial banks. This study used panel data from 2007 to 2016 from two Kenyan commercial banks. The explanatory variable was the bank's cash reserve against deposits and liabilities, while the dependent variable was commercial banks' ROA, ROE, and NIM. The correlation matrix guides descriptive and inferential statistics. SPSS Version 21 generated descriptive and inferential statistics. Results show that cash reserve has a substantial negative connection with all three commercial bank profitability proxies for national bank of Kenya: ROA = -0.767 ($p<0.01$), ROE = -0.756 ($p<0.05$), and NIM = – 0.777 (p=<0.01). Cash reserve has an insignificant negative connection with ROA (-0.03), large positive correlation with ROE (0.672), and lesser positive correlation with NIM (0.267) for equity bank of Kenya. Researchers advised Kenyan commercial banks to reduce cash reserves to improve financial performance.

### 2.4. RESEARCH GAPS

To the best of our knowledge, cash control as a tool for evaluating the financial performance of commercial institutions is understudied. Few investigations with limited sample sizes have been conducted in a small number of countries. All of these investigations have used the same methodology for data analysis. Therefore, we are going to examine in depth the currency management and financial performance of commercial banks using a sample size of 200 drawn from eight commercial banks in various Uttarakhand cities. Using the software STATA 17 and the ordered Logit and Probit models, we will analyse the data in a manner that yields distinct results.

## 3. CONCEPTUAL FRAMEWORK

### 3.1 CONCEPTUAL FRAMEWORK

A conceptual frame work is a graphic that illustrates a hypothesised causal relationship between a group of factors that are thought to be relevant to a certain situation. The boxes contain the variables, and the arrows, which represent the correlations, are shown in the following table. Cash management refers to the process of planning and regulating a company's cash flows, including cash flows into and out of the company, cash movements within the company, and cash balances maintained by the company at a certain moment in time (Pandey, 2004).

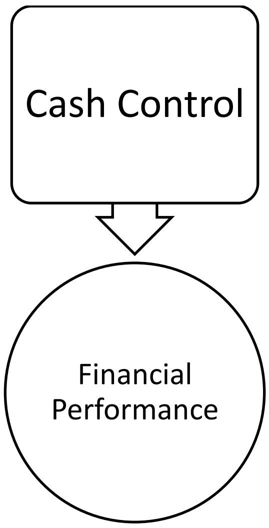


**Fig. 1. Conceptual Framework**

### 3.2. RESEARCH HYPOTHESES

The following hypotheses were developed based on the goals that were expressed earlier:
H0. Cash control does not affect the financial performance of commercial banks in Uttarakhand.
H1. Cash control affects the financial performance of commercial banks in Uttarakhand.

## 4. RESEARCH METHODOLOGY

### 4.1. RESEARCH DESIGN

The majority of the analysis is founded on primary data collected from the few commercial institutions in Uttarakhand. Secondary data collected from various research articles, company websites and annual reports, the internet, magazines, newspapers, and other publications supplement the primary data.
This study is more of an exploratory nature. Both the hypothesis and the goals are analysed side by side and in relation to one another. Questionnaires are used to collect information on workers' levels of experience and competence, which is then assessed and connected to the theories that are emphasised in the literature study.

Territorial Scope: In Uttarakhand, India.

### 4.2. SAMPLING
From the few designated Commercial banks in Uttarakhand, approximately 200 employees are chosen using a method of judgmental cum convenience sampling.

### 4.3. DATA COLLECTION TOOL
In this endeavour, questionnaires serve as the investigation technique for collecting primary data. The questionnaire is a combination of two Cash Management questions regarding the profitability of financial institutions: A Case of Bank of Africa, Uganda (2013) and The Impact of Internal Control System on Financial Performance in Mogadishu Private Banks (2015) by Kyomukama Jeninah and Anas Dahir Abdi, respectively.

### 4.4. DATA COLLECTION PROCEDURE
The data is being gathered using a questionnaire. To get the questionnaire submitted, the various management employees were approached.

## 5. DISCUSSION OF RESEARCH RESULTS
### 5.1. DESCRIPTIVE STATISTICS

**Table 1:** Descriptive Statistics of Cash Budgets

| **Cash Control** | **N** | **Mean** | **S.D.** |
|---|---|---|---|
| Management review financial transactions regularly. – CC1 | 200 | 1.46 | 0.52 |
| The policies, procedures and guidelines are documented.-CC2 | 200 | 1.45 | 0.54 |
| The bank has a clear organizational structure.-CC3 | 200 | 1.41 | 0.49 |
| All employees are aware of the guidelines.-CC4 | 200 | 1.85 | 1.05 |
| All staff perform their responsibilities as per the regulation and guidelines.-CC5 | 200 | 1.65 | 0.81 |
| Compliance to bank guidelines can lead to reliable financial reporting.-CC6 | 200 | 1.48 | 0.56 |
| The internal control guidelines are able to detect irregularities.-CC7 | 200 | 1.51 | 0.72 |
| The cash control environment in the bank is enough to reach its objectives.-CC8 | 200 | 1.66 | 0.71 |
| **Average** | **200** | **1.56** | **0.68** |

**Source:** Author 2023

Self-administered questionnaires were given to all of the respondents, who were employees of the bank, so that information could be gathered. The data was collected using a Likert scale with five points, with one representing "definitely agree," two representing "agree," three representing "not sure," four representing "disagree," and five representing "strongly disagree." We used a combination of random and planned selection methods in order to pick the participants in the survey. The response rate was a perfect one hundred percent, and the sample size was two hundred. According to the findings presented in Table 1, which can be seen above, the majority of respondents are of the opinion that there should be less cash control requirements maintained, which resulted in a mean value of 1.56. The figure of 0.68 for the standard deviation illustrates that there is a significant amount of variation among the replies. The results may, in general, be construed to suggest that cash control does not effect the financial performance of commercial banks, given that all of the factors taken into consideration here demonstrate this to be the case. The cash control measures that were adopted showed a low key towards the financial performance of commercial banks, which was one of the eleven measures.

### 5.2. INFERENTIAL STATISTICS
According to STATA 17 software, the following calculations were performed:

**Table 2 :** Calculations using Logit Model

| | **Delta-method** | | | | | |
|---|---|---|---|---|---|---|
| | **dy/dx** | **std. err.** | **Z** | **P > I z I** | **[95% conf. interval]** | |
| CC1 | .2459384 | .1234493 | 1.99 | 0.046 | .0039822 | .4878947 |
| CC2 | .0401104 | .1245614 | 0.32 | 0.747 | -.2040255 | .2842463 |
| CC3 | -.0740616 | .1841853 | -0.40 | 0.688 | -.4350581 | .2869349 |
| CC4 | .0226438 | .057888 | 0.39 | 0.696 | -.0908145 | .1361022 |
| CC5 | .0332685 | .0943084 | 0.35 | 0.724 | -.1515726 | .2181097 |
| CC6 | -.2229472 | .1299361 | -1.72 | 0.086 | -.4776172 | .0317228 |
| CC7 | .181826 | .1035309 | 1.76 | 0.079 | -.021091 | .3847429 |
| CC8 | -.0189823 | .0959521 | -0.20 | 0.843 | -.2070449 | .1690804 |

**Source**: Author 2023

The conditional marginal effects offer an indication of how much the anticipated likelihood of the outcome shifts as a result of changes in each independent variable, given the values of the other variables that are independent. For instance, if CC1 has a conditional marginal impact of 0.2459384, it indicates that the projected probability of the event will drop by -0.2459384 if the value of CC1 is increased by one unit while all other factors that influence the outcome are kept constant.

As a result of our comparison of the variable cash control with the financial performance of commercial banks, we came to the following conclusion. Due to the fact that the p-values of CC1, CC2, CC3, CC4, CC5, CC6, CC7, and CC8 are all higher than the threshold of significance, which is equal to 0.05 and is shown in the Table, we have reached the aforementioned conclusion. Every single one of the cash control's samples has a p-value that is lower than the significance threshold. As a result, a higher number of acceptances indicates that the null hypothesis is accepted in the scenario that was presented before.

**Table 3 : Calculations using Probit Model**

| | **Delta-method** | | | | | |
|---|---|---|---|---|---|---|
| | **dy/dx** | **std. err.** | **Z** | **P > I z I** | **[95% conf. interval]** | |
| CC1 | .1972166 | .1057541 | 1.86 | 0.062 | -.0100576 | .4044908 |
| CC2 | .0494777 | .1099163 | 0.45 | 0.653 | -.1659543 | .2649097 |
| CC3 | -.0697199 | .1599359 | -0.44 | 0.663 | -.3831884 | .2437486 |
| CC4 | .0069252 | .051498 | 0.13 | 0.893 | -.094009 | .1078593 |
| CC5 | .0307718 | .0813977 | 0.38 | 0.705 | -.1287647 | .1903083 |
| CC6 | -.192922 | .1164004 | -1.66 | 0.097 | -.4210627 | .0352187 |
| CC7 | .1401064 | .0903432 | 1.55 | 0.121 | -.036963 | .3171757 |
| CC8 | -.0086511 | .0819644 | -0.11 | 0.916 | -.1692985 | .1519962 |

**Source:** Author 2023

To see how much each independent variable affects the expected likelihood of the result given the values of the other independent variables, we can look at the conditional marginal effects. When all other independent factors are kept fixed, a -0.1972166 drop in the expected chance of the result occurs for a rise of one unit in CC1, as shown by the conditional marginal impact of 0.1972166.

As we evaluated the relationship between commercial banks' financial success and flexible liquidity management. By assuming that the p-values of CC1, CC2, CC3, CC4, CC5, CC6, CC7, and CC8 are higher than degree of importance, i.e. (0.05), as shown in the Table, we have reached our conclusion. The p-value of each monetary control is higher than the threshold of relevance. Therefore, in the scenario described above, a higher quantity of acceptances indicates that the null hypothesis is adopted.

### 5.3. HYPOTHESIS TESTING

The Cash Control does not have a major impact on the overall financial performance of commercial banks in the state of Uttarakhand, according to the hypothesis. This is because Cash Control is not a big component, which explains why this is the case. Cash control does not have a favourable relationship with the overall performance of commercial banks in the state of Uttarakhand, as evidenced by the data that are shown in the aforementioned Table 2.

This alternative hypothesis can no longer be considered to have any probability of being true since the significance level of 0.05 or less was found to be present. The researchers came to the conclusion that cash control did not have an effect on the overall performance of commercial banks in Uttarakhand as a result of their decision to accept the null hypothesis, which was reached as a consequence of the finding that the researchers described above.

According to the hypothesis, the overall financial performance of commercial banks in the state of Uttarakhand is not significantly impacted by Cash Control. This is because Cash Control does not play a substantial role in the equation. According to the facts that are shown in the Table 3 that was just discussed, cash control does not have a favourable connection with the overall performance of commercial banks in the state of Uttarakhand.

This alternative hypothesis is no longer considered to have any possibility of being correct as a result of the significance threshold being 0.05 or below. The researchers came to the conclusion that cash control did not have an effect on the overall performance of commercial banks in Uttarakhand as a result of this discovery. As a result, the researchers chose to accept the null hypothesis, which led to their arrival at this conclusion. Because of this, the premise that cash management has no influence on the financial performance of commercial banks was eventually proven correct as a result of its adoption.

## 6. CONCLUSION

The study's conclusions were estimated using statistical technique. The Logit-Probit model, which accepted the premise that there is no influence of the cash management tool on financial performance. As a consequence, it is stated that, to some degree, cash management has no influence on the financial performance of commercial banks, and that more crucial areas should be identified.

## 7. RECOMMENDATIONS

The result shows that it is possible to determine how cash control may be a method of managing cash that has no impact on the financial performance of other organisations. It is also possible to make future variables execute the job in addition to those that were employed in the research. So, it is advised that the cash budget be used. The cash management relies on how the work is carried out.

Financial planning and setting goals that will serve as the process' guiding principles are also crucial. The only way to do this is to guarantee that qualified individuals are hired, assigned to the appropriate positions, and provided with the tools they need to complete the task. Establish objectives and goals. As a consequence, procedures are used to design systems that are simple to use for any intended purpose.

## 8. LIMITATIONS OF THE STUDY

Now that we've examined how banks in Uttarakhand use cash management techniques to boost their bottom line, we can expand our inquiry to other service providers in the state. The small sample size also prevents any broad conclusions from being drawn from the study's findings.

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