

Bankers' relationships and effective cash management : A lesson from Malaysian property developers

Abstract

Similar to other countries, construction industry in Malaysia plays a major role in the growth of its economy (Parid Wardi Sudin, 2002). However, empirical studies in this area are at best, very limited. Home building represents a major employer of the labour force and carries diverse economic effects (Harris & Arku, 2006). The increased in capital allocation for housing by 35% to RM9,452 million under the Ninth Malaysia Plan further highlights its importance. According to Peer and Rosental (1982) and Singh and Lakanathan (1992), lack of liquidity for supporting daily activities contribute to failures of construction companies. The excessive level of construction business failures and their association with financial difficulties has increased the importance of cash flow forecasting models (Khosrowshahi and kaka, 2007). A study by Zhang (2006) indicates that firm characteristics are highly related to cash flow management. Accordingly, this study examines the relationship between effective cash management and six (6) independent variables which represent (i) human-related factors; (ii) system related factors; (iii) and external factors. The findings provide evidence that manager's knowledge and attitude contributes to effective cash management and thus, consistent with Ottoson (1997), Mudambi and Treichel (2005) and Lazaridis (2006). Contrary to Soobaroyen & Poorundersing (2008), the results indicate that the source of system has no effect on the dependent variable. Interestingly, relationship with bankers demonstrates no impact on effective cash management and thus, fails to support King (1994). Also, consistent with Ottoson (1997), continuous planning with feedback is a significant determinant of effective cash management but suppliers' relationship documents a negative effect on cash management. The paper concludes with discussion of findings and suggestions for future research. © Common Ground.