Liquidity And Financial Performance Of Listed Non-Financial Companies In Nigeria

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ABSTRACT
The financial performance of any business can be assessed using the well-known concept of liquidity. The significance of liquidity to company performance might lead to the conclusion that it determines the profitability level of company. Although a number of studies have been done, the nature of liquidity impact on profitability is still not entirely recognized. Hence, the main purpose of this study was to determine the effect of liquidity on financial performance of non-financial listed companies at the Nigeria Exchange Group (NGX). The objective of the study was to establish the effect of liquidity on the financial performance of non-financial companies listed at the NSE. Secondary data was collected from NGX and multiple regression analysis used in the data analysis. The study revealed that liquidity positively affect the financial performance of non-financial companies listed at the NGX. The study established that current ratio positively affects the financial performance of non-financial companies listed at the NGX. The study also revealed that an increase in operating cash flow ratio positively affects the financial performance of non-financial companies listed at the NGX. The study found that an increase, in debt to equity positively affects the financial performance of non-financial companies, listed at the NGX. The study recommends that there is need for non-financial companies listed at the NGX to increase their current assets so as to increase their liquidity as it was found that an increase in current ratio positively affect the financial performance. The study further recommends that there is need for non-financial companies listed at the NGX to increase their operating cash flow, through reduction of their credit repayment period in order to positively influence their financial performance.

Keywords: Financial Performance, Liquidity, Non Financial Firms, Return on Capital Employed

1. INTRODUCTION
The financial performance of companies is a subject that has attracted a lot of attention, comments and interests from both financial experts, researchers, the general public and the management of corporate entities. The Financial performance of a firm can be analyzed in terms of profitability, dividend growth, sales turnover, and return on investments among others. However, there is still debate among several disciplines regarding how the performance of firms should be measured and the factors that affect financial performance of companies. (Liargovas & Skandalis, 2008). According to Iswataia and Anshoria (2007) performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. Liquidity refers to investment in current assets and current liabilities which are liquidated within one year or less and is therefore crucial for firm’s day to day operations (Kesimli & Gunay, 2011). Liquidity is very closely related to working capital which is the money needed to finance the daily revenue generating activities of the firm. According to Vahid et al., (2012) working capital management
plays a significant role in determining success or failure of firm in business performance due to its effect on firm’s profitability. Business success depends heavily on the ability of financial managers to effectively manage the components of working capital (Filbeck & Krueger, 2005). A firm may adopt an aggressive or a conservative working capital management policy to achieve this goal. A number of studies (Almajali et al., 2012; Liargovas & Skandalis, 2008) have been done with regard to factors affecting the financial performance of listed companies, especially in developed economies. In Nigeria, a few studies have been done in this area and therefore it is imperative to find out how liquidity affects the financial performance of non-financial listed companies at the Nigeria Stock Exchange.

The impact of liquidity position in management of an institution has remained fascinating and intriguing, though very elusive in measurement of financial performance. There appears to be an endless argument in the literature over the years on the roles, meaning and determinants of liquidity management. In fact the firm should manage its liquidity in such a way that sales are expanded to an extent to which risk remains within an acceptable level. The aim of liquidity management should be to regulate and control those costs that cannot be eliminated altogether. These costs include the credit administration expenses, bad debts, losses and opportunity cost of the fund tied up in receivables. Therefore, according to Ngwu (2006) liquidity management is the act of storing enough funds and raising funds- quickly from the market to satisfy customer and other parties with a view to maintain public confidence.

Liquidity refers to the ability of the business to meet its cash obligations within a specific time period. Profitability and liquidity are related concepts, but by no means are they equivalent. Unlike profit, cash flow includes loan principal payments, proceeds from liquidated assets and family living expenses. Cash flow does not include profitability factors such as depreciation, the value of inventory changes, or capital gains and losses. Liquidity is best measured with cash flow statements or budgets. When firms have problems with liquidity they may defer their payments to creditors which is a harmful for companies and can result in several consequences such as worse credit terms in the future. This in the long run adversely affects profitability.

According to the NSE (2010), a number of public and private companies have been under statutory management in the last decade due to liquidity issues. A very prominent example is Uchumi Supermarket Ltd. Its annual report (2005) reported that the company had a tight cash flow position that made it difficult for the company to maintain supplier relations and consistent supplies. Liquidity of the company significantly influences the profitability level of a company. This issue was the subject of many theoretical and empirical studies which were conducted, among others, by (Smith, 1980; Shin & Soenen, 1988; Deloof, 2003; Eljelly, 2004; Lazaridis and Tryfonidis, 2006; Padachi, 2006; Gill, Biger & Mathur, 2010; Attari & Raza, 2012; Banos- Caballero, Garcia- Teruel & Martinez-Solano, 2012; Owolabi & Obida, 2012). Mathuva (2009) examined the influence of working capital management components on the profitability of 30 firms listed on the Nigeria Stock Exchange. The study used the cash collection cycle to measure working capital. Studies done on this subject indicate that liquidity in the market improves the performance of NGX 20index. Although a number of studies have been done, the nature of liquidity impact on profitability is still not entirely recognized. Hence, the main purpose of this study is to get an answer to the current study. What is the effect of liquidity on financial performance of non-financial companies listed at the Nigeria Stock Exchange?

1.1 Objective of the Study
To establish the effect of liquidity on financial performance of non-financial companies listed at the Nigeria Exchange Group.

1.2 Research question
What is the effect of liquidity on financial performance of listed non-financial companies in Nigeria?

1.3 Research Hypotheses
Liquidity (current ratio, operating cash flow and capital structure) has no significant effect on return on capital employed (ROCE) of listed non-financial companies in Nigeria.
2. REVIEW OF RELATED LITERATURE

Conceptual Review

Liquidity

According to Begg, Fisher and Rudiger (1991) liquidity refers to the speed and certainty with which an asset can be converted back into money (cash, income) whenever the asset holder desires. Cash is the most liquid asset of all. In terms of accounting, liquidity can be defined as the ability of current assets to meet current liabilities (working capital). In terms of investment, it is the ability to quickly convert an investment portfolio to cash with little or no loss in value. A liquid company is one that stores enough liquid assets and cash together with the ability to raise funds quickly from other source to enable it meet its payment obligation and financial commitment in a timely manner. Various ratios are used to measure liquidity. These include: the current ratio, which is the simplest measure and is calculated by dividing total current assets by total current liabilities; and the quick ratio, calculated by deducting inventories from current assets and then dividing by current liabilities. Although the two ratios are similar, the quick ratio provides a more accurate assessment of a business’s ability to pay its current liabilities. The quick ratio cuts out all but the most liquid of current assets. Inventory is the most notable omission, because it is not as speedily convertible to cash. The quick ratio is a reasonable marker of a business’s short term liquidity. The quick ratio gauges a company’s ability to meet its short term obligations with its most liquid assets. The higher the quick ratio the better the position of the business.

Financial Performance

Although “performance” may appear to be an easy concept, a unique definition in the literature does not exist. Moreover, academics often use special definitions tailored to fit the individual research purposes (Langfield-Smith, 1997). The financial performance is often measured using traditional accounting Key Performance Indicators such as Return on Assets, Operating Profit margin, Earnings Before Interest and Tax, Economic Value Added or Sales growth (Ittner & Larcker, 1997; Fraquelli & Vannoni, 2000; Crabtree &DeBusk, 2008). The advantage of these measurements is their general availability, since every profit oriented organization produces these figures for the yearly financial reporting (Chenhall & Langfield-Smith, 2007). However, statement of financial position manipulations and choices of accounting methods may also lead to values that allow only limited comparability of the financial strength of companies. Ratios are best used when compared or benchmarked against another reference, such as an industry standard or “best in class” within the industry. This type of comparison helps to establish financial goals and identify problem areas. Vertical and horizontal analysis can also be used for easy identification of changes within financial balances.

Effect of Liquidity on Financial Performance

There are several theories which have been developed to study the effect of liquidity on financial performance. According to Chandra (2001), normally a high liquidity is considered to be a sign of financial strength, however according to some authors as Neto (2003), a high liquidity can be as undesirable as a low. This would be a consequence of the fact that current assets are usually the less profitable than the fixed assets. It means that the money invested in current assets generates less return than fixed assets, representing thus an opportunity cost. Besides that, the amounts employed in current assets generate additional costs for maintenance, reducing thus the profitability of the company. However, Arnold (2008) points that holding cash also provides some advantages, such as (1) provides the payment for daily expenses, such as salaries, materials and taxes. (2) Due to the fact that future cash flows are uncertain, holding cash gives a safety margin for eventual downturns. And finally (3) the ownership of cash guarantees the undertaken of highly profitable investments that demands immediate payment.

Thus it is an important task for the financial manager to achieve the appropriate balance between the adequate liquidity and a reasonable return for the company. Thus, according to Perobeli et al. (2007), the decision about the liquidity level should be based on optimal levels of liquidity. The significance of liquidity to company performance might lead to the conclusion that it determines the profitability level of company. This issue was the subject of many theoretical and empirical studies which
were conducted, among others, by (Smith, 1980; Shin and Soenen, 1988; Deloof, 2003; Eljelly, 2004; Lazaridis & Tryfonidis, 2006; Padachi, 2006; Gill, Biger and Mathur, 2010; Attari & Raza, 2012; Banos-Caballero, Garcia-Teruel & Martinez-Solano, 2012; Owolabi & Obida, 2012). Hence, it should be emphasized that although a number of studies, the nature of liquidity impact on profitability is still not entirely recognized.

Liquidity is essential for company existence. It principally has an effect on financial costs reduction or growth, changes in the sales dynamic, as well as it influences on company risk level. The decisive significance of liquidity means that it is important for company development and at the same time it is one of the fundamental endogenous factors which is responsible for company market position. The importance of effective inventory management in WCM was also found in a study by Garcia-Teruel & Martinez-Solano (2007). They studied effects on working capital management on Spanish SME’s profitability and concluded that additional value can be created by reducing inventories and the number of day’s accounts outstanding. Shortening the cash conversion cycle can also be a means to improve firm’s profitability.

**Nigeria Exchange Group**
The Capital market plays a critical role in the economy by facilitating mobilization and allocation of capital resources to finance long term productive investments. In this way, it facilitates and promotes the process of economic growth in the country. The Capital Markets Authority of Nigeria was established to oversee the orderly development of Nigeria’s capital markets. On the other hand, the Nigeria Exchange Group (NGX) which is the only stock exchange in the Nigeria has a double responsibility for development and regulation of the market operations to ensure efficient trading.

**Theoretical review**
This section discusses liquidity management theories such as the commercial loan theory, and liability management theory as the study theoretical framework

**Commercial Loan Theory**
This theory was developed by Adam Smith in England during the 18th century. According to this theory, a commercial bank must provide short term liquidating loans to meet working capital requirements. The bank should refrain from long term loans. Commercial bank deposits are near demand liabilities and should have short term self-liquidating obligations. The bank holds a principle that when money is lent against self-liquidating papers, it is known as Real Bills Doctrine. The doctrine had some criticisms. A new loan was not granted unless the previous loan was repaid. Banks should provide loans before the maturity of the previous bills. Due to Economic Condition the liquidity character of the self-liquidating loans are affected. During Economic depression, goods do not move speedily into the normal channels of trade, prices fall and losses to sellers. No guarantee, even the transaction for which loan provided is genuine and whether debtor will be able to repay the debt. Another criticism was that it failed to take cognizance of the fact that the bank can ensure liquidity of its assets only when they are readily convertible into cash without any loss. Thus the Commercial Loan Theory was ignored because of the criticisms of the doctrine.

**Liability Management Theory**
Initially pioneered by Anglo-Saxon financial institutions during the 1970s as interest rates became increasingly volatile. This is one of the important liquidity management theory. The liability management theory holds that banks can meet their liquidity requirements by bidding in the market for additional funds to meet loan demand and deposit withdrawal. There is no need to follow old liquidity norms like maintaining liquid assets or liquid investments. According to the liabilities management view, an individual bank may acquire reserves from different sources by creating additional liabilities against itself. These sources include a number of items; issuance of time certificate of deposits, borrowing from other commercial banks, borrowings from the Central Bank, raising capital funds by issuing shares and by means of retained earnings.
The performance of firms can be affected by internal and external factors (Al-Tamimi, 2010; Aburime, 2005). The financial performance of a company is influenced by many factors. Some are firm specific while others are market specific. However, it is the responsibility of senior managers to assess the risks and take appropriate actions to ensure that a company’s financial position is secure and it has the necessary cash available to trade with its customers and suppliers. Some of the factors that influence the financial performance of firms include; Liquidity, inflation rates, corporate governance practices, distribution networks, growth of informal sector, management information systems and product diversity among others.

**Liquidity**

Liquidity position of a firm can be determined by using ratio analysis. The ratios that assist in liquidity measurement are current ratio, quick ratio and operating cash flow ratio (Operating Cash Flow Ratio = Operating Cash Flow / Current Liabilities). It is vital for organizations to concern on this because, if they need to sell inventory, they also need a customer to buy that inventory (Gosh, 2009). The operating cash flow ratio is a measure of a company's liquidity. If the operating cash flow is less than 1, the company has generated less cash in the period than it needs to pay off its short-term liabilities. This may signal a need for more capital. Thus, investors and analysts typically prefer higher operating cash flow ratios. It is important to note, however, that having low operating cash flow ratios for a time is not always a bad thing. If a company is building a second manufacturing plant, for example, this could pay off in the end if the plant generates more cash.

**Inflation Rates**

There is now a substantial body of evidence indicating that high rates of inflation can have adverse consequences on the financial performance of a company. A growing theoretical literature describes mechanisms whereby even predictable increases in the rate of inflation interfere with the ability of the financial sector to allocate resources effectively. More specifically, recent theories emphasize the importance of informational asymmetries in credit markets and demonstrate how increases in the rate of inflation adversely affect credit market frictions with negative repercussions for financial sector (both banks and equity market) performance and therefore long-run real activity (Huybens and Smith 1998, 1999). Due to inflation the cost of goods increases and thus the profit margins reduce, lowering the financial performance of the company.

**Corporate Governance Practices**

Corporate governance refers to the way in which a corporation is directed, administered, and, controlled. Corporate governance also concerns the relationships among the various internal and external stakeholders involved as well as the governance processes designed to help a corporation achieve its goals. Of prime importance are those mechanisms and controls that are designed to reduce or eliminate the principal-agent problem (Kent & Ronald, 2010). Good corporate governance ensures transparency and credibility which enhances corporate performance.

**Distribution Networks**

In the first field relating to the financial performances, Barthelemy (2008) focuses on the impact of the network resources and the governance structure on the financial performance of the chain. This author uses as performance criteria a combination of return on sales (ROS) and return on assets (ROA). Perdreau et al. (2010) study the financial performances (ROA) resulting from plural forms in franchising chains. Taking into account the mean turnover for each network, Chauzy and Fadairo (2010) highlight the positive influence of more constraining contracts for the retailers. Madanoglu et al. (2011) analyze whether franchising units achieve a better financial performance than non-franchising ones. Good distribution networks help in increasing customer base and hence high turnover volumes, leading to better performance for the firm.

**Growth of informal sector**

According to the International Labour Organization, the informal sector essentially covers the unorganized spectrum of economic activities in commerce, agriculture, construction, manufacturing,
transportation and services. It absorbs a large percent of the labour force in urban areas of developing countries. This basically includes the portion of a country’s economy that lies outside of any formal regulatory environment. There is very little evidence regarding how firms think about the decision to formalize their status and whether they are acting rationally in avoiding the costs of belonging to the formal sector. A recent project, undertaken by the author together with De Mel and McKenzie (2013), was designed to shed light on this question, particularly from a firm’s profitability perspective.

Product diversity
Since Rumelt’s (1974) pioneering study, the relationship between corporate diversification and firm performance has attracted more attention than any other area of strategic management research. The primary emphasis of previous empirical research has been associating profitability differentials with different diversification strategies. Rumelt (1974) set the pattern for subsequent research by developing taxonomy of diversification strategies. He found that related diversification was associated with a higher profitability than was unrelated diversification and that the more narrowly focused related-constrained diversification was more profitable than the looser related-linked diversification.

Review of Empirical Literature
This research will be conducted to study the effect of liquidity on the financial performance of non-financial companies listed at the NSE. The dependent variable is the financial performance as measured by Return on Capital Employed (ROCE). Liquidity as measured by current ratio and operating cash flow ratio (Operating Cash Flow Ratio = Operating Cash Flow / Current Liabilities) are the two main independent variables of the study. Control variables of the study include, capital structure, leverage, corporate governance, inflation and size of firm.

Mathuva (2009) examined the influence of working capital management components on the profitability of 30 firms listed on the Nigeria Stock Exchange. The study used the cash collection cycle to measure working capital. Mathuva applied the Pearson and Spearman’s correlations, the pooled ordinary least squares, and the fixed effects regression models in data analysis. The study found a highly significant negative relationship between profitability and the time it takes for firms to collect cash from their customers. The study also found a highly significant positive relationship between profitability and the period taken to convert inventories to sales and the time it takes for firms to pay creditors.

Nyamao et al. (2012) conducted a study to investigate the effects of working capital management practices on the financial performance of small-scale enterprises (SSEs). The study, which adopted a cross-sectional survey research design, found that working capital management practices were low amongst SSEs as majority of them had not adopted formal working capital management routines. Similarly, their financial performance was on a low average. The study concluded that working capital management practices influence the financial performance of small scale enterprise. The study relied on primary qualitative data to measure the working capital management practices, but the present study measured working capital management in terms of aggressiveness/conservatism using secondary quantitative data. The findings of the study also required validation in other areas of the country and among companies listed in the NSE.

A review of prior literature reveals that there exists a significant relation between liquidity and financial performance of a firm by using different variable selection for analysis. In addition, it has been found out that different companies have different levels of liquidity and they will always strive to maintain the level of liquidity in the short term. Each study has been conducted under different economic conditions and hence cannot be used to generalize conclusions in other economies. Historical theories need to be realigned to current technological developments. Empirical review reveals contradicting results, mainly due to the studies being conducted under different economic conditions. However, the studies have tended to examine a wider area of liquidity, namely, working capital. By narrowing the area on liquidity, the researcher will study the effect of liquidity on the financial performance of non-financial firms listed at the NSE. Further, the data will extend over three years from 2011 to 2013 and this will allow the researcher to investigate dynamic aspects with regard to the changing information impacts of liquidity.
The international studies conducted so far in different countries are subject to different market conditions and stability; developed markets and emerging markets. It is thus inappropriate to apply the conclusions in Nigeria market condition which is a developing market. It is with this hindsight that the researcher found the need to study the effect of liquidity on financial performance of non-financial companies listed at the NSE.

3. METHODOLOGY

Research Design
A research design is a programme to guide the researcher in collecting, analysing and interpreting observed facts Orotho (2003). This study used Descriptive Research design. It is a design used to describe a situation and its data characteristics. One of the main benefits of descriptive research is that it uses both quantitative and qualitative data in order to find the solution to whatever is being studied. This in turn can help to describe and give an answer to certain life experiences.

Target Population
The target population is the specific population about which information is desired. The population of the study included all the forty-one non-financial companies listed at the Nairobi Securities Exchange from year 2011 to 2013 (Appendix-1). This is to ensure that financial statements are available for 5 years for the companies under study.

Data Collection
Data collection is gathering evidence in order to gain new insights about a situation and answer the question that necessitated study, Wangechi (2012). This study used secondary data. The data was collected from the annual financial statements of the target firms listed at the Nigeria Stock Exchange from 2009 to 2013. From the financial statements, the researcher collected information on level of current assets, current liabilities, operating cash flows, debt, equity, Earnings before Interest and Tax (EBIT) and capital structure. The secondary data was sourced from the Nigeria Stock Exchange and Capital Market Authority.

Data Analysis
Data analysis is a process of analyzing all the information and evaluating the relevant information that can be helpful in better decision making, Silvia and Skilling (2006). The data collected was analyzed using the software called Statistical Package for the Social Sciences (SPSS) and results shown in terms of frequency distribution and percentages. The data was tabulated and classified according to their common characteristics. The financial ratios like current ratio, operating cash flow ratio and Return on Capital Employed (ROCE) and capital structure were calculated for the period from 2011 to 2013. Data collected was edited for accuracy, consistency and completeness, it was then arranged and coded using Ms - excel. It is convenient to use excel because the data is inputted and variety of options selected which perform analysis and presentation using graphs and pie charts.

Analytical Model
A regression model was applied to determine the effects of each of the variables with respect to financial performance. Regression is concerned with describing and evaluating the relationship between a given variable and one or more other variables. More specifically, regression is an attempt to explain movements in a variable by reference to movements in one or more other variables.

\[ Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where \( Y \): is the firm’s financial performance as measured by ROCE, which is ratio of Earnings before Interest and Tax (EBIT) to Capital Employed

\( X_1 \): is the current ratio - Measured as ratio of Current assets to Current Liabilities.

\( X_2 \): is the operating cash flow ratio - Measured as ratio of Operating Cash Flow to Current Liabilities.

\( X_3 \): Capital structure- Measured by debt to Equity Ratio.

\( E \): Error term.

\( a \): Intercept.

\( \beta_1 \): coefficient of the independent variable /which measures the responsiveness of \( Y \) to changes in \( i \).
Test of Significance
F-test is used to measure multiple variables which in our case are current ratio and operating cash flow ratio. Under the F-test framework, two regressions are required known as the; Unrestricted and Restricted Regression. The coefficient of determination (R2) is defined as the sum of squares due to the regression divided by the sum of total squares. Usually, R2 is interpreted as representing the percentage of variation in the dependent variable explained by variation in the independent variables. This is defined in terms of variation about the mean of y (Financial Performance) so that if a model is rearranged and the dependent variable changes, R2 changes. It is thus goodness of fit statistic given by ratio of the explained sum of squares.

Regression Analysis
In this study, a multiple regression analysis was conducted to test the effect of liquidity on the financial performance of non-financial companies listed at the Nigeria Stock Exchange. The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions.

4. RESULTS AND DISCUSSIONS
Table 4.1: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.969a</td>
<td>.938</td>
<td>.908</td>
<td>.01362</td>
</tr>
</tbody>
</table>

Source: Research Findings
Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.908, an indication that there was variation of 90.8% on financial performance of non-financial companies listed at Nairobi Securities Exchange due to changes in current ratio, operating cash flow ratio and capital structure at 95% confidence interval. This shows that 90.8% changes in financial performance of non-financial companies listed at Nairobi Securities Exchange could be accounted for by current ratio, operating cash flow ratio and capital structure. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.969.

Table 4.2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.970</td>
<td>3</td>
<td>0.323</td>
<td>2.861</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>4.181</td>
<td>37</td>
<td>0.113</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5.151</td>
<td>40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Findings
From the ANOVA statistics shown in table, the processed data, which is the population parameters, had a significance level of 0.6% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value ) is less than 5%. The F critical at 5% level of significance was 2.021. Since F calculated (2.861) is greater than the F critical (2.021), this shows that the overall model was significant and that current ratio, operating cash flow ratio and capital structure significantly affect the financial performance of non-financial companies listed at the Nairobi Securities Exchange.
From the data in the above table the established regression equation was; $Y = 1.017 + 0.387 X1 + 0.221 X2 + 0.216X3$

From the above regression equation, it was revealed that holding current ratio, operating cash flow ratio and capital structure to a constant zero, financial performance of non-financial companies listed at the Nairobi Securities Exchange would be at 1.017. A unit increase in current ratio would lead to increase in the financial performance of non-financial companies listed at the Nairobi Securities Exchange by a factor of 0.387. A unit increase in operating cashflow would lead to increase in the financial performance of non-financial companies listed at the Nairobi Securities Exchange by a factor of 0.221 and a unit increase in capital structure would lead to increase in the financial performance of non-financial companies listed at the Nairobi Securities Exchange by a factor of 0.216.

At 5% level of significance and 95% level of confidence, operating cashflow ratio had a 0.036 level of significance; capital structure showed a 0.015 level of significance while current ratio showed 0.005 level of significance. Hence, the most significant factor is current ratio. Overall, current ratio had the greatest effect on the financial performance of non-financial companies listed at NSE, followed by capital structure while operating cash flow ratio had the least effect to the financial performance of non-financial companies listed at NSE. All the variables were found to significantly affect financial performance of non-financial companies listed at the NSE (p<0.05).

Interpretation of the Findings

From the findings of the regression analysis, the study found that there was a variation of 90.8% on financial performance of non-financial companies listed at the Nairobi Securities Exchange due to changes in current ratio, operating cash flow ratio and capital structure. This is an indication that 90.8% changes in financial performance of non-financial companies listed at the Nairobi Securities Exchange could be accounted for by current ratio, operating cashflow ratio and capital structure. The study further revealed that there was positive strong relationship between current ratio, operating cash flow ratio and capital structure and financial performance of non-financial companies listed at the Nairobi Securities Exchange as shown by strong positive correlation coefficient.

From the finding on analysis of variance, the study found that the overall model had a significance value of 0.6% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value) is less than 5%. The study further revealed that current ratio, operating cash flow ratio and capital structure significantly affects the financial performance of non-financial companies listed at the NSE. The established regression equation was $Y = 1.017 + 0.387 X1 + 0.221 X2 + 0.216X3$. 

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**Table 4.3: Coefficients**

<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>1.017</td>
<td>0.451</td>
<td>2.255</td>
</tr>
<tr>
<td></td>
<td>Current Ratio</td>
<td>.387</td>
<td>0.131</td>
<td>.267</td>
</tr>
<tr>
<td></td>
<td>Operating Cash Flow</td>
<td>.221</td>
<td>0.096</td>
<td>.211</td>
</tr>
<tr>
<td></td>
<td>Capital structure</td>
<td>.216</td>
<td>0.105</td>
<td>.198</td>
</tr>
</tbody>
</table>

**Source: Research Findings**
From the above regression equation it was revealed that holding current ratio, operating cash flow ratio and capital structure to a constant zero, financial performance of non-financial companies listed at the NSE would be at 1.017. The study revealed that there was a positive relationship between current ratio, operating cashflow, capital structure and financial performance of non-financial companies listed at the NSE. All the variables were found to significantly affect financial performance of non-financial companies listed at the NSE.

The finding of this study concur with finding of Raheman and Mohamed (2007), who found that the cash conversion cycle, net trade cycle, and inventory turnover in days had a significant effect on the performance of the firms. Nazir and Afza (2009) found a negative relationship between a firm’s profitability and its financing policies. Thus, firms that adopt an aggressive working capital policy generate a lower rate of return than those adopting a conservative working capital policy. Dong and Su (2010) found that the relationships among these variables were strongly negative, suggesting that profit is negatively influenced by an increase in cash conversion cycle. The study also found that profitability increases as the debtor’s collection period and inventory conversion period reduce.

DISCUSSION OF FINDINGS

The objective of the study was to establish the effect of liquidity on the financial performance of non-financial companies listed at Nigeria Stock Exchange. Secondary data was collected from Nigeria Stock Exchange and multiple regression analysis used in the data analysis. From the findings of the regression analysis, the study found that there was a variation of 90.8% on financial performance of non-financial companies listed at Nigeria Stock Exchange due to changes in current ratio, operating cash flow ratio and capital structure. This is an indication that 90.8% changes in financial performance of non-financial companies listed at the Nigeria Stock Exchange could be accounted for by current ratio, operating cash flow ratio and capital structure. The study further revealed that there was positive strong relationship between current ratio, operating cash flow ratio and capital structure and financial performance of non-financial companies listed at the Nigeria Stock Exchange as shown by strong positive correlation coefficient. From the finding on analysis of variance, the study found that the overall model had a significance value of 0.6% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value) is less than 5%. The study further revealed that current ratio, operating cash flow ratio and capital structure significantly affects the financial performance of non-financial companies listed at the NSE. The established regression equation was Y = 1.017 + 0.387X1 + 0.221X2 +0.216X3

From the above regression equation it was revealed that holding current ratio, operating cash flow ratio and capital structure to a constant zero, financial performance of non-financial companies listed at the Nairobi Securities Exchange would be at 1.017. The study revealed that there was a positive relationship between current ratio, operating cash flow ratio, capital structure and financial performance of non-financial companies listed at the NSE.

5. CONCLUSIONS AND RECOMMENDATIONS

The study established that current ratio positively affect the financial performance of non-financial companies listed at the NSE, thus the study concludes that liquidity positively affect the financial performance of non-financial companies listed on the NSE. The study also revealed that an increase in operating cash flow ratio positively affect the financial performance of non-financial companies listed at the NSE, thus the study concludes operating cash flow ratio positively affect the financial performance of non-financial companies listed at the NSE. The study revealed that an increase in debt to equity ratio positively affects the financial performance of non-financial companies listed at the NSE, thus the study concludes that debt to equity ratio positively affects the financial performance of non-financial companies listed at the NSE. The study therefore recommended that:

there is need for non-financial companies listed at Nigeria Stock Exchange to increase their current
assets so as to increase their liquidity as it was found that an increase in current ratio positively affect the financial performance.

The study further recommends that there is need for non-financial companies listed on the Nairobi Securities Exchange to increase their operating cash flow, through reduction of their credit repayment period in order to positively influence their financial performance.

There is need for the non-financial companies listed at the NSE to increase their debt to equity ratio as it was found that capital structure positively affects the financial performance of non-financial companies listed at the Nairobi Securities Exchange.

REFERENCES


Mathuva M. D. (2010), The Influence of Working Capital Management Components on Corporate