A SURVEY OF DETERMINANTS OF LIQUIDITY OF COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

BY

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ABSTRACT

Studies have shown that liquidity ratios are strong predictors of financial distress and businesses failures have been attributed to the inability of financial managers to plan and control properly the current assets and current liabilities. It is, therefore, not surprising that liquidity is an important concept in the world of business. However, in Kenya very few studies have been conducted on the determinants of liquidity and the few have yield mixed results. It is against this backdrop that this study sought to investigate the determinants of liquidity of companies listed at the NSE.

The study adopted causal research design which sought to establish what determines liquidity in companies that were listed at NSE between the years 2000 to 2009 as the target population. The study applied data from secondary sources obtained from the NSE and respective firms' libraries. The data collected was analyzed using multiple regression and correlation analysis. Analysis of quantitative data was carried out using Ms Excel and SPSS (Statistical Package for Social Science version 17) and presented inform of tables, and graphs.

The study established a negative relationship between liquidity and leverage. Increase in leverage signifies increase in debt which would require higher liquidity to finance the debt and interests payable; this would negatively affect liquidity. The study concludes that liquidity in company is affected negatively by growth and company size and affected positively by cash flows in a company. Companies that are growth oriented would tend to use their earnings reserves and annual earnings to finance the same which would negatively affect liquidity in the short-term.