

**THE EFFECT OF CASH MANAGEMENT AND FIRM LIQUIDITY ON
SHARE PRICES OF COMPANIES LISTED AT THE NAIROBI
SECURITIES EXCHANGE**

BY

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DECLARATION

This research project report is my original work and has not been presented for the award of a degree in this or any other university.

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DEDICATION

This work is dedicated to my family especially my dear wife Rita Muthoni and my children who have sacrificed to see me through my MBA Studies.

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ABSTRACT

Liquidity refers to the ability of a firm to meet its short term and long-term financial obligations as they fall due. Liquidity management is very important for every organization that needs to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. The objective of the study was to establish whether cash management and liquidity have an effect on share performance at the Nairobi Securities Exchange (N.S.E). The study was a census study because data was gathered on every member of the population. The population of interest in this study consisted of all the firms quoted at the NSE. There were 59 companies listed at the NSE as at August 2012. This study was facilitated by the use of secondary data, which was obtained at the NSE library and from other financial intermediaries. Secondary data was collected for a period of 5 years back dating 2011 December so as to get the prices changes. The data collected was analyzed using multiple regression analysis to estimate the effect of liquidity and cash management on share prices of companies quoted at the NSE. Company's liquidity had positive influence on share performance at the NSE. The study concludes that liquidity had positive significant influence on share performance; however, cash management had no significant influence on share performance for companies listed on the NSE. The study recommends further analysis of other micro and macro – economic variables that affect share performance could be conducted for companies listed in the NSE. Furthermore, the impact of Liquidity and cash management on intrinsic value share performance could be extended to Small and Medium term enterprises.

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ABBREVIATIONS

ASI	-	All Share Index
CCC	-	Cash Conversion Cycle
CMA	-	Capital Market Authority
GDP	-	Gross Domestic Product
NASDAQ	-	National Association of Securities Dealers Automated Quotation
NSE	-	Nairobi Securities Exchange

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Liquidity refers to the ability of a firm to meet its short term and long-term financial obligations as they fall due. It is therefore not surprising that liquidity is an important concept in the world of business. Research has established that liquidity is an important determinant of financial distress (Mervin, 1942; Beaver, 1966). Consequently, it is used by a variety of persons to evaluate the riskiness of firms as well as their performance. Murphy (2005) points out that Enron's bankruptcy was nearly inevitable because of the combination of the company's low cash resources and its reliance on manipulative trading profits that could not be expected to continue indefinitely. Liquidity management is concerned with making sure the firm has exactly the right amount of money and lines of credit available to the business at all times. Cash is the lifeline of a company. If this lifeline deteriorates, so does the company's ability to fund operations, reinvest and meet capital requirements and payments (McClure, 2003).

Working capital management therefore is probably one of the most central and most important responsibilities of finance managers. Current assets and current liabilities represent a significant investment by business and the liquidity position of the firm is determined by the composition and financing of these current accounts (Lamberson, 1985). Adequate working capital for business firms relative to their size is a requisite for proper conduct of business (Lamberson, 1985). The study is motivated by the importance of liquidity to determine if this have any bearing on the share performance of listed firms. Previous research provides evidence that much of the cross sectional variation in share prices can be explained by firm characteristics such as Market Capitalization and Price to Earnings Ratio (P/E), Change in Operating Earnings and Book-to- Market Ratios. For example, the market capitalization anomaly is documented by Banz (1981). Fama and French (1992, 1996) examine many of these variables simultaneously

and conclude that two factors specifically, Size and Book-to-Market, explain the majority of the cross sectional variation in stock returns.

Liquidity is a broad and elusive concept that generally denotes the ability to trade large quantities quickly, at low cost, and without moving the price (Pastor and Stambugh, 2005) just as Kyle (1985) advises, it is an ‘elusive’ and ‘slippery’ concept that is difficult to define in view of its being composed of multiple dimensions. Kyle (1985) focused on an aspect of liquidity associated with temporary price fluctuations induced by illiquidity. Liquidity is an important factor in asset pricing and Lack of liquidity has the important effects on wealth, because investors worried about the performance and capabilities of its securities trading. It is often viewed as an important feature of the investment environment and macro economy, and recent studies find that fluctuations in various measures of liquidity are correlated across assets.

Similarity, investors prefer to commit capital to liquid investment, which can be traded quickly and at low cost trading (cost of illiquidity). In equilibrium, the expected returns on capital assets are increasing functions of both risk and illiquidity (Amihud and Mendelson, 1991). Illiquidity reflects the impact of order flow on price, the discount that a seller concedes or the premium that a buyer pays when executing a market order that results from adverse selection costs and inventory costs (Amihud, 2002).

1.1.1 Cash Management

Pandey (2009) defines cash management as the managing of cash flow into and out of the firm, cash flows within the firm and the cash balances held by the firm at a point in time, by financing deficit or investing surplus cash. Cash availability is regarded as very important for any business; cash is both the basic input needed to keep the business running on a continuous basis and the ultimate output realized by selling the services or product manufactured by the firm.

Weston (1998) stated that management of cash is closely related to management of marketable securities which are regarded as near cash asset, serve as a backup to the cash account and can easily be converted into cash. When a firm has excess cash or cash that is not immediately required the cash is invested in marketable securities maturing when the cash may be required.

A firm usually becomes insolvent because it is unable to either generate sufficient cash internally or to obtain needed cash from external sources to sustain operating, investment and financing activities (Keige, 1991). Liquidity analysis therefore generally focuses on the relationship between the demand for and the supply of cash or near cash items. It is for this reason that financial ratios have been widely used to estimate liquidity of firms. Therefore, it is important to note that both the demand for and supply of near cash items is to a greater extent influenced by prevailing economic circumstances, for example interest rates will be high when the economy is in recession and this will tend to place a heavier burden on firms with outstanding obligations which will, holding other factors constant, lead to a worsening of the liquidity positions of such firms. Thus we can see that in an economy where firms compete with each other, the economy exerts a similar impact on all firms, however since some firms are healthier (financially) than others, they are able to withstand the rigors of economic downturns whereas less healthy firms fail (Ochieng, 2006).

1.1.2 Liquidity

Liquidity refers to the ease by which an asset can be sold immediately after purchase without lowering the price and without incurring transaction costs. This means that whenever an investor considers a potential investment in an asset, she considers very thoroughly the ability to sell it again, what it will cost to trade it in the future and at what price it can be sold. These considerations relate to the liquidity of the asset, and the issues considered can affect the future cash flows of the asset. As future cash flows are affected by liquidity, it must be an important

factor in asset pricing. Costly trading and possible future price reductions in case of forced sale are not pricing factors solely related to financial assets such as stocks - thus, liquidity affects the pricing of most asset classes (Acharya and Pedersen, 2005).

Liquidity measure a business' ability to meet the payment obligations by comparing the cash and near cash with the payment obligations. If the coverage of the latter by the former is insufficient, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can, in turn, affect the company's business operations and profitability. The Liquidity versus Profitability Principle: There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other (Bhushan, 1991).

Companies and financial institutions in the economic structure of communities have high importance and nature of business and investment so that to gain returns, bearing of risk is required, and risk averse investors require higher expected returns to compensate for greater risk, this issue indicates liquidity risk in mind of investors. In other words, risk and liquidity risk are one of the major financial markets paradigms so that depend maximizing shareholder wealth on, and one of the major duty of capitalization markets provide liquidity (Brealey & Myers, 2010).

Liquidity is the capacity of stocks trades without high price spread and in a minimum time. Literature investigated three aspects of liquidity: cost of tightness, depth and resiliency. The first cost is measured by bid-ask spread, and estimate the over cost bore by an impatient investor. The second aspect estimates the possibility of absorption of a large size order. The third aspect approximate the necessary delay for that prices return to their equilibrium state after to be deviated by a liquidity shocks (Omri & et al. 2000). Other definition is, Liquidity is a fundamental concept in finance which can, broadly speaking, be defined as the time and cost which are associated with the liquidation (or purchase) of a given quantity of financial securities.

Gonzalez & Rubio (2007) suggest that Liquidity consist the ease of trading any amount of a security without affecting its price and that liquidity has two key dimensions; its price and quantity characteristics¹. It is very common to proxy these two dimensions by the relative bid-ask spread and depth respectively. Liquidity thus refers to both the time and costs associated with the transformation of a given position into cash and vice versa. In regard to the above was a summary, Liquidity is an indefinable concept because it that cannot be directly observed it has many aspects. Liquidity reflects the impact of order flow on price. This impact can be observed as the discount that a seller concedes or the premium that a buyer pays when executing a market order, which results from adverse selection costs and inventory costs.

1.1.3 Share Prices

Investors normally value share prices of companies according to the available public financial information, e.g. information in annual reports and statements. However, this information hardly gives an observable explanation of the share volatility, since the annual statements are published when the market has already incorporated the information in the form of press releases and/or quarterly statements in the stock prices. Researchers who defend the efficient market hypothesis claim that the market quickly adapts to and reflects the new information, hence no abnormal returns, i.e. returns that differ from what other risky market actors, earn.

1.1.4 Effect of Cash Management and Liquidity on Share Prices

Cash management influences the general economy through a transmission mechanism. Both a restrictive and an expansionary monetary policy might have bilateral effects. In case of expansionary cash management, the government creates excess liquidity by engaging in open market operation, which results in an increase in bond price and lower interest rates. The lower interest rate would lead to the lower required rate of return and thus, the higher stock price.

Additionally, an increase in monetary growth indicates excess liquidity available for buying stocks, eventually resulting in higher stock prices due to an increase of demand to both common stocks and the real good markets. However, cash management growth might result in higher inflation and hence, higher nominal interest rate according to Fisher equation. The higher interest rate leads to the higher required rate of return, which will result in the lower stock price (Fisher, 1930).

Prices of individual stocks reflect investors' hopes and fears about the future and taken in the aggregate stock price movements can generate a tidal wave of activity (Chen and Siems, 2002). Disastrous events can have negative implications for stocks and bonds because of their impact on liquidity (Barrett et. al. 1987). Decisions to buy and sell quickly, easily and inexpensively can be reversed in liquid markets. Investors are concerned about liquidity risk because it affects their ability to trade the quantity of shares they want to buy or sell within their desired time frame (Vassalou et.al. 2005). Most importantly investors fear that in the event of a financial crisis they may not be able to exit the market fast enough to contain their losses. Generally stock market liquidity is affected by various cataclysmic events and macroeconomic variables but our main emphasis in this study is firm's liquidity.

1.1.5 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the principal stock exchange of Kenya. It began in 1954 as an overseer security exchange while Kenya was still a British colony with permission of the London Stock Exchange. From being a small market, the current NSE has transformed into a vibrant capital market in East and Central Africa being rated 4th best performing bourse in Africa. In 1991 the NSE faced out the call-out system in favour of the open-cry system that had been in application there before. These development was aimed at enhancing the growth of capital market that were facilitated by the Kenya governments through the policy reforms to

foster sustained economic development through the creation of the Capital Market Authority (CMA) as the industry regulator through an Act of Parliament (1989).

In particular it set out to reduce the demand of public enterprises on the exchequer, rationalize the operations of the public enterprises, to broaden the base of ownership, and enhance the capital market operations. The exchange controls were also removed allowing foreign participation in the market. The NSE trades a wide range of products both fixed and variable income securities i.e. preference shares, stocks, debentures, municipal and government bonds. The capital market performance is measured using two indices i.e. the NSE 20 share index (comprised of the best 20 blue chip companies) and the All Share Index (ASI) that measures the performance of all companies trading on the NSE respectively.

Ngugi and Njiru (2005) in their study stated that the NSE came into being in the 1920s when Kenya was a British colony when an informal way of dealing in shares and stocks was commenced. The business of shares trading was restricted only to the resident of European community and Africans and Asians were not permitted to deal in securities. In 1963, Kenya became independent and Africans and Asians were permitted to deal in securities. The NSE is a member of the African Stock Exchanges Association. It is Africa's fourth largest stock exchange in terms of trading volumes, and fifth in terms of market capitalization as a percentage of gross Domestic Product (GDP). It has changed its name to Nairobi Securities Exchange this year 2011. This study will be carried out based on only those companies quoted in Nairobi Securities Exchange.

1.2 Research Problem

Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. Liquidity ratios are used for liquidity management in

every organization in the form of current ratio, quick ratio and Acid test ratio that greatly effect on profitability of organization. So business has enough liquid assets (Cash, Bank) to meet the payment schedule by comparing the cash and near-cash with the payment obligations. Liquidity ratios work with cash and near-cash assets (together called "current" assets) of a business on one side, and the immediate payment obligations (current liabilities) on the other side. The near-cash assets mainly include receivables from customers and inventories of finished goods and raw materials. The payment obligations include dues to suppliers, operating and financial expenses that must be paid shortly and maturing installments under long-term debt (Chan et al; 2005).

Operating cash generate by assets will affect continuing firm liquidity. It is not only because of the value of liquidation (Soenen, 1993). Firms with fewer current assets will having problem in continuing their operations while if the current assets are too much, it shows the return on investment is not in perfect condition (Horne and Wachowicz, 2000). Since optimum cash levels are influenced by the factors outside the preventive concept of treasury, the company must think broad and take serious operational decisions on how to the profit opportunities that is available in cash flow process. According to Amihud and Mendelson (1986) illiquidity is driven by the explicit and implicit costs of buying or selling the stock. The cost of liquidity is therefore the sum of three components: adverse selection costs, opportunity costs, and direct costs (commissions and fees). Liquidity is an important determinant of financial distress, because without liquidity a firm cannot meet its financial obligations (Mervin, 1942; Beaver, 1996).

In developing countries, governments often do not pay attention to issues related to cash management. Budget execution procedures and the management of cash flows focus on compliance issues, while daily cash needs are met at low cost by the Central Bank. Spending units are not concerned with borrowing costs since their interests are already taken account in the budget prepared by the Ministry of Finance. According to the central bank of Kenya guidelines on liquidity management, it is a crucial element in the management of an institution. It is

therefore important for management of any firm to not only measure liquidity on an ongoing basis but also examine ways of how to fund liquidity requirements during distress. The apparent variability of liquidity of companies with time has real implications for the business community especially its effect on Share performance and is therefore deserving of further research.

Previous research done on liquidity and share performance include a study by Sitienei (2005) in which he set to determine the relationship between liquidity and stock ownership patterns at the NSE, Wahiu (1999) looked at the relationship between liquidity and macro-economic variables and Simbovo (2006) who studies the effect of stock splits and large stock dividend on liquidity, evidence from the NSE. The focus of these, and other more studies is on liquidity of the market but considering the important role firm liquidity play in creating value for the shareholders of corporations, this paper proposes to study the relationship firm liquidity and cash management on share performance. Lumbasyo (1976) carried out a case study on cash management in Kenya firms. Since then, a lot of factors may have changed. Sales trend, level of expenditure and receipts, inflation rates, foreign exchange rates, level of awareness of the significance of proper management and level of computerisation are example of factors that have changed. Despite the importance of liquidity no study has been undertaken in Kenya to determine what effect it has on share prices. The study attempts to investigate the relationship between the liquidity of quoted firms and share performance. This study attempted to answer the following questions: Does a relationship exist between the liquidity of quoted firms and share performance? What is the magnitude or strength of the relationship, if one exists? What is the effect of sector categorization on the relationship between liquidity and share performance?

1.3 Objective of the Study

The overall objective was to establish whether cash management and liquidity have an effect on share performance at the Nairobi Securities Exchange.

The specific objectives were:

- i) To establish the relationship between the liquidity of quoted firms and share performance.
- ii) To determine the magnitude of the relationship between liquidity and share performance of quoted firms.
- iii) To find the effect of sector categorization on the relationship between liquidity and share performance of quoted firms.

1.4 Value of the Study

The study will offer valuable contribution to theory and practice. First the study will add value to the body of corporate financial management discipline especially in the more demanding concerns of financial market and behavioral finance. The research will contribute to the general body of knowledge and form a basis for further research by identifying the knowledge gap that arises from this study. In addition, the study will enhance further discussions on firm liquidity among financial consultants and financiers thus making significant contribution to the body of knowledge that already exist.

To practice, the findings of this study will be of interest to financial managers, investors, financial analysts, academicians and the Government. This study will be of use to financial analysts since liquidity is a key indicator and predictor of bankruptcy and solvency. Financial analysts will therefore be in a position to appreciate the relationship between liquidity and share performance and therefore advice the firms appropriately.

To the financial managers and economic policy makers, identification of factors influencing pricing of stocks at emerging markets such as NSE is essential to the institution of public and private policies geared towards improving the stability and efficiency of stock markets. Investors are concerned about liquidity risk. It affects their ability to trade the quantity of shares they want to buy or sell within their desired time-framework. Investors will be in a position to make better investment decisions aided by the findings of the study.

Academicians will find the study necessary in forming the basis for future research in finance. Policy maker mainly the government which is positive to influence some of the variables tackled in this study through either monetary or fiscal policy. These parties would gain a deeper appreciation of the impact of their decisions on the shared performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looked into the various existing literature both foreign and local studies on cash management and firm liquidity. In addition it looks at theories relevant to the study, the Significance of Liquidity Management on Performance, Measures of Liquidity and NSE in brief and concludes by highlighting the measures used in liquidity by different authors.

2.2 Theoretical Review

The specific areas covered here were theories on cash conversion cycle, Dow Theory, random walks theory and its effect on share prices.

2.2.1 The Cash Conversion Cycle Theory

The theory integrates both sides of working capital. In their seminal paper, Richards and Laughlin (1980) devised this method of working capital as part of a broader framework of analysis known as the working capital cycle. It claims that the method is superior to other forms of working capital analysis that rely on ratio analysis or a decomposition of working capital as claimed above. The CCC is calculated by subtracting the payables deferral period ($360/\text{annual payables turnover}$) from the sum of the inventory conversion period ($360/\text{annual inventory turnover}$) and the receivables conversion period ($360/\text{annual receivables turnover}$). More recently, the number of days per year that appears in the denominator as 360 has been replaced by 365 to improve accuracy. Since, each of these three components is denominated by some number of days; the CCC is also expressed as a number of days. It has been interpreted as a time interval between the cash outlays that arise during the production of output and the cash inflows that result from the sale of the output and the collection of the accounts receivable (Olufemi & Olubanjo, 2009).

2.2.2 Dow Theory

The Dow Theory is a theory dealing with the technical analysis of stock and is perhaps one of the first theory's dealing with technical analysis. It was created by Charles H. Dow in the early 1900's who theorized on how the stock market behaved and how the market can be used to measure the health of businesses in general. While his theory focused mainly on price, it differs a bit from mainstream technical analysis because the theory is concerned with movements of the broad markets rather than with specific securities. Charles Dow believed that all information including past, present and future is reflected in the price of stocks and indexes. The Dow Theory also suggests that the market discounts everything. As a result investors only need to focus on the stock price movements itself rather than on the reasons for the price movement. Again, this falls in line with the basic principles of stock technical analysis as opposed to fundamental analysis.

These factors that affect pricing however include many things such as inflation, interest rates, state of the economy, politics, as well as investor sentiment and emotion. Many long term traders study these intrinsic factors, through fundamental analysis, while technical analysts believe that these factors are already expressed in the price movements. Basically the Dow Theory suggests that all factors are priced into the market, those that could happen, those that have happened, and those that are expected to happen. The stock market then adjusts, along with the prices, to reflect the new information. Under the Dow Theory a major reversal from a bear to a bull market cannot be signaled unless both indexes both show it occurring (Fisher, 1930).

The Dow Theory also suggests that when stock market is doing well it is because conditions are good overall. Conversely, when the market is doing poorly, then it is due to poor business conditions. Again, as stated above, if the two market indexes are conflicting, then there is no clear trend in the general condition of businesses. There are many other theories and tools

available to investors who are interested particularly in short term stock trading. Explore the basics as well as the technical indicators that signal things which are occurring in the markets.

Candlestick analysis is extremely good for analyzing the market trends in general. The question that is often asked is which market index is best to use for analyzing the market trend. The Dow is often criticized for having too few stocks to represent the overall market. The NASDAQ or the S&P 500 are more representative of the markets in general because of the larger number of stocks represented. When applying candlestick analysis, time is not lost when analyzing all three indexes. Due to the simplicity of the visual analysis, making an assessment of the market trend can be done relatively easy in less than one minute total each afternoon (Rhea, 1932).

Although the Dow is comprised of only 30 stock positions, it is representative of what the big money managers are thinking (Rhea, 1932). The Dow stocks have daily volume that can accommodate large trade positions. Large trade positions obviously come from the large managed money. When you have billions of dollars to be employed, the money managers of large investment funds are going to be restricted to the stock positions that can bear the brunt of their large money positions. The Dow continues to be a very good representation of investor sentiment.

2.2.3 Random Walks Theory

Malkiel, a Princeton Economist, argues that price movements are largely random and investors cannot outperform the major indices. Malkiel asserts that price movements in securities are unpredictable. Because of this random walk, investors cannot consistently outperform the market as a whole. Applying fundamental analysis or technical analysis to time the market is a waste of time that will simply lead to underperformance. Investors would be better off buying and holding an index fund.

Random walk theory jibes with the semi-strong efficient hypothesis in its assertion that it is impossible to outperform the market on a consistent basis. This theory argues that stock prices are efficient because they reflect all known information (earnings, expectations, dividends). Prices quickly adjust to new information and it is virtually impossible to act on this information. Furthermore, price moves only with the advent of new information and this information is random or unpredictable (Admati & Pfleiderer, 1988).

In order to put the theory of random walks into perspective we first discuss, in brief and general terms, the two approaches to predicting stock prices that are commonly espoused by market professionals. These are (1) "chartist" or "technical" theories and (2) the theory of fundamental or intrinsic value analysis. The basic assumption of all the chartist or technical theories is that history tends to repeat itself, i.e., past patterns of price behavior in individual securities will tend to recur in the future. Thus the way to predict stock prices (and, of course, increase one's potential gains) is to develop a familiarity with past patterns of price behavior in order to recognize situations of likely recurrence. Essentially, then, chartist techniques attempt to use knowledge of the past behavior of a price series to predict the probable future behavior of the series. A statistician would characterize such techniques as assuming that successive price changes in individual securities are dependent. That is, the various chartist theories assume that the sequence of price changes prior to any given day is important in predicting the price, change for that day (Fama & Schwert, 1977).

The techniques of the chartist have always been surrounded by a certain degree of mysticism, however, and as a result most market professionals have found them suspect. Thus it is probably safe to say that the pure chartist is relatively rare among stock market analysts. Rather the typical analyst adheres to a technique known as fundamental analysis or the intrinsic value method. The assumption of the fundamental analysis approach is that at any point in time an individual security has an intrinsic value (or in the terms of the economist, an equilibrium price) which

depends on the earning potential of the security. The earning potential of the security depends in turn on such fundamental factors as quality of management, outlook for the industry and the economy. Through a careful study of these fundamental factors the analyst should, in principle, be able to determine whether the actual price of a security is above or below its intrinsic value. If actual prices tend to move toward intrinsic values, then attempting to determine the intrinsic value of a security is equivalent to making a prediction of its future price; and this is the essence of the predictive procedure implicit in fundamental analysis (Cootner,1964).

Chartist theories and the theory of fundamental analysis are really the province of the market professional and to a large extent teachers of finance. Historically, however, there has been a large body of academic people, primarily economists and statisticians, who adhere to a radically different approach to market analysis of the theory of random walks in stock market prices. The remainder of this article will be devoted to a discussion of this theory and its major implications. Random walk theorists usually start from the premise that the major security exchanges are good examples of "efficient" markets. An "efficient" market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value (Bernanke & Kuttner, 2005).

The challenge of the theory of random walks to the proponent of fundamental analysis, however, is more involved. If the random walk theory is valid and if security exchanges are "efficient" markets, then stock prices at any point in time will represent good estimates of intrinsic or

fundamental values. Thus, additional fundamental analysis is of value only when the analyst has new information which was not fully considered in forming current market prices, or has new insights concerning the effects of generally available information which are not already implicit in current prices. If the analyst has neither better insights nor new information, he may as well forget about fundamental analysis and choose securities by some random selection procedure. In essence, the challenge of the random walk theory to the proponent of fundamental analysis is to show that his more complicated procedures are actually more profitable than a simple random selection policy. As in the case of the chartist, the challenge is an empirical one. The analyst cannot merely protest that he thinks the securities he selects do better than randomly selected securities; he must demonstrate that this is in fact the case (Chalmers & Kadlec, 1998).

2.3 Empirical Review

A review of the empirical studies and previous studies done in Kenya on stock market and liquidity indicate that very little work has been done in this area. A lot has been done on the effects of macroeconomic variables on the stock market returns which finally relates to stock market liquidity (Waciira, 1999). Sitienei (2005) studied the relationship between liquidity and stock ownership pattern at the NSE. His main objectives were to document the ownership pattern and liquidity of stocks listed at the NSE; and to determine the relationship between stock liquidity and stock ownership patterns traded at NSE. The results of his study support the fact that there is a positive relationship between liquidity, shares outstanding, number of shareholders, public ownership as well as foreign ownership.

Kamanda (2001) set out to determine and evaluate quoted equity portfolios of insurance companies. He did this by examining the risk return characteristics of the equity portfolios held by the individual insurance companies. His major finding was that quoted equity portfolios held by Insurance companies were poorly diversified as they had performed worse than the market

portfolio. Kangethe (2000) set out to investigate the effect of Government ownership on share price volatility of companies quoted at Nairobi Securities Exchange for the period 1997 to 1998. The specific objective of the study was to establish whether government ownership influences the share price volatility of the companies quoted at the Nairobi Securities Exchange. He found that there was a significant difference in the share stock volatility between the companies in which the government had shareholding and the market index.

Ochieng (2006) studied the relationship between working capital of firms listed in NSE and economic activities in Kenya. The objective was to examine how the changes in economic activities affect changes in working capital by firms listed in NSE. The liquidity position of the 50 small firms included in this study as measured by the current and quick ratios increased slightly during economic expansions and decreased during economic slowdown. However the liquidity positions reacted differently to different economic indications.

A study done by Tamari (1966) has shown that liquidity ratios are strong predictors of financial distress in a study of companies based in the US and elsewhere. In Kenya, similar work has been done by Keige (1991) who also established the viability of liquidity ratios in predicting financial distress as early as two years in advance. Meigs and Meigs (1999), observe that being too liquid is as costly as having too little liquidity. The objective of liquidity management therefore is to ensure that a firm will be able to meet in full all its obligations as and when they fall due (Gardner and Mills, 1994).

2.4 Summary of Literature Review

This chapter comprised of the theoretical review and the review of previous studies on the study area. This study was guided by cash conversion cycle, Dow theory and the random walks theory. These theories show the relationship between cash management, liquidity and share performance. Various studies were also reviewed in an attempt to explain the effect of cash

management, liquidity on share prices. However, a review of the literature established that very few studies have been conducted in the Kenyan context in regard to the study topic. This study there will fill this gap conducting a study to show the relationship between cash management, liquidity and share prices on companies listed in the NSE.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the research methodology used in the study including the research design, population of the study, sample size, data collection instruments and procedures and data analysis.

3.2 Research Design

The study was a census study because data was gathered on every member of the population. Sometimes, the entire population is Cooper & Schindler (2007) a census is feasible when the population is small and necessary when the elements are quite different from each other. When the population is small and variable, any sample we draw may not be representative of the population from which it is drawn. Hence, this was appropriate for the study.

3.3 Population of the study

The population of interest in this study consisted of all the firms quoted at the Nairobi Securities Exchange (N.S.E). There were 59 companies listed on the NSE as at August 2012. The study collected data for all the companies listed at the NSE thus a census study was adopted and there was no sampling since the population was small.

3.4 Data Collection

This study was facilitated by the use of secondary data, which was obtained at the N.S.E library and from other financial intermediaries. Where data was not available from Nairobi Securities Exchange reference was made to annual financial reports published by companies studied. Secondary data was collected for a period of 5years back dating 2011 December so that we could get the prices changes. The following data was collected, average share prices for the month,

3.5 Data Analysis

The data collected was analyzed using multiple regression analysis to estimate the effect of liquidity and cash management on share prices of companies quoted at the NSE. Regression analysis was used to establish the relationship between the liquidity and share prices. Positive p-value showed a direct relationship while a negative p-value showed an inverse relationship. The test of significance was undertaken to analyze the magnitude of the relationship.

The following formula was adopted

The regression model was as follows:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

y = Share Prices: The average monthly share prices from NSE

β_0 = Constant Term

β_1 = Beta coefficients

X_1 = Liquidity: Liquidity ratio = Current Assets / Current Liabilities

X_2 = Cash Management: Use Cash Conversion Cycle (CCC)

Inventory Conversion Period = Inventory / Sales per day

Receivables Collection Period = Receivables / Sales per day

Payables deferral Period = Payables / Cost of goods sold per day

CCC = Inventory conversion period + Receivable collection period - Payable deferral period.

E = error term

The analysis of quantitative data was carried out using SPSS (Statistical Package for Social Science) and then presented in form of tables. F test was used to test for the strength of the relationship between Y and X. The f- test determined the significance of the overall model and whether all the variables influence the dependent variable. Z -test was also adopted to test formulated hypotheses.

CHAPTER FOUR: DATA ANALYSIS

4.1 Introduction

This chapter focused on presentation and analysis of research data. Data analysis addressed the main objective identified in chapter one, which sought to determine whether cash management and liquidity have an effect on share performance at the Nairobi Securities Exchange.

4.2 Regression Results and Analysis

4.2.1 Overall Regression for Five Years

The table below presents the model summary results for all the five years for listed companies in the Nairobi Securities exchange.

Table 4. 1: Model Summary for Five Years

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.205 ^a	.042	.028	68.56616

a. Predictors: (Constant), X2Overall, X1Overall

Source: Research data NSE

The study established the correlation coefficient R for all the five years under study to be 0.205 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were fairly weak.

The study further established the R^2 value to be 0.042. This implied that up to 4.2% of variations in share prices could be explained by changes in liquidity and cash management for the entire five years. 95.8% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the entire five years under study.

Table 4. 2: ANOVA^a for Five Years

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29380.355	2	14690.177	3.125	.047 ^b
	Residual	672288.494	143	4701.318		
	Total	701668.848	145			

a. Dependent Variable: Y1Overall

b. Predictors: (Constant), X2Overall, X1Overall

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.047. This implied that the entire model was significant at 5% level of significance since the p-value was less than 0.05. Hence the regression model would be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the five years under study.

Table 4. 3: Coefficients for Five Years

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	28.041	13.090		2.142	.034
X1Overall	17.534	7.347	.202	2.387	.018
X2Overall	-.026	.020	-.112	-1.319	.189

a. Dependent Variable: Y1Overall

Source: Research data NSE

Based on the results the study established the regression model for the entire five years to be as follows:

$$Y = 28.041 + 17.534X_1 - 0.026X_2$$

The constant coefficient of 28.041 implies that in absence of liquidity and cash management variables the share price of a security would be Ksh.28.041. The corresponding p-value was 0.034. Since 0.034 was less than 0.05, this implied that the constant coefficient was significant at 5% level of significance.

The liquidity coefficient X_1 was found to be 17.054. This implied that a unit increase in current asset to current liability variable would increase the share price of the company by Ksh.17.534. The corresponding p-value was found to be 0.018. Since the coefficients p-value was less than 0.05, this implied that liquidity was significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be -0.026. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding decrease in the share price by Ksh.0.026. The corresponding p-value was found to be 0.189. Since the p-value was greater than 0.05, this implied that cash management was not significant at 5% level of significance in influencing variations in share prices.

4.2.2 Regression Results 2011

The table below presents the model summary results for the year 2011 for listed companies in the Nairobi Securities Exchange.

Table 4. 4: Model Summary^a 2011

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.058 ^a	.003	-.068	63.05712

a. Predictors: (Constant), X22011, X12011

Source: Research data NSE

The study established the correlation coefficient R for the year 2011 under study to be 0.058 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were weak.

The study further established the R^2 value to be 0.003. This implied that up to 0.3% of variations in share prices in 2011 could be explained by changes in liquidity and cash management for the year 2011. 99.7% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the year 2011.

Table 4. 5: ANOVA^a 2011

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	378.739	2	189.369	.048	.954 ^b
Residual	111333.618	28	3976.201		
Total	111712.357	30			

a. Dependent Variable: Y2011

b. Predictors: (Constant), X22011, X12011

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.954. This implied that the entire model was not significant at 5% level of significance since the p-value was greater than 0.05. Hence the regression model would not be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the year 2011.

Table 4. 6: Coefficients^a 2011

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	37.102	26.420		1.404	.171
	X12011	2.884	15.589	.038	.185	.855
	X22011	-.007	.024	-.060	-.298	.768

a. Dependent Variable: Y2011

Source: Research data NSE

Based on the results the study established the regression model for the year 2011 to be as follows:

$$Y = 37.102 + 2.884X_1 - 0.007X_2$$

The constant coefficient of 37.102 implies that in absence of liquidity and cash management variables the share price of a security would be Ksh.37.102. The corresponding p-value was 0.171. Since 0.171 was greater than 0.05, this implied that the constant coefficient was not significant at 5% level of significance.

The liquidity coefficient X_1 was found to be 2.884. This implied that a unit increase in current asset to current liability variable would increase the share price of the company by Ksh. 2.884. The corresponding p-value was found to be 0.855. Since the coefficients p-value was greater than 0.05, this implied that liquidity was not significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be -0.007. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding decrease in the share price by Ksh.0.007. The corresponding p-value was found to be 0.768. Since the p-value was greater than 0.05, this implied that cash management was not significant at 5% level of significance in influencing variations in share prices.

4.2.3 Regression Results 2010

The table below presents the model summary results for all the year 2010 for listed companies in the Nairobi Securities exchange.

Table 4. 7: Model Summary 2010

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.133 ^a	.018	-.053	72.47832

a. Predictors: (Constant), X22010, X12010

Source: Research data NSE

The study established the correlation coefficient R for year 2010 under study to be 0.133 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were fairly weak.

The study further established the R^2 value to be 0.018. This implied that up to 1.8% of variations in share prices could be explained by changes in liquidity and cash management for the year 2010. 98.2% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the year 2010 under study.

Table 4. 8: ANOVA^a 2010

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2632.382	2	1316.191	.251	.780 ^b
Residual	147087.008	28	5253.107		
Total	149719.390	30			

a. Dependent Variable: Y2010

b. Predictors: (Constant), X22010, X12010

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.780. This implied that the entire model was not significant at 5% level of significance since the p-value was greater than 0.05. Hence the regression model would not be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the year 2010 under study.

Table 4. 9: Coefficients^a 2010

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	55.108	30.064		1.833	.077
1 X12010	-1.629	16.551	-.019	-.098	.922
X22010	-.027	.041	-.127	-.655	.518

a. Dependent Variable: Y2010

Source: Research data NSE

Based on the results the study established the regression model for the entire five years to be as follows:

$$Y = 55.108 - 1.629X_1 - 0.027X_2$$

The constant coefficient of 55.108 implies that in absence of liquidity and cash management variables the share price of a security would be Ksh.55.108. The corresponding p-value was 0.077. Since 0.077 was greater than 0.05, this implied that the constant coefficient was not significant at 5% level of significance.

The liquidity coefficient X_1 was found to be -1.629. This implied that a unit increase in current asset to current liability variable would decrease the share price of the company by Ksh.1.629. The corresponding p-value was found to be 0.922. Since the coefficients p-value was greater than 0.05, this implied that liquidity was not significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be -0.027. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding decrease in the share price by Ksh.0.027. The corresponding p-value was found to be 0.518. Since the p-value was greater than 0.05, this implied that cash management was not significant at 5% level of significance in influencing variations in share prices.

4.2.4 Regression Results 2009

The table below presents the model summary results for the year 2009 for listed companies in the Nairobi Securities Exchange.

Table 4. 10: Model Summary 2009

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.457 ^a	.209	.148	65.64294

a. Predictors: (Constant), X22009, X12009

Source: Research data NSE

The study established the correlation coefficient R for all the year 2009 under study to be 0.457 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were moderate.

The study further established the R^2 value to be 0.209. This implied that up to 20.9% of variations in share prices could be explained by changes in liquidity and cash management for the year 2009. 79.1% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the year 2009 under study.

Table 4. 11: ANOVA^a 2009

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	29563.256	2	14781.628	3.430	.048 ^b
Residual	112033.891	26	4308.996		
Total	141597.146	28			

a. Dependent Variable: Y2009

b. Predictors: (Constant), X22009, X12009

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.048. This implied that the entire model was significant at 5% level of significance since the p-value was less than 0.05. Hence the regression model would be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the year 2009 under study.

Table 4. 12: Coefficients^a 2009

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.969	27.455		-.072	.943
1 X12009	37.491	16.253	.453	2.307	.029
X22009	.007	.159	.009	.046	.964

a. Dependent Variable: Y2009

Source: Research data NSE

Based on the results the study established the regression model for the entire five years to be as follows:

$$Y = -1.969 + 37.491X_1 + 0.007X_2$$

The liquidity coefficient X_1 was found to be 37.419. This implied that a unit increase in current asset to current liability variable would increase the share price of the company by Ksh.37.491. The corresponding p-value was found to be 0.029. Since the coefficients p-value was less than 0.05, this implied that liquidity was significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be 0.007. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding increase in the share price by Ksh.0.007. The corresponding p-value was found to be 0.964. Since the p-value was greater than 0.05, this implied that cash management was not significant at 5% level of significance in influencing variations in share prices.

4.2.5 Regression Results 2008

The table below presents the model summary results for all the year 2008 for listed companies in the Nairobi Securities exchange.

Table 4. 13: Model Summary 2008

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.387 ^a	.149	.089	63.59737

a. Predictors: (Constant), X22008, X12008

Source: Research data NSE

The study established the correlation coefficient R for all the year 2008 under study to be 0.387 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were fairly weak.

The study further established the R²value to be 0.149. This implied that up to 14.9% of variations in share prices could be explained by changes in liquidity and cash management for the year 2008. 85.1% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the year 2008 under study.

Table 4. 14: ANOVA^a 2008

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	19892.844	2	9946.422	2.459	.104 ^b
Residual	113249.503	28	4044.625		
Total	133142.347	30			

a. Dependent Variable: Y2008

b. Predictors: (Constant), X22008, X12008

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.104. This implied that the entire model was not significant at 5% level of significance since the p-value was greater than 0.05. Hence the regression model would not be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the year 2008 under study.

Table 4. 15: Coefficients^a 2008

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.506	25.700		.214	.832
1 X12008	30.970	14.036	.398	2.206	.036
X22008	-.079	.100	-.141	-.784	.439

a. Dependent Variable: Y2008

Source: Research data NSE

Based on the results the study established the regression model for the year 2008 to be as follows:

$$Y = 5.506 + 30.970X_1 - 0.079X_2$$

The constant coefficient of 5.506 implies that in absence of liquidity and cash management variables the share price of a security would be Ksh.5.506. The corresponding p-value was 0.832. Since 0.832 was greater than 0.05, this implied that the constant coefficient was not significant at 5% level of significance.

The liquidity coefficient X_1 was found to be 30.970. This implied that a unit increase in current asset to current liability variable would increase the share price of the company by Ksh.30.970. The corresponding p-value was found to be 0.036. Since the coefficients p-value was less than 0.05, this implied that liquidity was significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be -0.079. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding decrease in the share price by Ksh.0.079. The corresponding p-value was found to be 0.439. Since the p-value was greater than 0.05, this implied that cash management was not significant at 5% level of significance in influencing variations in share prices.

4.2.6 Regression Results 2007

The table below presents the model summary results for the year 2007 for listed companies in the Nairobi Securities exchange.

Table 4. 16: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.528 ^a	.279	.210	71.16085

a. Predictors: (Constant), X22007, X12007

Source: Research data NSE

The study established the correlation coefficient R for all the year 2007 under study to be 0.528 implying that the strength of linear relationship between company share prices and liquidity and cash management variables were moderate.

The study further established the R^2 value to be 0.279. This implied that up to 27.9% of variations in share prices could be explained by changes in liquidity and cash management for the year 2007. 72.1% of variations in share prices were due to other factors other than liquidity and cash management variations.

The table below presents summary results for Analysis of Variance of the year 2007 under study.

Table 4. 17: ANOVA^a 2007

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	41086.720	2	20543.360	4.057	.032 ^b
Residual	106341.193	21	5063.866		
Total	147427.912	23			

a. Dependent Variable: Y2007

b. Predictors: (Constant), X22007, X12007

Source: Research data NSE

Based on the results the study established that the p-value for the model was 0.032. This implied that the entire model was significant at 5% level of significance since the p-value was less than 0.05. Hence the regression model would be reliable to draw conclusions from.

The table below presents coefficient results obtained for the regression model for the year 2007 under study.

Table 4. 18: Coefficients^a 2007

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	93.197	40.133		2.322	.030
	X12007	-4.865	22.246	-.041	-.219	.829
	X22007	-.291	.102	-.528	-2.845	.010

a. Dependent Variable: Y2007

Source: Research data NSE

Based on the results the study established the regression model for the entire five years to be as follows:

$$Y = 93.197 - 4.865X_1 - 0.291X_2$$

The constant coefficient of 93.197 implies that in absence of liquidity and cash management variables the share price of a security would be Ksh.93.197. The corresponding p-value was 0.030. Since 0.030 was less than 0.05, this implied that the constant coefficient was significant at 5% level of significance.

The liquidity coefficient X_1 was found to be -4.865. This implied that a unit increase in current asset to current liability variable would decrease the share price of the company by Ksh.4.865. The corresponding p-value was found to be 0.829. Since the coefficients p-value was greater than 0.05, this implied that liquidity was not significant at 5% level of significance in influencing variations in share prices.

The cash management coefficient X_2 was found to be -0.291. This implied that an increase in the cash conversion cycle by 1 day would cause a corresponding decrease in the share price by Ksh.0.291. The corresponding p-value was found to be 0.010. Since the p-value was less than 0.05, this implied that cash management was significant at 5% level of significance in influencing variations in share prices.

4.3 Relationship between Liquidity and Share Prices in Various Sectors

4.3.1 Agriculture Sector

The table below presents findings for the relationship between liquidity and share prices in the Agriculture sector.

Table 4. 19: Correlations Agriculture Sector

		AgricultureSP	AgricultureLIQ
AgricultureSP	Pearson Correlation	1	.630**
	Sig. (2-tailed)		.001
	N	31	31

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be 0.630 for this sector. This implied that there was a positive relationship between share performance and liquidity. The corresponding p-value was found to be 0.001. Since it was less than 0.05, this implied the relationship between share performance and liquidity for this sector was significant.

4.3.2 Automobiles and Accessories Sector

The table below presents findings for the relationship between liquidity and share prices in the Automobiles and Accessories Sector.

Table 4. 20: Correlations Automobiles and Accessories Sector

		AutomobileSP	AutomobileLIQ
	Pearson Correlation	1	-.443
AutomobileSP	Sig. (2-tailed)		.051
	N	20	20

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be -0.443 for this sector. This implied that there was a negative relationship between share performance and liquidity. The corresponding p-value was found to be 0.051. Since it was greater than 0.05, this implied the relationship between share performance and liquidity for this sector was not significant.

4.3.3 Commercial and Services Sector

The table below presents findings for the relationship between liquidity and share prices in the Commercial and Services Sector.

Table 4. 21: Correlations Commercial and Services Sector

		CommercialSP	CommercialLIQ
CommercialSP	Pearson Correlation	1	.579**
	Sig. (2-tailed)		.001
	N	33	33

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be 0.579 for this sector. This implied that there was a positive relationship between share performance and liquidity. The corresponding p-value was found to be 0.001. Since it was less than 0.05, this implied the relationship between share performance and liquidity for this sector was significant.

4.3.4 Construction and allied Sector

The table below presents findings for the relationship between liquidity and share prices in the Construction and allied Sector.

Table 4. 22: Correlations Construction and allied Sector

		ConstructionSP	ConstructionLIQ
ConstructionSP	Pearson Correlation	1	.283
	Sig. (2-tailed)		.180
	N	24	24

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be 0.283 for this sector. This implied that there was a positive relationship between share performance and liquidity. The corresponding p-value was found to be 0.180. Since it was greater than 0.05, this implied the relationship between share performance and liquidity for this sector was not significant.

4.2.5 Energy and Petroleum Sector

The table below presents findings for the relationship between liquidity and share prices in the Energy and Petroleum Sector.

Table 4. 23: Correlations Energy and Petroleum Sector

		EnergySP	EnergyLIQ
EnergySP	Pearson Correlation	1	-.302
	Sig. (2-tailed)		.196
	N	20	20

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be -0.302 for this sector. This implied that there was a negative relationship between share performance and liquidity. The corresponding p-value was found to be 0.196. Since it was greater than 0.05, this implied the relationship between share performance and liquidity for this sector was not significant.

4.3.6 Investment Sector

The table below presents findings for the relationship between liquidity and share prices in the Investment sector.

Table 4. 24: Correlations Investment Sector

		InvestmentSP	InvestmentLIQ
	Pearson Correlation	1	.776 ^{**}
InvestmentSP	Sig. (2-tailed)		.002
	N	13	13

^{**}. Correlation is significant at the 0.01 level (2-tailed).

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be 0.779 for this sector. This implied that there was a positive relationship between share performance and liquidity. The corresponding p-value was found to be 0.002. Since it was less than 0.05, this implied the relationship between share performance and liquidity for this sector was significant.

4.3.7 Manufacturing and allied Sector

The table below presents findings for the relationship between liquidity and share prices in the Manufacturing and allied Sector.

Table 4. 25: Correlations Manufacturing and allied Sector

	ManufacturingSP	ManufacturingLIQ
Pearson Correlation	1	-.261
ManufacturingSP Sig. (2-tailed)		.253
N	21	21

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be -0.261 for this sector. This implied that there was a negative relationship between share performance and liquidity. The corresponding p-value was found to be 0.253. Since it was greater than 0.05, this implied the relationship between share performance and liquidity for this sector was not significant.

4.3.8 Telecommunication and Technology Sector

The table below presents findings for the relationship between liquidity and share prices in the Agriculture sector.

Table 4. 26: Correlations Telecommunication and Technology Sector

	TelSP	TelLIQ
Pearson Correlation	1	.748*
TelSP Sig. (2-tailed)		.021
N	9	9

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research data NSE

The results established the Pearson correlation coefficient between share price and liquidity to be 0.748 for this sector. This implied that there was a positive relationship between share performance and liquidity. The corresponding p-value was found to be 0.021. Since it was less than 0.05, this implied the relationship between share performance and liquidity for this sector was significant.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of the findings from chapter four, and also gives conclusions and recommendations of the study based on the objective of the study which sought to determine whether cash management and liquidity have an effect on share performance at the Nairobi Securities Exchange.

5.2 Summary of Findings

5.2.1 Effect of Liquidity on Share Performance

As regards liquidity when examining the entire period of study, this study found that extent of a company's liquidity had positive influence on share performance at the Nairobi Securities Exchange as shown in table 4.3 above. This implied that an improvement in liquidity position had a corresponding favorable outcome on the listed company's share performance. From table 4.3 above, liquidity was also established to be significant at 5% level of significance. The study further established the R^2 value to be 0.042 as shown in table 4.1 above. This implied that up to 4.2% of variations in share prices could be explained by changes in liquidity and cash management for the entire five years. 95.8% of variations in share prices were due to other factors other than liquidity and cash management variations. Finally, based on table 4.2 above, the study established that the p-value for the model was 0.047. This implied that the entire model was significant at 5% level of significance since the p-value was less than 0.05. Hence the regression model would be reliable to draw conclusions from.

5.2.2 Effect of Cash Management on Share Performance

As regards cash management when examining the entire period of study as in table 4.3, this study found that extent of a company's cash conversion cycle had negative influence on share performance at the Nairobi Securities Exchange. This implied that an improvement in cash management position, that is low cash conversion cycle, had a corresponding favourable outcome on the listed company's share performance. However, cash management was found not to be significant at 5% level of significance as shown in table 4.3 above. The study further established the R^2 value to be 0.042 as shown in table 4.1 above. This implied that up to 4.2% of variations in share prices could be explained by changes in liquidity and cash management for the entire five years. 95.8% of variations in share prices were due to other factors other than liquidity and cash management variations. Finally, based on table 4.2 above, the study established that the p-value for the model was 0.047. This implied that the entire model was significant at 5% level of significance since the p-value was less than 0.05. Hence the regression model would be reliable to draw conclusions from.

5.2.3 Impact of Sector Categorization's Liquidity on Share Performance

The findings of the study showed the following sectors to have a positive relationship between share performance and liquidity as measured using the Pearson correlation coefficient. Agriculture Sector as shown in table 4.19 above; commercial and Services sector as shown in table 4.21 above; Construction and allied Sector as shown in table 4.22 above and Telecommunication and Technology Sector as shown in table 4.26 above. The implication of the positive relationship for these sectors was that an increase in liquidity position caused a corresponding increase in share performance.

Moreover the study established a negative relationship between share price and liquidity based on Pearson correlation coefficient for the following sectors: Automobiles and Accessories sector as shown in table 4.20 above; Energy and Petroleum Sector as shown in table 4.23 above; Investment Sector as shown in table 4.24 above and Manufacturing and allied Sector as shown in table 4.25 above. The implication of the negative relationship was that an increase in liquidity position resulted in a decrease in share performance for these sectors.

However of all the sectors examined only four had a significant correlation between liquidity and share performance. Namely the sectors were; Agriculture as in table 4.19 above; Commercial and Services as in table 4.21 above; Investment as in table 4.24 above and Telecommunication sectors as in table 4.26 above. Noteworthy, all these four sectors had a strong positive relationship between share performance and liquidity.

5.3 Conclusions

The study concludes that liquidity had a positive significant influence on share performance. The significance of this finding was that for companies listed at the Nairobi Securities Exchange an improvement in liquidity position had a corresponding favorable outcome on the company's share performance. The study further found a significant positive correlation between liquidity and share performance for the following four sectors: Agriculture, Commercial and Services, Investment and Telecommunication sectors. This implied there was a positive relationship between share performance and liquidity for the companies listed in the Nairobi Securities Exchange. In addition, the study further concludes that an improvement in cash management position had a corresponding favorable outcome on the

listed company's share performance. However, cash management had no significant influence on share performance for companies listed on the Nairobi Securities Exchange.

5.4 Recommendations

From the findings and conclusions, it was clear that liquidity of companies listed at the Nairobi Securities Exchange had a significant positive influence on share performance. Since Liquidity management is concerned with making sure the firm has exactly the right amount of money and lines of credit available to the business at all times, this study recommends that all companies should develop, strengthen and implement its liquidity management policies to reflect positively on the share performance of the company. This would be achieved when a company is able to monitor effectively its fund operations, reinvesting opportunities and is able to meet its capital requirements and payments as and when required. In addition, a company should monitor its liquidity position by use of financial ratios so as to apply corrective measures as and when necessary.

5.4.1 Suggestions for further Studies

This study focused on the listed companies at the Nairobi Securities Exchange. The study showed that the two variables liquidity and cash management influenced up to 4.6% of variations in share performance. Further analysis of various other micro and macro – economic variables that affect share performance could be conducted for companies listed in the Nairobi Securities Exchange. Furthermore, the impact of Liquidity and cash management on intrinsic value share performance could be extended to Small and Medium term enterprises.

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APPENDIX 1

LIST OF 59 COMPANIES ON THE NSE

AGRICULTURAL

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co.Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

COMMERCIAL AND SERVICES

8. Express Ltd
9. Kenya Airways Ltd
10. Nation Media Group
11. Standard Group Ltd
12. TPS Eastern Africa (Serena) Ltd

TELECOMMUNICATIONS AND TECHNOLOGY

13. Scangroup Ltd
14. Uchumi Supermarket Ltd
15. Hutchings Biemer Ltd
16. Access Kenya Group Ltd
17. Safaricom Ltd

AUTOMOBILES AND ACCESSORIES

18. Car and General (K) Ltd
19. CMC Holdings Ltd
20. Sameer Africa Ltd
21. Marshalls (E.A.)Ltd

BANKING

22. Barclays Bank Ltd
23. CFC Stanbic Holdings Ltd
24. Diamond Trust Bank Kenya Ltd
25. Housing Finance Co Ltd
26. Kenya Commercial Bank Ltd
27. National Bank of Kenya Ltd
28. NIC Bank Ltd
29. Standard Chartered Bank Ltd
30. Equity Bank Ltd
31. The Co-operative Bank of Kenya Ltd

INSURANCE

32. Jubilee Holdings Ltd
33. Pan Africa Insurance Holdings Ltd
34. Kenya Re- Insurance Corporation Ltd
35. CIC Insurance Group
36. CFC Insurance Holdings
37. British-American Investment Company (Kenya) Ltd

INVESTMENT

38. City Trust Ltd
39. Olympia Capital Holdings Ltd
40. Centum Investment Co Ltd
41. Trans-Century Ltd

MANUFACTURING & ALLIED

42. B.O.C Kenya Lltl
43. British American Tobacco Kenya Ltd
44. Carbacid Investments Ltd
45. East African Breweries Ltd
46. Mumias Sugar Co.Ltd
47. Unga Group Ltd
48. Eveready East Africa Ltd
49. Kenya Orchads Ltd
50. A.Baumann Co Ltd

CONSTRUCTION AND ALLIED

51. Athi River Mining
52. Bamburi Cement Ltd
53. Crown Berger Ltd
54. E.A. Cables Ltd
55. E.A. Portland Cement Ltd

ENERGY AND PETROLEUM

56. KenolKobil Ltd
57. Total Kenya Ltd
58. Ken Gen Ltd
59. Kenya Power & Lightning Co.Ltd

Source NSE, 2012

