

**THE EFFECT OF LIQUIDITY ON THE FINANCIAL PERFORMANCE  
OF NON-FINANCIAL COMPANIES LISTED AT THE NAIROBI  
SECURITIES EXCHANGE**

**BY:**

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## DECLARATION

This is to declare that this research project is my original work that has not been presented to any other university or institution of Higher Learning for an award of a degree.

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This is to declare that this project has been submitted for examination with my approval as the University supervisor.

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## **DEDICATION**

I would like to dedicate my research project to the almighty Lord, for His wisdom and elegance without which I would not have accomplished this much, to my wife and daughters for their support, and my family for their prayers and support during this study.

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## **LIST OF ABBREVIATIONS**

ATS	Automated Trading System
CBK	Central bank of Kenya
CDS	Central Depository System
EBIT	Earnings Before Interest and Tax
FTSE	Financial Times Stock Exchange
IFC	International Finance Corporation
KLM	Koninklijke Luchtvaart Maatschappij
KPCU	Kenya Planters Co-operative Union
MoU	Memorandum of Understanding
NASI	Nairobi All Share Index
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
ROE	Return on Equity
ROCE	Return on Capital Employed
ROI	Return on Investments
SME	Small and Medium Enterprises
SSEs	Small Scale Enterprises
USA	United States of America
WCM	Working Capital Management

## **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 Nairobi Securities Exchange (NSE). 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 NSE 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 NSE. The study established that current ratio positively affects the financial performance of non-financial companies listed at the NSE. The study also revealed that an increase in operating cashflow ratio positively affects the financial performance of non-financial companies listed at the NSE. The study found that an increase in debt to equity positively affects the financial performance of non-financial companies listed at the NSE. The study recommends that there is need for non-financial companies listed at the NSE 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 NSE to increase their operating cashflow, through reduction of their credit repayment period in order to positively influence their financial performance.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

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, 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 Iswatia & 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, Mohsen and Mohammadreza (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 Kenya, 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 Nairobi Securities 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.

### **1.1.1 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.

### **1.1.2 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, balance sheet 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.

### **1.1.3 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 returns 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, Pereira and David (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 and Tryfonidis, 2006; Padachi, 2006; Gill, Biger and Mathur, 2010; Attari and Raza, 2012; Banos-Caballero, Garcia- Teruel and Martinez-Solano, 2012; Owolabi and 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.

#### **1.1.4 Nairobi Securities Exchange**

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 Kenya was established to oversee the orderly development of Kenya's capital markets. On the other hand, the Nairobi Security Exchange (NSE) which is the only stock exchange in the Kenya has a double responsibility for development and regulation of the market operations to ensure efficient trading.

The NSE 20 share index had been victim of numerous criticisms mainly due to its biased nature as a result of basing the index on only 20 blue chip companies which in most cases do not represent accurately the underlying market position. To be effective, an index should be accurate. This implies that the index movement must correspond to all underlying price movements at the market. Where there is no correspondence, cause may be as a result of the bias. This therefore misleads the parties who rely on the index for decision making. Unlike the 20 share index, which measures price movement in selected, relatively stable and best performing 20 listed companies, Nairobi All Share Index (NASI) incorporates all listed companies irrespective of their performance and their time of listing. NASI is calculated based on market capitalization, meaning that it reflects the total value of all listed companies at the NSE. Some counters are very illiquid with very few shares available for trading in any given day and their inclusion have not made much difference in improving the accuracy of the index.

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, for example, Uchumi

Supermarkets (2006), and Pan Paper Mills (2009). Uchumi Supermarket Ltd 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. This condition led to loss of customers to competition and worsened the cash flow position which resulted into receivership. It is therefore worth investigating the effect of working capital management policy on performance.

## **1.2 Research Problem**

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 and Soenen, 1988; Deloof, 2003; Eljelly, 2004; Lazaridis and Tryfonidis, 2006; Padachi, 2006; Gill, Biger and Mathur, 2010; Attari and Raza, 2012; Banos-Caballero, Garcia- Teruel and Martinez-Solano, 2012; Owolabi and Obida, 2012). Mathuva (2009) examined the influence of working capital management components on the profitability of 30 firms listed on the Nairobi 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 NSE 20 index.

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 Nairobi Securities Exchange?

### **1.3 Objective of the Study**

To establish the effect of liquidity on financial performance of non-financial companies listed at the Nairobi Securities Exchange.

### **1.4 Value of the Study**

The study justification arises given the unsavory experience of firms going under statutory management in Kenya and the present global economic meltdown. Apart from this, liquidity has always been a source of concern with some Kenyan firms. The importance of liquidity has even acquired a new dimension in the advanced countries of the world in recent years. This is basically because of responses to structural changes and funds management

techniques in those countries. The development of new technical innovations that do not necessarily fit into the world of the age long liquidity tests.

The evidence obtained from this study will help in establishing new theories related to the world of finance, especially at present when the world has become such a small place in terms of technology. The study will help in realignment of previous theories to modern technological innovations. The result of the study will help prospective investors to make rational and more accurate decisions based on liquidity and not just profitability. The results of the study will stress the importance of liquidity management on financial performance of the company. Finance managers will hence ensure that firms remain liquid.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature relating to liquidity and a firm's financial performance. The literature review has been organized in the following sections. First section covers the theories underlying the study, liquidity and a firm's financial performance. The second section covers the empirical studies on the subject area covered and summary of the section.

### **2.2 Theoretical Review**

This chapter discusses liquidity management theories such as the commercial loan theory, shiftable theory, and liability management theory. Modern theories offer two alternative strategies of working capital management, that is, conservative working capital management policy and aggressive working capital management policy. The literature contains an extensive debate on the risk / return trade-off among different working capital policies (Gitman, 2005; Moyer et al., 2005; Brigham & Ehrhardt, 2004). While more aggressive working capital policies are associated with higher returns and risk, conservative working capital policies offer both lower risk and returns (Gardner et al., 1986; Weinraub & Visscher, 1998).

#### **2.2.1 Commercial Loan Theory**

This theory was developed by Adam Smith in England during the 18<sup>th</sup> 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.

### **2.2.2 Shiftable Theory**

This theory was originated in the USA by Moulton (1918). According to this theory, the problem of liquidity is not a problem but shifting of assets without any material loss. Moulton specified, “to attain minimum reserves, relying on maturing bills is not needed but maintaining quantity of assets which can be shifted to other banks whenever necessary. It must fulfill the attributes of immediate transferability to others without loss. In case of general liquidity crisis, bank should maintain liquidity by possessing assets which can be shifted to the Central Bank”.

Thus, as development took place the Commercial Loan Theory lost ground in favour of Shiftability Theory. During depression, the whole industry would be in crisis. The shares and debentures of well reputed companies would fail to attract buyers and cost of shifting of assets would be high. Blue chip securities will also lose their shiftability character. Thus, both Commercial Loan as well as Shiftability Theory failed to distinguish liquidity of an individual bank as well as the banking industry.

### **2.2.3 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.

### **2.3 Determinants of Financial Performance of listed non-financial companies at NSE**

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.

### **2.3.1 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.

### **2.3.2 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.

### **2.3.3 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.

### **2.3.4 Distribution Networks**

In the first field relating to the financial performances, Barthélemy (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, Chaudey 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.

### **2.3.5 Growth of Informal Sector**

According to the International Labour Organisation, 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.

### **2.3.6 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.

## **2.4 Empirical Review**

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.

#### **2.4.1 International Evidence**

Raheman and Mohamed (2007) carried out a study to analyse the impact of working capital management on firm's performance in Pakistan. The results of their study established that the cash conversion cycle, net trade cycle, and inventory turnover in days had a significant effect on the performance of the firms. They suggested that efficient management and financing of working capital can increase the operating profitability of manufacturing firms. They, therefore, assert that effective policies must be formulated for the individual components of working capital.

A study was carried out by Nazir and Afza (2009) to investigate the relationship between the working capital management policies and profitability of firms listed in the Karachi Stock Exchange (KSE). In their study, 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. The present research will borrow the operationalisation of working capital management as applied in the two studies since Kenya has a different economic setting from Iran and Pakistan where the two studies were carried out.

A study by Dong and Su (2010) concluded that a firm's profitability and liquidity are affected by working capital management. The study used pooled data for the period between 2006 and 2008 to assess the companies listed in the Vietnam Stock Exchange. The study focused on cash conversion cycle and related elements to measure working capital management. The study 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. The present study operationalized working capital management in terms of aggressiveness and conservatism as measured by the proportion of current liabilities to total assets and total liabilities.

In a study conducted to determine the effect of working capital management on profitability of Indian firms, Sharma and Kumar (2011) used a sample of 263 non-financial firms listed on the Bombay Stock Exchange during 2002 to 2008. Data were analysed using OLS multiple regression. The study found a positive relation between WCM and firm profitability, although the relationship between cash conversion cycle and ROA was not statistically significant. The study also found that account receivables are also positively related to ROA and that account payables are negatively related to ROA. The results assert that Indian firms can increase profitability by increasing cash collection cycle. This study contradicts other studies (Ogundipe, Idowu & Ogundipe, 2012; Dong, 2010; Mathuva 2009). The authors attribute this difference to the fact that India is an emerging market.

Vahid, Mohsen and Mohammadreza (2012) investigated the impact of working capital management policies (aggressive and conservative policies) on the firms' profitability and value of listed companies in the Tehran Stock Exchange. The study used panel data and

operationalized working capital management policy as conservative/aggressive. The results of the study show that application of a conservative investment policy and aggressive financing policy has a negative impact on a firm's profitability and value.

Bhunja and Das (2012) conducted a study to examine the relationship between the working capital management structure and the profitability of Indian private sector firms. The independent variables used in the study were ratios that affect working capital management and included the following: current ratio, liquid ratio, cash position ratio, debt-equity ratio, interest coverage ratio, inventory turnover ratio, debtors' turnover ratio, creditors' turnover ratio, and working capital cycle. Return on capital employed was used as a measure for profitability. Using multiple regression analysis, the study found a weak relationship between all the working capital management constructs and profitability. The study should, nevertheless, have been extended to identify the other factors that drive profitability in addition to working capital management.

Similarly, Ogundipe, Idowu and Ogundipe (2012) conducted a study to examine the impact of working capital management on the performance and market value of companies. The study used Tobin Q, ROA, EBIT, and ROI as the dependent variables while the independent variables were cash conversion cycle; current ratio; current asset to total asset ratio; current liabilities to total asset ratio; and debt to asset ratio. Using correlation and multiple regression analysis techniques, the study established that a significant negative relationship exists between cash conversion cycle and market valuation and a firm's performance. The study, however, only focused on short-term financing decisions.

Ehiedu (2014) conducted a study on The Impact of Liquidity on Profitability of Some Selected Companies in Nigeria and concluded that 75% of them indicated that current ratio has a significant positive correlation with profitability. The researcher believes that the reason for this positive relationship between current ratio and profitability is simply because idle funds, especially when they are borrowed, generate profit and less costs in the business. The two companies depicted a negative correlation between Acid test ratio and return on assets respectively. Thus, from the above results, 50% of the companies analyzed indicated a significant negative correlation between current ratio and acid test ratio. Hence there is no definite correlation between current ratio and profitability in this analysis.

#### **2.4.2 Local Evidence**

Mathuva (2009) examined the influence of working capital management components on the profitability of 30 firms listed on the Nairobi 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) in Kisii South District, Kenya. 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.

## **2.5 Summary of Literature Review**

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 five years from 2009 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 Kenyan 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.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the research methodology that was used to study the effect of liquidity on the performance of non-financial companies listed at the Nairobi Securities Exchange and the reason for selecting the particular methodology. It also gives the population size, data collection techniques and how the data was analyzed. It also talks about the data analytical models and test of significance used in arriving at the conclusions.

### **3.2 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.

### **3.3 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 2009 to 2013 (Appendix-1). This is to ensure that financial statements are available for 5 years for the companies under study.

### **3.4 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 Nairobi Securities 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 Nairobi Securities Exchange and Capital Market Authority.

### **3.5 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 2009 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.

### 3.5.1 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.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

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.

$\varepsilon$ : Error term.

$\alpha$ : Intercept.

$\beta_i$ , : coefficient of the independent variable  $i$  which measures the responsiveness of  $Y$  to changes in  $i$ .

### 3.5.2 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 ( $R^2$ ) is defined as the sum of squares due to the regression divided by the sum of total squares. Usually,  $R^2$  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,  $R^2$  changes. It is thus goodness of fit statistic given by ratio of the explained sum of squares.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presents the research findings to establish the effect of liquidity on financial performance of non-financial companies listed at the Nairobi Securities Exchange. The study was conducted on a 5 years period where secondary data from the period of 2009 to 2013 was used in the analysis. Regression analysis was used in analyzing the data.

### 4.2 Research Findings

This section presents the research findings; it presents the study findings from the regression analysis.

### 4.3 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 Nairobi Securities Exchange. The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions.

**Table 4.1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.969 <sup>a</sup>	.938	.908	.01362

**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<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.970	3	0.323	2.861	.006 <sup>b</sup>
	Residual	4.181	37	0.113		
	Total	5.151	40			

**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.

**Table 4.3: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.017	0.451		2.255	.006
	Current Ratio	.387	0.131	.267	2.954	.005
	Operating Cash Flow	.221	0.096	.211	2.302	.036
	Capital structure	.216	0.105	.198	2.057	.015

**Source : Research Findings**

From the data in the above table the established regression equation was;

$$Y = 1.017 + 0.387 X_1 + 0.221 X_2 + 0.216X_3$$

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 ( $p < 0.05$ ).

#### **4.4 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  $Y = 1.017 + 0.387 X_1 + 0.221 X_2 + 0.216X_3$

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.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to establish the effect of liquidity on the financial performance of non-financial companies listed at the Nairobi Securities Exchange.

### **5.2 Summary**

The objective of the study was to establish the effect of liquidity on the financial performance of non-financial companies listed at the Nairobi Securities Exchange. Secondary data was collected from Nairobi Securities 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 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 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 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  $Y = 1.017 + 0.387 X_1 + 0.221 X_2 + 0.216X_3$

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.

### **5.3 Conclusion**

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 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.

#### **5.4 Recommendations for Policy**

From the findings and conclusion, the study recommends that there is need for non-financial companies listed at the Nairobi Securities 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.

#### **5.5 Limitations of the Study**

This study was not without limitations. In attaining its objective the study was limited to a 5 years period starting form year 2009 to year 2013. Secondary data was collected from the Kenya CMA and NSE. The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the CMA and NSE, it none-the-less could still be prone to these shortcomings.

The study was based on a 5 year period from the year 2009 to 2013. A longer duration of the study will have captured periods of various economic significances such as booms and

recessions. The study was also limited to non-financial companies listed at the Nairobi Securities Exchange; however, financial firms listed at the NSE were not included in this study.

### **5.6 Areas for Further Research**

The study sought to establish the effect of liquidity on the financial performance of non-financial companies listed at the Nairobi Securities Exchange, the study recommends a further study to be done on the effects of liquidity on financial performance of financial companies listed at the Nairobi Securities Exchange.

There is need to conduct a study on the effect of liquidity on the financial performance of non-financial companies that are not listed at the Nairobi Securities Exchange.

The study recommends that a further study should be done on the effects of working capital on the financial performance of non-financial companies listed at the Nairobi Securities Exchange.

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## APPENDICES

### Appendix I: Data

**Table of Year 2009**

COMPANY	DEBT TO EQUITY RATIO	ROCE	OPERATING CASHFLOW	CURRENT RATIO
UNILEVER	3.342	0.027	0.900	1.373
KAKUZI	5.387	0.114	0.959	0.785
REA	1.773	0.144	0.670	1.589
SASINI	2.140	0.018	0.940	2.026
CAR GENERAL	9.670	0.126	0.945	1.317
CMC	2.620	0.094	0.974	1.523
KQ	7.310	0.077	0.970	1.394
MARSHALLS	9.350	0.034	0.943	1.227
N M G	6.317	0.272	0.940	1.907
STANDARD	2.897	0.187	0.832	1.325
TPS	1.518	0.091	0.622	1.052
ATHI-RIVER	2.337	0.138	0.823	1.109
BAMBURI	2.776	0.263	0.912	2.199
B A T	4.544	0.221	0.892	1.127
BOC KENYA	4.960	0.215	0.946	2.588
CROWN-BERGER	6.136	0.092	0.922	1.595
EAST A CABLES	1.177	0.186	0.968	1.552
EAST A PORTLAND	2.307	0.124	0.877	2.209
E ABL	5.173	0.342	0.937	2.207
SAMEER	1.753	0.053	0.560	2.123
LIMURU	2.270	0.124	0.922	1.359
WILLIAMSON	1.594	0.072	0.969	1.568
KAPCHORUA	2.546	0.101	0.967	1.129
EAAGADS	1.440	0.049	0.934	1.229
SCAN GROUP	2.036	0.217	0.933	2.231
HUTCHINGS	1.954	0.236	0.713	1.432
UCHUMI	1.079	0.081	0.587	1.508
EXPRESS	4.076	0.091	0.834	0.977
CITY TRUST	2.632	0.202	0.904	2.286
OLYMPIA	3.581	0.225	0.871	1.264
CENTUM	1.594	0.072	0.969	1.568
CARBACID	2.546	0.101	0.967	1.129
MUMIAS	1.440	0.049	0.934	1.229
UNGA	2.036	0.217	0.933	2.231
EVEREADY	1.954	0.236	0.713	1.432
ORCHARD	1.079	0.081	0.587	1.508
A.BAUMAN	4.076	0.091	0.834	0.977
KENOL KOBIL	4.274	0.275	0.953	2.571
TOTAL	3.087	0.059	0.850	1.387
KENGEN	1.697	0.061	0.961	1.529
KPLC	2.160	0.055	0.906	2.776

**Table Year 2010**

COMPANY	DEBT TO EQUITY RATIO	ROCE	OPERATING CASHFLOW	CURRENT RATIO
UNILEVER	4.577	0.015	0.909	1.576
KAKUZI	2.782	0.083	0.957	0.665
REA	1.078	0.148	0.640	1.543
SASINI	2.209	0.091	0.950	1.966
CAR GENERAL	2.270	0.124	0.922	1.359
CMC	1.594	0.072	0.969	1.568
KQ	2.546	0.101	0.967	1.129
MARSHALLS	1.440	0.049	0.934	1.229
N M G	2.036	0.217	0.933	2.231
STANDARD	1.954	0.236	0.713	1.432
TPS	4.086	0.071	0.922	0.870
ATHI-RIVER	1.192	0.023	0.925	0.819
BAMBURI	4.458	0.221	0.934	1.712
B A T	1.853	0.125	0.621	0.978
BOC KENYA	1.604	0.096	0.708	1.102
CROWN-BERGER	4.327	0.196	0.941	2.485
EAST A CABLES	6.438	0.052	0.923	1.598
EAST A PORTLAND	1.832	0.222	0.947	1.619
E ABL	5.442	0.102	0.879	2.491
SAMEER	1.891	0.343	0.869	1.849
LIMURU	1.048	0.004	0.580	1.849
WILLIAMSON	1.732	0.063	0.927	1.833
KAPCHORUA	1.721	0.363	0.793	2.656
EAAGADS	1.954	0.236	0.713	1.432
SCAN GROUP	1.079	0.081	0.587	1.508
HUTCHINGS	2.553	0.207	0.799	1.425
UCHUMI	0.843	0.101	0.558	1.152
EXPRESS	1.079	0.081	0.587	1.508
CITY TRUST	4.076	0.091	0.834	0.977
OLYMPIA	1.604	0.096	0.708	1.102
CENTUM	1.397	0.085	0.651	1.044
CARBACID	2.383	0.188	0.877	1.808
MUMIAS	1.192	0.023	0.925	0.819
UNGA	4.458	0.221	0.934	1.712
EVEREADY	1.594	0.072	0.969	1.568
ORCHARD	2.546	0.101	0.967	1.129
A.BAUMAN	1.440	0.049	0.934	1.229
KENOL KOBIL	3.087	0.059	0.850	1.387
TOTAL	1.697	0.061	0.961	1.529
KENGEN	4.086	0.071	0.922	0.870
KPLC	1.954	0.236	0.713	1.432

**Table of Year 2011**

COMPANY	DEBT TO EQUITY RATIO	ROCE	OPERATING CASHFLOW	CURRENT RATIO
UNILEVER	2.054	0.021	0.900	9.105
KAKUZI	1.768	0.054	0.953	2.370
REA	1.108	0.177	0.632	3.833
SASINI	3.449	0.152	0.945	7.007
CAR GENERAL	1.006	0.244	0.904	3.806
CMC	1.539	0.065	0.966	5.520
KQ	1.074	0.104	0.949	4.107
MARSHALLS	1.732	0.063	0.927	1.834
N M G	1.355	0.230	0.919	1.655
STANDARD	1.672	0.120	0.623	4.354
TPS	1.653	0.028	0.683	1.244
ATHI-RIVER	2.872	0.091	0.782	3.018
BAMBURI	0.601	0.205	0.561	2.939
B A T	2.353	0.322	0.840	2.511
BOC KENYA	2.459	0.181	0.938	2.648
CROWN-BERGER	2.160	0.055	0.906	2.776
EAST A CABLES	1.549	0.279	0.903	4.222
EAST A PORTLAND	4.977	0.141	0.858	3.422
E ABL	1.749	0.378	0.856	3.251
SAMEER	0.845	0.092	0.566	5.427
LIMURU	1.697	0.061	0.961	1.529
WILLIAMSON	4.086	0.071	0.922	0.870
KAPCHORUA	1.192	0.023	0.925	0.819
EAAGADS	4.458	0.221	0.934	1.712
SCAN GROUP	1.853	0.125	0.621	0.978
HUTCHINGS	1.604	0.096	0.708	1.102
UCHUMI	1.397	0.085	0.651	1.044
EXPRESS	2.383	0.188	0.877	1.808
CITY TRUST	2.361	0.286	0.837	1.483
OLYMPIA	1.954	0.236	0.713	1.432
CENTUM	1.079	0.081	0.587	1.508
CARBACID	4.076	0.091	0.834	0.977
MUMIAS	2.632	0.202	0.904	2.286
UNGA	3.581	0.225	0.871	1.264
EVEREADY	4.327	0.196	0.941	2.485
ORCHARD	6.438	0.052	0.923	1.598
A.BAUMAN	1.832	0.222	0.947	1.619
KENOL KOBIL	2.140	0.018	0.940	2.026
TOTAL	1.670	0.126	0.945	1.317
KENGEN	1.620	0.094	0.974	1.523
KPLC	1.594	0.072	0.969	1.568

**Table Year 2012**

COMPANY	DEBT TO EQUITY RATIO	ROCE	OPERATING CASHFLOW	CURRENT RATIO
UNILEVER	2.155	0.107	0.905	1.831
KAKUZI	1.766	0.043	0.954	0.642
REA	1.178	0.173	0.626	1.580
SASINI	4.274	0.275	0.953	2.571
CAR GENERAL	3.087	0.059	0.850	1.387
CMC	1.697	0.061	0.961	1.529
KQ	4.086	0.071	0.922	0.870
MARSHALLS	1.192	0.023	0.925	0.819
N M G	4.458	0.221	0.934	1.712
STANDARD	1.853	0.125	0.621	0.978
TPS	1.604	0.096	0.708	1.102
ATHI-RIVER	1.397	0.085	0.651	1.044
BAMBURI	2.383	0.188	0.877	1.808
B A T	2.361	0.286	0.837	1.483
BOC KENYA	3.124	0.151	0.932	2.976
CROWN-BERGER	4.112	0.067	0.892	1.715
EAST A CABLES	1.721	0.363	0.793	2.656
EAST A PORTLAND	1.954	0.236	0.713	1.432
E ABL	1.079	0.081	0.587	1.508
SAMEER	4.076	0.091	0.834	0.977
LIMURU	2.632	0.202	0.904	2.286
WILLIAMSON	3.581	0.225	0.871	1.264
KAPCHORUA	4.327	0.196	0.941	2.485
EAAGADS	6.438	0.052	0.923	1.598
SCAN GROUP	1.832	0.222	0.947	1.619
HUTCHINGS	1.192	0.023	0.925	0.819
UCHUMI	4.458	0.221	0.934	1.712
EXPRESS	1.853	0.125	0.621	0.978
CITY TRUST	1.604	0.096	0.708	1.102
OLYMPIA	1.397	0.085	0.651	1.044
CENTUM	2.383	0.188	0.877	1.808
CARBACID	2.361	0.286	0.837	1.483
MUMIAS	1.954	0.236	0.713	1.432
UNGA	1.079	0.081	0.587	1.508
EVEREADY	1.006	0.244	0.904	3.806
ORCHARD	1.539	0.065	0.966	2.520
A.BAUMAN	1.074	0.104	0.949	4.107
KENOL KOBIL	1.732	0.063	0.927	2.834
TOTAL	1.355	0.230	0.919	2.546
KENGEN	1.672	0.120	0.623	4.635
KPLC	1.954	0.236	0.713	1.432

**Table of Year 2013**

COMPANY	DEBT TO EQUITY RATIO	ROCE	OPERATING CASHFLOW	CURRENT RATIO
UNILEVER	0.972	0.127	0.492	1.368
KAKUZI	0.898	0.214	0.450	5.568
REA	0.565	0.244	0.316	1.579
SASINI	0.464	0.367	0.207	4.216
CAR GENERAL	1.311	0.326	0.588	1.344
CMC	1.296	0.194	0.594	1.533
KQ	2.571	0.177	1.421	1.309
MARSHALLS	1.263	0.134	0.560	1.217
N M G	0.658	0.272	0.482	1.807
STANDARD	2.553	0.207	0.799	1.425
TPS	0.843	0.101	0.558	1.152
ATHI-RIVER	1.569	0.148	0.693	1.119
BAMBURI	0.397	0.273	0.413	1.199
B A T	1.256	0.231	0.627	1.227
BOC KENYA	0.395	0.235	0.474	2.688
CROWN-BERGER	1.355	0.230	0.919	2.546
EAST A CABLES	0.901	0.102	0.582	1.875
EASTA PORTLAND	2.580	0.063	0.836	1.040
E ABL	2.802	0.186	0.766	1.552
SAMEER	1.478	0.124	0.596	2.209
LIMURU	0.816	0.151	0.571	2.207
WILLIAMSON	4.086	0.071	0.922	0.870
KAPCHORUA	1.192	0.023	0.925	0.819
EAAGADS	4.458	0.221	0.934	1.712
SCAN GROUP	1.853	0.125	0.621	0.978
HUTCHINGS	1.604	0.096	0.708	1.102
UCHUMI	1.397	0.085	0.651	1.044
EXPRESS	2.383	0.188	0.877	1.808
CITY TRUST	1.192	0.023	0.925	0.819
OLYMPIA	4.458	0.221	0.934	1.712
CENTUM	1.853	0.125	0.621	0.978
CARBACID	1.604	0.096	0.708	1.102
MUMIAS	1.397	0.085	0.651	1.044
UNGA	2.383	0.188	0.877	1.808
EVEREADY	2.361	0.286	0.837	1.483
ORCHARD	1.954	0.236	0.713	1.432
A.BAUMAN	1.079	0.081	0.587	1.508
KENOL KOBIL	3.581	0.225	0.871	1.264
TOTAL	4.327	0.196	0.941	2.485
KENGEN	1.006	0.244	0.904	3.806
KPLC	1.604	0.096	0.708	1.102

**Appendix II: Non- Financial Listed Companies at the Nairobi Securities Exchange as at  
31/12/2013**

**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
13. Scangroup Ltd
14. Uchumi Supermarket Ltd
15. Hutchings Biemer Ltd
16. Longhorn Kenya Ltd

**TELECOMMUNICATION AND TECHNOLOGY**

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

## **MANUFACTURING AND ALLIED**

- 22. B.O.C Kenya Ltd
- 23. British American Tobacco Kenya Ltd
- 24. Carbacid Investments Ltd
- 25. East African Breweries Ltd
- 26. Mumias Sugar Co. Ltd
- 27. Unga Group Ltd
- 28. Eveready East Africa Ltd
- 29. Kenya Orchards Ltd
- 30. A.Baumann CO Ltd

## **CONSTRUCTION AND ALLIED**

- 31. Athi River Mining
- 32. Bamburi Cement Ltd
- 33. Crown Berger Ltd
- 34. E.A.Cables Ltd
- 35. E.A.Portland Cement Ltd

## **ENERGY AND PETROLEUM**

36. KenolKobil Ltd

37. Total Kenya Ltd

38. KenGen Ltd

39. Kenya Power & Lighting Co Ltd

40. Umeme Ltd

## **GROWTH ENTERPRISE MARKET SEGMENT**

41. Home Afrika Ltd

**Source:** <http://www.nse.co.ke>