

THE EFFECT OF LIQUIDITY ON THE PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA.

Eberechi, Henry Wofuru

**PhD Students, Department of Accounting, Faculty of Management Sciences,
Ignatius Ajuru University of Education Rumuolumeni, Port-Harcourt Rivers State,
Nigeria.**

ABSTRACT

In order to attain profitability, businesses need to have enough liquidity because short-term creditors will negatively rate their credit if they don't pay their obligations on time. This study investigated the effect of liquidity on the performance of listed manufacturing companies in Nigeria. In order to evaluate the relationship, the study used an explanatory research approach and data from audited financial statements of sixteen manufacturing companies in the consumer products industry between 2009 and 2018. The collected data were analysed using SPSS and E-View. The study employed panel multiple regression to analyse the data. The study discovered a noteworthy negative correlation between the fast ratio and the performance of manufacturing enterprises that are listed. In contrast, the cash conversion cycle and current ratio are unimportant. The study shows that liquidity has a significant impact on the performance of manufacturing enterprises in Nigeria. However, the Nigerian manufacturing companies were not able to sustain their levels of liquidity in a profitable manner. The study recommends that manufacturing companies establish and strictly adhere to rules and procedures that support the company in maintaining a healthy balance between profitability and liquidity.

Keywords: Liquidity; Performance; Current ratio; Quick ratio; Cash Conversion ratio; Manufacturing

INTRODUCTION

Researchers have focused on two key ideas: financial institution profitability and liquidity. This is because several empirical investigations defy the conventional wisdom that these two notions have an adverse connection. (Charmier, Musah, Akomeah, & Gakpetor, 2018). Extant studies ascribe the global financial crisis of 2009/10 to liquidity crunch. However, the majority of them applied theoretical approaches, with only a small minority using empirical data to back up their claims. Moreover, those few also used dubious profitability criteria. (Marozva, 2015). A company's capacity to remain in operation depends heavily on its profitability, and managers work to maximize shareholder wealth by achieving an acceptable level of profitability. Inadequate liquidity management has led to the failure of businesses in every industry and country. Most bankrupt businesses have trouble making their short-term loan payments; those that managed their liquidity problems wisely survived, while those that did not eventually went out of business. The incapacity to generate a sufficient profit and ongoing illiquidity lead to liquidation. Working capital management is often neglected by businesses in times of economic prosperity, despite the fact that it is essential to ongoing cash flow, liquidity, and profitability.

Businesses find it challenging to grow and engage in profitable trade when they lack operating capital. Some Nigerian businesses have been compelled to cut personnel due to liquidity issues, which has increased the unemployment rate. In 2007, Ajaokuta Steel Complex cut staff from 5,000 to 1000. (Duru, Ekwe, & Eje, 2014). Similar to this, Nigerian manufacturing companies facing cash flow issues have found it challenging to provide dividends. For example, Champion Breweries and Golden Breweries have not distributed dividends since 1988 and 1997, respectively. (Duru et al., 2014). For this reason, the purpose of this study is to determine how manufacturing businesses listed on the Nigerian Stock Exchange relate to liquidity and profitability. Nonetheless, the majority of research to date has focused on financial institutions and the financial side of

liquidity; in contrast, further study is required in other industries and the operational aspect of liquidity, such as the cash conversion cycle. (Demirgünes, 2016). Since liquidity makes operations run more smoothly and serves as a gauge of a company's capacity to repay short-term debt, it is essential to the sustainability of a business. (Yameen, Farhan, & Tabash, 2019).

LITERATURE REVIEW

Conceptual Review

This section provides explanations of the study's key concepts.

Liquidity

Liquidity is the ability of a firm to meet short term financial obligations via conversion of current asset into cash without suffering any loss (Akenga, 2017). Liquidity in companies implies dimensions; quantitative and qualitative. The capacity of a company to satisfy all current and future cash demands in a way that minimizes costs and maximizes economic value is included in the quantitative element. Liquidity of a firm can be measured via the current ratio, quick ratio and cash conversion cycle

Current Ratio

This ratio, which shows how current assets compare to current liabilities, assesses how well-positioned the business is to pay short-term debts like trade creditors. A liquidity ratio that is greater than one implies the firms' greater capacity to meet short term obligations. However, a current ratio that is below one implies liquidity deficit which could lead to a decline in the company's energy, thus can affect profitability. If the ratio is equal to 1, it means that current assets equal to current liabilities. (Robinson, Henry, Pirie, & Broihahn, 2015)

$$\text{Current ratio} = \frac{\text{current asset}}{\text{current Liabilities}}$$

Quick Asset Ratio

This ratio uses only the most liquid of current assets to current liabilities. If this ratio is 2:1, it implies the high liquidity of the company. As a result of the difficulty of cash conversion, this ratio removes prepaid expenses and inventory from current assets(Sinha, 2012).

$$\text{Quick ratio} = \frac{\text{current asset}-\text{inventories prepayment}}{\text{current Liabilities}}$$

Cash Conversion Cycle (CCC)

Cash conversion cycle may be negative or positive. A positive value indicates the number of days that a business needs borrow money or tie up cash while still anticipating client payments. On the other hand, a negative value indicates how long a company has to wait to pay its suppliers after receiving cash from sales. (Hutchison,

Farris, & Anders, 2007). Companies desire to have low CCC because it indicates efficiency in cash management. The cash conversion cycle is calculated thus

CCC= Days of sales outstanding + days of sales in inventory – Days of payable outstanding.

In the formula above, the three variables to which CCC is dependent are defined as follows:

$$\text{Days of sales outstanding} = \frac{\text{account receivable}}{\text{sales /365 days.}}$$

$$\text{Days of sales in inventory} = \frac{\text{Inventories}}{\text{cost of sales/365days}}$$

$$\text{Days of payables outstanding} = \frac{\text{account payable}}{\text{cost of goods sold/365}}$$

Performance

Performance is a measure of organisations' results in terms of their operations. This measure can be in financial or nonfinancial metrics. Financial performance refers to monetary measurement of results of firm's policies, and procedures over a period of usually by computing Return on Assets or Return on Equity(Akenga, 2017). A company should earn profit to survive and grow over a long period. Profitability is crucial to a business firm, but it should not be pursued at the expense of

other stakeholders' interests. The profitability ratios are calculated to measure the operating efficiency of the company. Some of the profitability ratios include the following

Return on Investment (ROI)

The term investment may refer to total assets or net assets. The funds employed in net assets are known as capital employed. Net assets equal net fixed assets plus current assets minus current liabilities, excluding bank loan. The conventional approach of calculating Return on investment is to divide profit after tax (PAT) by investment. Investment refers to a pool of funds supplied by shareholders and lenders, while PAT represents residue income of shareholders. The formula of ROI is stated thus:

$$\text{ROI} = \frac{\text{profit after tax}}{\text{Total asset}}$$

Return on Equity (ROE)

Ordinary shareholders as the owners of the business do not enjoy fixed dividend, but are entitled to the residue profits. A return on shareholder's equity is calculated to see the profitability of owners' investment. The ROE is net profit after taxes divided by shareholders' equity which is given by net worth.

The formula of ROE is stated thus:

$$\text{ROE} = \frac{\text{profit after tax}}{\text{New Worth(Equity)}}$$

Return on Assets (ROA)

Return on Assets expresses the net income earned by a company as a percentage of the total assets available for use by the company. ROA suggests that companies with higher amounts of assets should be able to earn higher levels of income. ROA measures management's ability to make a return on the firm's resources (assets). ROA is computed by dividing net income plus interest expense by the company's average investment in asset during the year. The formula of ROA is stated thus:

$$\text{ROA} = \frac{\text{net income after tax+interest expenses}}{\text{Average Total Asset during the year}}$$

Theoretical Review

Trade-off Theory

The trade-off theory is based on the work of economists Modigliani and Miller in the 1950s (Cekrezi, 2013). The expense of holding cash includes the rate of return on total assets because of the high class of liquidity and potentially negative tax consequences. Holding cash has dual benefits: First is the saving of transaction cost to raise finances so that firms do not need to liquidate assets to make payments. Second, if there are no alternative resources for investment or if the values of other assets are low, businesses can utilize their present asset to finance their operations and investments. According to the hypothesis, businesses that use a lot of leverage pay too much to service their debt, which reduces their profitability and makes it harder for them to find other sources of funding. (Jenson, 1986). The idea explains why different sectors have different capital structures. On the other hand, it is unable to explain why the debt ratio of the company's successful firms has decreased. (Asete & Kung'u, 2018). The reason why deserving companies have greater borrowed capital and a large tax shield is explained by the trade-off hypothesis.

Agency Theory

This theory was developed in 1986 (Jenson & Meckling, 1976). They contended that as the owners, management, and major debt capital sources all have distinct goals and interests, a firm's governance is predicated on the conflict of interest between these three parties. In today's corporate world, separating ownership from management causes friction between the two groups. The existence of free extra income above and above what is needed to fund worthwhile projects is

another cause of agency problems. (Jenson, 1986). He contended that there must be a way to lower the amount of free cash available by either raising managers' ownership interest in the company or increasing capital structure debt.

Empirical Review

According to a review of data gathered over a ten-year period from 2008 to 2017, in India, the quick ratio and current liquidity ratio significantly and favorably impact performance. (Return on Asset) (Yameen et al., 2019). Current research conducted in India demonstrates that a manufacturing firm's liquidity, profitability, and solvency were adequate. (Maheswari, 2015).

However, the analysis of South African banks using Autoregressive Distributed Lag and Ordinary least square shows a significant negative nexus between the liquidity and performance (Marozva, 2015). However, the author used a net interest margin to proxy profitability. Net profit margin is a very controversial measure of profitability, particularly when it is to be related to liquidity. Similarly, no discernible relationship has been found over a five-year period between the performance of Nigerian Deposit Money Banks and liquidity methods in terms of long-term profitability.. (ObiNwosu, Okaro, Ogbonna, & Atsan, 2017). A period of 5 years also may be too small to get valid results

Another Nigerian study looked at the connection between liquidity and company success across a 20-year period, from 1984 to 2014, which is longer than the study's focus. (Obi-Nwosu et al., 2017). By using the cash reserve ratio, liquidity ratio, and loan to deposit ratio as proxies for liquidity, the study also used shareholders' fund as a proxy for performance. The analysis discovered that, while there is a little positive correlation between loan to D Moroccan bank's performance and liquidity ratio, there is a strong negative short-term association between cash reserve ratio and performance.

Patjoshi examined the financial performance and liquidity management of several Indian steel companies from 2010 to 2014. The study used three metrics—the inventory turnover ratio, the current ratio, and the liquid ratio—to evaluate liquidity. At the same time, it employed return on investment, operational profit margin, net profit margin, and return on total asset to estimate profitability. The correlation and regression results demonstrate that liquidity has a major impact on performance. According to Njure (2014), nonfinancial companies listed on the Nairobi Stock Exchange's profitability and liquidity were evaluated. The ROA was used as a proxy for companies' profitability and the companies' liquidity was measured using the current ratio, quick ratio and the absolute liquid ratio. The correlation analysis indicates a marginally significant positive association between profitability and liquidity for Kenya's listed nonfinancial enterprises.

Similarly, Jayarathne (2014) investigated how working capital management affected Sri Lankan listed businesses' profitability from 2008 to 2012. The result indicated that the profitability had an inverse relationship with the account receivable period, inventory turnover period, and cash conversion cycle. In contrast, it has a positive relationship with account payable period

Empirical studies show mixed results as some show a negative relationship and others show positive or no connection. Moreover, the existing literature focused on the banking sector, whereas liquidity also affects other sectors. Given the inconsistencies of previous studies, the researcher has found the need to study the effect of liquidity on the financial performance of listed manufacturing companies in Nigeria.

METHODOLOGY

Research Design

Kothari and Garg (2019) explain that the "research design focuses on the structure of an enquiry, which leads to the minimisation of the chance of drawing the wrong casual inferences from the data". This study employed an explanatory research design to explain the effect of liquidity on performance. Twenty (20) Nigerian manufacturing enterprises that are listed on the Nigeria Stock Exchange make up the study's population: consumers of Nigerian manufacturing firms.. Due to

data availability, the study only covered 16 listed consumer sector manufacturing enterprises. This secondary data was collected from the audited financial statements of listed manufacturing firms in Nigeria.

Data Analysis Technique

The study employed panel multiple regression to analyse the data on E-view. Diagnostic tests including normality, autocorrelation and linearity were first of all carried out before proceeding to regression analysis

Model Specifications

This research adopts the simple linear regression method. The specific objectives are expressed as:

$$ROE = F(CR).....(1)$$

$$ROE = b_0 + b_1 CR + b_2 QR + b_3 CCCE (2)$$

Where

ROE = Return on Equity

CR = Current Ratio

QR = Quick Ratio

CCC= cash Conversion Cycle

b₀ = Intercept

b₁ = co-efficient of current Ratio

b₃ = Cash Conversion Cycle

E = Error Terms

Description and Measurement of Variable

The variables of the study were measured as provided in Table 1.

Variable	Types	Measurement
Return on Equity (ROE)	Dependent	(ICAN, 2014)
Current Ratio	Independent	(Robinson et al., 2015)
Quick Ratio	Independent	(Sinha, 2012)
Cash Conversion Cycle	Independent	(Hutchison et al., 2007)

ANALYSIS, RESULTS AND DISCUSSION

The data was subjected to descriptive and inferential analysis. The descriptive statistics include Mean, Standard Deviation, Percentages, Frequencies, Minimum and Maximum. Diagnostic tests including normality test, multicollinearity test and linearity test were first and foremost carried out to meet some crucial assumptions of Classical linear regression model. Having satisfied the diagnostic test, the data were subjected to panel regression, and Hausman's test was employed to choose between random and fixed-effect model.

Descriptive Analysis

On average, cash conversion cycle of Nigerian manufacturing companies is 64 days approximately, the maximum was 843 days, and the minimum was 0 day. This result implies that when they sold on credit, they never received payment in less than 24 hours but until around two months (64 days/30) after sales, and the most extended period for obtaining cash for goods sold on credit was about two years and four months ($843/30 = 28$ months /12 = 2years 4 months) The standard deviation was 107.8949 days and the data did not have a normal distribution (JB statistics = 5321.984, $p = 0.000000$).

Similarly, the current ratio was 1.081541, which implies that the companies' existing assets were always greater than their current liabilities during the period of investigation. Th maximum current ratio was 3.901099, which means the company's existing assets were about times 4 of their current liabilities. The maximum was 0, which implies that there were some years that the

companies didn't have either existing assets or current liabilities or both. The standard deviation was 0.718083, and the variable did not have a normal distribution

In like manner, the quick ratio on average was 0.678470 which implies that when inventories and prepayments are removed from current assets, the remaining value of current assets was lower than the current liabilities of the investigated companies during the period of investigation. The maximum was 3.393037, which implies the available current assets apart from inventories and prepaid expenses were approximately 3.4 times the current liabilities. The minimum was zero, which indicates the absence of current liabilities or current asset for some years during the period of investigation. The standard deviation was 0.557672 and the data was not normally distributed (JB Statistics = 0.557672, p-value = 0.000000).

In the same way, Return on assets was 0.050988 approximately 5% on average, the maximum profitability was around 206 % (2.060192 x100) of the amount they invested, and the minimum was - 0.950650 which approximately 95% loss. The standard deviation was 0.226933, and the data were not normally distributed (JB Statistics = 17445.04, p = 0.000000). Also, the Return on equity was 0.279800 on average, which is approximately 28%. The maximum was 17.02789, which is approximately 170% and the minimum was -1.064433, which is around 106% loss. The standard deviation was 1.312912, and the data was not normally distributed (JB statistics = 173644.6, p = 0.000000).

	CASHCONV	CURRENTR	QUICKRAT	ROA	ROE
Mean	64.37059	1.08541	0.678470	0.050988	0.279800
Median	44.50000	1.049246	0.579034	0.027939	0.129794
Maximum	843.0000	3.901099	3393037	2.060192	17.02789
Minimum	0.000000	0.000000	0.00000	-0.950650	-1.064433
Std. Dev.	107.8949	0.718083	0.557672	0.226933	1.312912
Skweness	4.658294	0.720092	1.449066	5.292732	12.31092
Kurtosis	28.77867	4.149554	6.301663	51.48482	157.6231
Jarque-Bera	5321.984	24.05219	136.7094	17445.04	173644.6
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	10943.00	183.8619	115.3400	8.667888	47.56598
Sum Sq. Dev	1967382	87.14377	52.55860	8.708267	291.3117
Observation	170	170	170	170	170

Diagnostic Tests

The study carried out some diagnostic tests to meet the assumptions of the classical linear regression model. The assumptions tested include normality test, multicollinearity test and linearity test.

Normality Test

It was noted in table 2 that none of the variables has a normal distribution of the error term. It is required that the dependent variables should be normal. Therefore, this study transformed all the variables to log10 to meet normal distributions. After the transformation, many of the variables were still not normal, as revealed by the p-values. The p-values for ROA, current ratio, cash conversion cycle and quick ratio were .024, .000, .002 and 0.000 respectively. The pvalues are lower than 0.05, which shows that deviation from normality was significant, indicating that the data are not normal. However, the p-value for ROE after transformation was .200, which is greater than 0.05, indicating that the deviation from normality was not significant, which means the data was normally distributed. The explanatory variables don't need to have a normal distribution of the error term, but the dependent variables must have. Therefore, ROA is discontinued for further parametric analysis.

Table 3. One-Sample Kolmogorov-Smirnov Test

		LOGROA	LOGROE	Current log	Cashlog	quick log
N		137	142	159	134	159
Normal Parameter	Mean	-1.3858	-.7928	-.0948	1.7107	-.3256
	Std. Deviation	.45966	.47241	.54004	.41516	.54846
	Absolute	.082	.064	.241	.101	.209
Most Extreme Differences	Positive	.082	.064	.147	.095	.109
	Negative	-.050	-.053	-.241	-.101	-.209
Test Statistics		.084	.064	.241	.101	.209
Asymp. Sig. (2-Tailed)		.024c	.200c,d	.000c	0.002c	.000c

Linearity Tests

This study also tested the linearity between the dependent variables and independent variables. The relationship between ROE and cash conversion cycle is linear (Deviation from linearity pvalue = .853 > .05 = not significant), the relationship between ROE and current ratio is equally linear (Deviation from linearity p-value = .940 > .05 = not significant), and likewise the relationship between ROE and quick ratio is linear (deviation from linearity p-value = .940 > .05 = not significant). Multiple linear regression can be performed using this model since it suggests a linear relationship between each independent variable and the dependent variable. Table 4. Linearity Table

Variables		P-values
ROE* Cash Conversion Cycle	Linearity	.025
	Deviation from Linearity	.853
ROE* Current ratio	Linearity	.944
	Deviation from linearity	.940
ROE*Quick ratio	Linearity	.995
	Deviation from Linearity	.994

Multicollinearity Test

The study further tested to ensure there is no multicollinearity problem among the independent variables which may affect the outcome of the analysis. Variance Inflation Factor (VIF) was employed, and the VIF values that are greater than one but less than ten which is the acceptable range indicate the absence of multicollinearity. In contrast, the values outside the range indicate perfect or strong correlation among the explanatory variables. Likewise, the Tolerance value that is greater than 0 but less than one also shows the absence of multicollinearity. As shown in Table 5, there is no multicollinearity problem in the model for this study.

		Tolerance	VIF
1	Constant		
	Currentlog	.129	7.777
	Cashlog	.933	1.072
	quick log	.131	7.626

Post Estimation Test

A regression model can be estimated by employing Pooled OLS, Fixed effect model and random effect model. Since the variables of this study have panel data, a panel regression model was selected, and the analysis employed Hausman's Test to choose between the fixed effect model and random effect model. The following null hypothesis is tested:

H0: Random effect model is appropriate**Ha: Fixed effect model is appropriate.**

The p-value of Hausman's Test in Table 6 is 0.1070, which is greater than 0.05; therefore, the null hypothesis cannot be rejected. Therefore, this study employed a random effect model.

Table 6. Hausman's Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.096918	3	0.1070

Liquidity and Financial Performance

R-square shows that the variables in the model account for about approximately 8% of the changes in the financial performance of manufacturing firms in Nigeria. Even though the contribution of the model is very low but F-probability shows that the model is significant, thus making it valid for this study ($R^2 = 0.076164$, $F\text{-Stat} = 3.215273$ and $F\text{-Prob.} = 0.025464 < 0.05$). Table 7 shows that current ratio has an insignificant positive effect on return on equity ($\beta = 0.449326$, $p = 0.3571 > 0.05$). Therefore, the first hypothesis for this study which states that "Current ratio does not have a significant effect on return on equity of listed manufacturing companies in Nigeria." cannot be rejected. The result implies that everyone naira increases in total asset against total liability or every increase in a current ratio by one per cent increase return on equity by approximately 45%. This outcome is, however, not statistically supported at 5% level of significance.

However, quick ratio has a significant negative effect on financial performance ($\beta = -0.712319$, $p = 0.0543$). Since the p-value is not greater than 0.05, thus, the second null hypothesis for this study which says that "quick ratio does not have a significant effect on Return on equity of listed manufacturing companies in Nigeria is at this moment rejected. It implies that every ₦1 increase in current asset apart from inventories and prepaid expenses against current liability or every increase in the quick ratio by 0.01 or one per cent significantly increases performance (Return on equity) of listed manufacturing companies in Nigeria by approximately 5%

Furthermore, cash conversion cycle insignificantly has negative effect on financial performance of manufacturing firms in Nigeria ($\beta = -0.051947$, $p = 0.6384 > 0.05$). Therefore, since the p-value is greater than 0.05, the third null hypothesis of this study which states that "cash conversion cycle does not have a significant effect on return on equity of listed manufacturing companies in Nigeria" cannot be rejected. This result implies that any increase in the cash conversion cycle by one day reduces Return on equity by about 5% ($-0.051947 \approx -0.05$).

Variable	Coefficient	Std. Error	t-Statistic	Prob.	R^2	F-Stat	F-Prob
C	-0.871659	0.198183	-4.398259	0.0000	0.076164	3.215273	0.025464
CASHLOG	-0.051947	0.110242	-0.471207	0.6384			
QUICKLOG	-0.712319	0.366495	-1.943597	0.0543			
CURRENTL	0.449326	0.924552	0.924552	0.3571			

Discussion of Findings

This random effect model shows that the current ratio has an insignificant positive effect on Return on equity. This position is evident in the probability value of 0.3571, which was more significant than 0.05, with a positive t- statistic of 0.924552. The result implies that every ₦1 increase in total asset against total liability or every increase in a current ratio by one per cent

increase return on equity by approximately 45%. This result lends credence to the work of Patjoshi (2016) but contradicts some studies (Ben-Caleb, Olubukunola, & Uwuigbe, 2013; Ehidu, 2014).

The result also shows that the quick ratio has a significant negative effect on financial performance. Since the p-value is not greater than 0.05, it was 0.0543 with a negative t-statistic of -1.943597. Hence an increase in current assets would lead to a 0.01 per cent increase in equity. This result supports the existing studies in terms of statistical significance but contradicts their findings in the name of the direction of relationships because they found a positive relationship (Njure, 2014; Patjoshi, 2016). The table also shows that the cash conversion cycle insignificantly hurts financial performance of manufacturing firms in Nigeria ($\beta = -0.471207$, $P = 0.6348 > .05$). This result implies that any increase in the cash conversion cycle by one day reduces Return on equity by about 5%. Additionally, some previous investigations are supported by this outcome (Ben-Caleb et al., 2013; Jayarathne, 2014), but contradict others (Gill, Biger, & Mathur, 2010; Owolabi & Obida, 2012).

CONCLUSION

The study investigated the effect of liquidity on the performance of listed manufacturing firms in Nigeria. The results showed that neither the cash conversion cycle nor the current ratio significantly impacted the performance of manufacturing firms. On the other hand, the quick ratio significantly impairs financial performance. The above results demonstrate that manufacturing companies are unable to sustain the levels of liquidity necessary to pay their short-term obligations, which highlights the critical requirement of liquidity management in assisting businesses in doing so.

After conducting this study and analyzing the data, the researcher makes the recommendation that manufacturing companies attempt to establish and strictly adhere to policies and procedures that support the firm in maintaining a proper balance between their profitability and liquidity position. The efficient management of liquidity is very crucial to profitability and sustainability. Firms should effectively manage their liquidity position in a manner that it generates adequate liquid fund.

A comparative study can be carried out to establish whether the liquidity affects performance in the public sector, which could be the most probable area of interest because little focus on these two main variables (liquidity and profitability) has been made so far. This kind of study will provide a basis for comparison to provide concrete facts upon which reliable and reasonable conclusions can be made and hence find out whether there are areas of commonalities or unique factors. Future researchers can also examine other forms of liquidity such as Basic liquidity ratio (monetary assets divided by monthly expenses), basic defense ratio (current assets divided by daily operational expenses). Liquidity can also be examined on other financial performance metrics such as Earnings per share, Economic Value Added, Return on Investment and Tobin's q.

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