LIQUIDITY ASSETS AND FINANCIAL PERFORMANCE OF LISTED CONSUMER FIRMS IN NIGERIA

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ABSTRACT

Liquidity asset reflects the organization's ability to repay short-term liabilities, which include operating expenses and cash flows in other to keep the business running within the organization in the short run. Thus, higher liquidity assets might alert investors that the company may not be efficiently investing its resources judiciously. However, this study intends to examine the effect of liquidity asset on financial performance of listed consumer firms in Nigeria. Proxies used to measure liquidity assets are cash assets and receivables asset, while the financial performance is proxied by return on asset. The study concentrated on the period from 2013 to 2022. Panel data was used to analyse the data sourced from the individual financial reports of the listed consumer firms. The sample adopted sixteen (16) listed consumer firms out the twenty (20) firms traded in the Nigerian stock market. The study employed panel regression model to estimate the key relationship between liquidity assets and financial performance. The result showed that cash asset and receivable asset had a significant effect on return on asset of listed consumer firms in Nigeria. The study recommends that management should increase the amount held as cash in order to meet daily obligations, which could yield higher return before paying its liabilities. Also, consumer firms should create a new strategies and incentives like discount and promo that will ensure that debtors are encouraged and motivated to settle their accounts on time.

Keywords: Liquidity Asset, Cash Asset, Receivables Asset, Return on Asset, Listed Consumer Firms.

INTRODUCTION

The success of an entity relies ultimately on its propensity to generate cash receipts that are more than its disbursements. However, one of the key concerns of financial managers is to devise a strategy to manage their day-to-day operations in order to meet their obligations as and at when due, in order to improve the financial performance of the firm. The liquidity asset owned by the company may be a factor that affects the performance of the firm because high liquidity may be able to reduce the use of external funds due to high internal funding. According to Arianpoor (2021), liquidity asset is a description of how much the amount of assets owned by the company is converted to the amount of cash. Cash asset is a general measure used for short-term solutions and a company's ability to meet debt when it becomes due. Therefore, high liquidity assets signals creditor that company is very liquid and is not

burdened by debt obligations. Also, if it is too high it alerts investors that the company is not efficiently using its current assets or its short-term financial facilities. Liquidity asset is useful for assessing the company's ability to fulfil its obligations so that it can attract investors to invest.

Liquidity assets is made up of short-term assets because they generally are convertible to cash within a firm's fiscal year, and are the resources that a company needs to run its day-to-day operations and pay its current expenses. Subsequently, excessive level of current assets can easily result in a firm realizing a substandard return on investment while firms with too few current assets may generate shortfall and difficulties in keeping to daily operations. Consequently, receivable assets are aggregate of all the debts owed to a firm at a particular point in time. It represents the amount the firm expects to receive from its debtors in payment of goods and services delivered or rendered by the firm. Therefore, it is the responsibility of the financial manager to make decisions as regarding the policy that must be adopted in extending credit facilities to customers because of the problem of possible default (Agegnew, 2019). Studies on the effect of liquidity assets on financial performance has shown mixed result. For instance, the study of Winasis et al. (2020) stated that liquidity assets have a positive effect on return on assets. Also, the study of Wuave, et al. (2019) found that liquidity asset has a significant relationship on financial performance in Nigeria. However, Al Ani (2014) is of the view that current asset does not have a strong impact on profitability. Therefore, the main objective of the study is to examine the effect of liquidity assets on financial performance of the sixteen (16) listed consumer firms in Nigeria from 2013-2022.

LITERATURE REVIEW

Concept of Liquidity Assets

Liquidity asset measures the company's ability to pay short-term liabilities such as payable accounts and short-term loans, which represents the ratio of liquidity of the firm. The magnitude of this ratio expresses high liquidity of the company, thus a greater capacity to meet the short-term liabilities. Liquidity assets include cash and those assets which can be easily converted into cash within a short period of time, generally, one year, such as marketable securities or readily realizable investments, bills receivables, sundry debtors, (excluding bad debts or provisions), inventories and work in progress. Prepaid expenses included in current assets because they represent payments made in advance which will not have to be paid in near future. Current liabilities are those obligations that are payable within a short period of generally one year and include outstanding expenses, bills payable, sundry creditors, bank overdraft, accrued expenses, short term advances, income tax payable and dividend payable (Affandi, et al, 2018). Conversely, based on the definitions of liquidity assets, this study defined liquidity asset as a liquidity ratio that measures a company's ability to pay short-term obligations. Liquidity asset can be measured using cash asset and receivable asset.

Cash Asset

Farfan, et al. (2017), in their definition stated that cash asset is the amount of money the company has. Cash asset can also be called quick asset. Quick assets include those current assets that presumably can be quickly converted to cash without losing their book values. (Singh & Pandey, 2008). Cash asset is a liquidity metric that indicates a company's capacity

to pay off short-term debt obligations with its cash and cash equivalents. Compared to other liquidity ratios such as the current ratio and quick ratio, the cash ratio is a stricter, more conservative measure because it consists of only cash and cash equivalents, a company's most liquid assets are used in the calculation (Farfan et al, 2017). It also indicates a view of how much liquidity a company has deducting from the total current assets the receivables and the inventory, basically focus in the level of factual cash to pay the debts of the business. This ratio of current assets depends only on short-term marketable investments plus its cash attributed to current liabilities (Gibson, 2009).

According to Kasmir (2018), cash assets is the company liquid assets that can be used as money in a short time (a maximum of one year). The components of current assets include cash, securities, receivables, inventories, fees paid in advance, accrued income, loans provided, and other current assets. Current assets like cash/bank balance, inventory and receivables are seen as key components of the firm`s total assets. A firm may be able to reduce its investment on fixed assets by leasing, but it is practically difficult to do so for current asset (Afza & Nazir 2008).

Receivable Asset

In the work of Atrill (2006), receivable assets mean money owed by customers, individuals or corporations, to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. The receivables assets is an element of the working capital management. This period is the average lapse of time from a sale on credit up to when the settlement becomes usable moneys for the business (Gitman, 2009). Hence, it is the average of time an enterprise should wait after making a credit sale before obtaining the fund. Kelly and McGowen (2010) stated that receivable assets are assets representing amounts owed to the firm as a result of the sale of goods or services in the ordinary course of business. Accounts receivable consist of the amount due from customers (book debts) or debtors as a result of selling goods on credit. The term debtors is defined as 'debt' owed to the firm by customers arising from sale of goods or services in the ordinary course of business. The three characteristics of receivables, i.e the element of risk, economic value and futurity explain the basis and the need for efficient management of receivables.

According to Pandey (2010), the cash payment for goods and services received by the buyer will be made by him in a future period. The customer from whom receivables or book debts has to be collected in future are called trade debtor and represent the firm's claim on assets. Receivables management, also termed credit management, deals with the formulation of credit policy, concerning credit standard and credit period, the discount offered for early payment and the collection policy and procedures undertaken. It does so in such a way that taken together these policy variables determine an optimal level of investment in receivables where the return on that investment is maximum to the firm.

Financial Performance

Erasmus (2008) pointed that financial performance is the measure of how well a firm can use its assets from its primary business to generate revenues. He also noted that financial performance measures like profitability and liquidity among others provide a valuable tool to stake holders which aids in evaluating the past financial performance and current position of a firm. Semiu and Collins (2011) also referred to it as the proportions of capital at work in a

business by type, namely, equity capital and debt capital, each of which having its own benefits and drawbacks.

Suleiman (2013) viewed a firm's performance as the result of a company's assessment or strategy on how well a company accomplished its goals and objectives. Financial performance provides a deductive measure of how well a company can use assets from business operations to generate revenue. Van Horn (2005) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2001) is used as a general measure of the overall financial health of a business. Research on the firm's financial performance emanates from organizations theory and strategic management. The notion of financial performance is used to describe performance of an entity with the legal status of a company. However, this study defined firm's performance as the outcome of an operation of a firm or an organization which can be measured by profitability of the firm. It is a measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Empirical Review

Cash Asset and Financial Performance

Gbalam and Uzochukwu (2020) examined the relationship between current ratio and firm performance in Nigeria. To achieve this, they used selected industrial quoted firms in Nigeria that have consistently published their audited financial report between 2014 and 2019. A sample of fifteen (15) firms was used to form the sample of the study to ensure adequate observation for statistical testing. They adopted a panel (balanced) data analysis to identify possible firm's specific types of working capital management in selected Nigerian quoted firms. To this end, they conducted descriptive statistics and correlation analysis to describe the data in the variables in the specified model. Fixed and random effects panel data techniques were conducted as well as the Hausman test which formed basis for selecting the preferred model between fixed and random effects models. Result indicate that current ratio exerts negative and insignificant effect on firm performance as proxied by ROA, while cash management show positive but insignificant impact on firm performance. The study therefore recommended that efficient management of cash in every business is crucial if the firm is to sustain growth.

Makori and Jagongo (2018) examined the impact of cash ratio on firm performance using Nestle Food Nigeria plc as a case study. Secondary data was used for the study and it was obtained from the financial statement of Nestle Nigeria Plc for the period of 2004-2013. The study made use of Ordinary Least Squares (OLS) regression after the data was subjected to unit root test and found to be stationary at levels and are integrated of order zero. The findings revealed that a positive relationship exist between cash ratio and Return on Asset (ROA) and the relationship is statistically significant ($p<0.05$) and in line with a priori expectation. The result shows that the management of cash ratio is important to business organization performance.

Affandi, et al. (2018) investigated the influence of cash ratio, DER, receivable turnover, NPM, and ROE at manufacturing company. This research was conducted at manufacturing company listed in BEI period 2011 until 2016. The sampling technique used is purposive sampling, which is a sample of 19 companies. Data analysis in this study using classical test,

multiple linear regression analysis, F test, adjusted R square, and t test. From the results of the research is known that receivables turnover, return on equity, and institutional ownership have a significant positive effect on dividend payout ratio. While the rest, cash ratio, DER, and NPM did not significantly affect the dividend payout ratio in manufacturing companies.

Durrah, et al. (2016) examined the relationship between current ratios and indicators of financial performance in the food industrial companies listed in Amman Bursa during the period (2012-2014). The study sample included (8) industrial companies which operate in the field of food listed in Amman bursa. The results showed no relationship between all liquidity ratios and the gross profit margin, while there is a weak positive relationship between the current ratio and each of the operating pro t margins and the net profit margin, as the study pointed to the existence of a positive relationship between (quick ratios, defensive interval ratio) and operating cash flow margin. There is a positive relationship between liquidity ratios (current ratio, quick ratio, cash ratio) and return on assets.

Yahaya and Bala (2015) examined the effect of cash ratio of Deposit Money Banks in Nigeria. The study covered the period of six years 2007 to 2013. Data for the study were extracted from the firms' annual reports and accounts. After running the OLS regression, a robustness test was conducted for validity of statistical inferences, the data was empirically tested between the regressors and the regressed, multiple regression was employed to test the model of the study using OLS. The results from the analysis revealed a strong positive relationship between current ratio and quick ratio and ROA of Listed Deposit Money Banks in Nigeria, while cash ratio was found to be inversely but significantly related to ROA of listed deposit money banks in Nigeria. In line with the above findings, the study recommended that the management should pay more attention to their liquidity (cash asset) as the study has empirically proved that higher liquidity signifies more profitability.

Receivable Asset and Financial Performance

Wang, et al (2020) examined the impact of receivable assets and working capital strategy (WCS) on firm's financial performance across different stages of the corporate life cycle (CLC). They studied Pakistani non-financial listed firms nested in 12 diverse industries over a period of 2005–2014 and employ the hierarchical linear mixed (HLM) estimator, which can process multilevel data where observations are not completely independent. The empirical findings revealed that WCM is negatively associated with firm performance. These findings suggest that firms require customized WCM policies and WCS to attain sustainable financial performance at each stage of firm life cycle. Thus, managers should not overlook the significant role of CLC stages in their financial planning to ensure the sustainable functioning of the enterprise. No evidence of a robustness test such as the reliability and validity of the questionnaire. More so, facto analysis was not carried out in the study.

Doan (2020) using the generalized method of moment (GMM) to analyzed the impacts of accounts receivable period on the profitability of fisheries enterprises in Vietnam. Not only that, the author also considered the role of the supply chain finance in this impact. The study data was collected from 20 fishery enterprises listed on Vietnam's stock market, for the period of 2010-2018. The study results showed that the profitability (ROA) of the enterprises is negatively affected by accounts receivable period (AR). The study results are a reliable basis to help managers at the fisheries enterprises to better understand the impact of accounts receivable period and especially the supply chain finance on the profitability of the enterprise. The use of graphs and tabular form may not capture appropriately a robust

analysis required for policy making, the author could have easily adopted a quantitative approach.

Agegnew (2019) investigated the effect of accounts receivable period on profitability. Specifically, the study used survey of documentary analysis of companies audited financial statements for the analysis. Purposive sampling design was employed based on the study. Consequently, the study selected a sample of 5 (five) Manufacturing and 13 (Thirteen) Merchandise companies for the period of seven years (2009-2015) with the total of 18 observations. Data was analyzed using Pearson's correlation and pooled panel data. Moreover, the study used gross operating profit as dependent profitability variable and accounts receivable days as independent variables. The results showed that there is statistical significance negative relationship between profitability and accounts receivable period. It means that, company's managers can create profits or value for their companies and shareholders by handling correctly the cash conversion cycle and keeping each different component of working capital to a possible optimum level. However, the research design was not stated and the study also covers the period of seven years from 2009-2015 which is far from the time it was published, the researcher should have extended the work to cover 2017 or 2018.

Ondari and Muturi (2018) determined the effects of accounts receivable management strategies on the financial performance of mission healthcare facilities in Tanzania. The study employed a descriptive approach with a correlation research design. The study targeted 100 respondents consisting of accountants, patients, Medical Superintendents and assistant administrators in 29 Kisii County Level 4 and level 6 hospitals. The study used simple random sampling technique where by the target population was put into clusters or sub-groups from which the researcher obtained a sample size of 100 respondents. Primary data was obtained mainly through personally administered questionnaires. Closed questionnaires were used in this study. Secondary data that has been recorded in the organizations involved was obtained through document review. However, the study is on accounts receivable and performance of healthcare facilities in Tanzania, which results might be different from studies in Nigeria.

Theoretical Framework

Trade-off Theory

This theory was propounded by Robichek and Myers (1966). The theory states that organizations focus on an ideal degree of liquidity to adjust the advantage and cost of holding money. The expense of holding money incorporates low pace of return of these advantages in light of liquidity premium and perhaps charge inconvenience. The advantages of holding money are in twofold: First, the organizations spare exchange expenses to raise reserves; don't have to sell resources for make installments. Second, the firm can utilize fluid advantages for account its exercises and speculation if different wellsprings of financing are not accessible or are amazingly costly. Falope and Ajilore, (2009) Presents office issue related with free- income. Jensen (1986), proposes that – free income issue can be some way or another constrained by expanding the stake of chiefs in the business or by expanding obligation in the capital structure, in this manner diminishing the measure of free money accessible to supervisors. As hypothesis, the utilization of compromise model can't be overlooked, as it clarifies that, organizations with high influence draws in significant expense of overhauling the obligation accordingly influencing its financial execution and it gets hard

for them to raise assets through different sources. Holding money on that point isn't just kept up by the littler firm yet in addition bigger firms.

The theory expresses that there is an ideal capital structure that expands the estimation of a firm. It is of the view that the administration will set an objective influence proportion and afterward progressively move towards that. Davis and Cosenza (2014) have shown that organizations select objective influence proportions dependent on a compromise between the advantages and expenses of expanded influence, he referenced duty, money related pain expenses and office costs as three factors that impact the decision of this objective influence proportion. Directors will in this way pick the blend of obligation and value that accomplishes a harmony between the advantages of obligation through duty advantage and the different expenses related with obligation. In this study, trade-off theory was adopted in order to help in elaborating the liquidity and its role in firm performance. In line with the main objective of the study, the following hypotheses was tested:

H_{o1}: Cash asset has no significant effect on financial performance of listed consumer firms in Nigeria.

H_{o2}: Receivable asset has no significant effect on financial performance of listed consumer firms in Nigeria.

METHODOLOGY

Ex post facto research design was used for this study. The panel data to be used in this study was collected from secondary sources from the individual financial reports of the listed consumer firms. The population of the study constitute all the twenty (20) listed consumer firms in the Nigerian Stock Exchange as at December 2023 which are Cadbury Nigeria Plc, Champion Brew. Plc, Dangote Sugar Refinery, Dunlop, Flourmill, Goldbrew, Guinness, Honyflour, International Breweries Plc, Mcnichols, Multitrex, Nig. Flour Mills Plc, Nascon, Nestle, Nigerian Brew. Plc, Enamelwa, PZ Cussons Nigeria Plc, Unilever, Uniondicon and Vitafoam. Purposive sampling technique was adopted in this study; therefore, the sample size was sixteen (16) listed consumer firms in Nigeria.

This study employed panel regression model to identify, explain and estimate the key relationship between current asset and financial performance. Correlation analysis is a method of statistical evaluation used to study the strength of a relationship between two, numerically measured, continuous variables (height and weight). Hausman test was used to determine which model is the best suited for this study whether fixed or random effect. The specific model given below for the Hausman test describes a convenient version for regression applications that involves testing whether certain transformations of the original regressors have zero coefficients.

$$H_n \equiv n\,(\theta_{1n} - \theta_{2n})\,S'\,[S\,V_n\,S]^{-}\,S'\,(\theta_{1n} - \theta_{2n}).$$

The following multiple regression model will be used:

$$ROA_{it} = \beta_0 + \beta_1 CAA_{it} + \beta_2 REA_{it} + U_{it}$$

Where;

ROA= Return on asset (Dependent Variable)

CAA= Cash asset (Explanatory Variable)

REA= Receivable asset (Explanatory Variable)

βo = Constant term

$\beta_1 - \beta_2$ = Coefficient of the Independent Variables.

U = Error Term

Variables are in their natural ratio form.

The decision rule to test the hypothesis of the study is as follows: If the p-value of the t-coefficient is less than 5% (0.05), the null hypothesis is rejected, otherwise accept.

Table 1: Variable measurement table

Variables	Description	Source
Return on Asset ratio	ROA measures the net income produced by total assets during a period by comparing net income to the average total assets.	Ameur and Mhiri (2013)
Cash assets	Measured as Cash holding and short-term marketable investments assets.	Gibson (2009).
Receivable assets	Measured as the trade debtors to total assets	Wang, et al. (2020).

Source: Researcher's Computation 2024

RESULTS

Table 2: Descriptive Statistics

	ROA	CAA	REA
Mean	1.316129	78.96375	176.4750
Std. Dev.	1.143850	25.52490	92.38025
Skewness	2.787800	532.5519	888.9747
Kurtosis	0.718600	0.032800	11.31320
Jarque-Bera	0.458860	116.8195	197.0865
Probability	0.000000	0.000970	0.097425
Sum	4.073152	24.96340	132.8160
Sum Sq. Dev.	1.316129	19.95309	618.5015
Observations	160	160	160

Source: E-Views 12

The table 2 revealed the data used in the study with ROA, CAA and REA having a mean value of 1.316129, 78.96375 and 176.4750 respectively. The deviation from the mean (standard deviation) was 1.143850, 25.52490 and 92.38025 respectively; this means that ROA, CAA and REA were normally distributed because the standard deviation value was lower than the mean value. In like manner, the Jacque-Bera values confirm the normality of the data.

Table 3: Correlation matrix

	ROA	CAA	REA
ROA	1	0.16156	0.37282
CAA	0.16156	1	0.16156
REA	0.37282	0.37282	1

Source: E-Views 12

Table 3 explained the correlation of current assets and financial performance of listed consumer firms in Nigeria where the ROA was correlated with CAA to the value of 0.16 which signifies there is correlation since the value is positive, While the ROA were correlated with REA to the value of 0.14 which signifies there is correlation since the value is positive. Also, CAA was correlated with ROA to the value of 0.16 which signifies there is positive correlation since the value is high. CAA were correlated with REA to the value of 0.37 which signifies there is correlation since the value is positive. Finally, REA was correlated with ROA to the value of 0.37 which signifies there is positive correlation since the value is high. REA were correlated with CAA to the value of 0.16 which signifies there is correlation since the value is positive.

Table 4: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.095641	2	0.1070

Source: E-Views 12

The result of the Hausman test in the table 4 indicates that the fixed effect regression model is the most appropriate model to analyse the data of the study. With the probability of 0.1070, the random effect was rejected. Therefore, the fixed effect estimator was used to run the regression.

Table 5: Panel Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.257295	0.075217	16.71564	0.0000
CAA	0.000562	0.000459	1.225254	0.0228
REA	0.000684	0.000245	2.794899	0.0088

R-squared	0.624941	Mean dependent var	1.877089
Adjusted R-squared	0.552349	S.D. dependent var	0.910341
S.E. of regression	0.400284	Sum squared resid	4.967048
F-statistic	8.608956	Durbin-Watson stat	1.527367
Prob(F-statistic)	0.000015		

Source: E-Views 12

The P-value of CAA is 0.0228 which is less than 0.05, this indicates that CAA significantly affects ROA. Therefore, for every 1% increase in CAA, there is a 0.0005 increase in ROA.

Also, the P-value of REA is 0.0088 which is less than 0.05, this indicates that REA significantly affects ROA. Therefore, for every 1% increase in REA, there is a 0.0006 increase in ROA. The coefficient of determination R^2 value at 0.62 shows that 62% of change in the dependent variables is explained by the independent variables. The probability of the F-Statistics which is less than 0.05 indicates that the independent variables jointly explain the independent variables. Therefore, the model is fit and appropriate.

DISCUSSION OF FINDINGS

The study found that cash assets significantly affect ROA of listed consumer firms in Nigeria for the period studies. These findings is consistent with the research of Gbalam and Uzochukwu (2020) and Makori and Jagongo (2018) that the relationship between cash asset and financial performance is significant, this implies that it is always true that companies that have higher cash availability will be more likely to financially outperform those with less cash availability when the company's liquidity is good, the company's performance will be affected positively. The effect of receivable asset on financial performance is positive and significant. These findings is similar to the study of Wang, Akbar and Akbar (2020), Doan (2020), Ondari and Muturi (2018). Even though managers would desire to have a relatively high receivable asset because that would indicate that the firm is liquid and has the ability to meet its current payables promptly. On the other hand, a relatively low current asset represents the fact that the liquidity position of the firm is not good and the firm may not be able to pay its current liabilities on time.

CONCLUSION AND RECOMMENDATIONS

This study evaluated the effect of current assets on financial performance of listed consumer firms in Nigeria. In agreement with prior evidence from developed countries that show significant linkage between current asset and financial performance, the findings indicate that cash asset and receivable asset had a significant effect on ROA. Thus, the paper also concluded that a unit increase in cash asset and receivable asset will have an increase on financial performance of listed consumer firms in Nigeria.

Drawing from our research findings, the recommendations are proffered as follows:

i. The study recommended that managers of consumer firms should increase the amount held as cash in order to meet daily obligations, which could yield higher return before paying its liabilities.
ii. Also, consumer firms should create a new strategies and incentives like discount and promo that will ensure that debtors are encouraged and motivated to settle their accounts on time.

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