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Liquidity Management and Financial Performance of Listed Consumer Goods Firms in Nigeria

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ABSTRACT
This study examined the effect of liquidity management on the financial performance of listed consumer goods firms on the Nigerian Exchange Group. Anchored on the Working Capital Management Theory, the study adopted an ex-post facto research design. The population comprised all consumer goods firms listed on the NGX. Panel data covering the period 2016 to 2025 was extracted from the audited annual reports of the sampled firms. Financial performance was proxied by Return on Assets and Return on Equity, while liquidity management was measured using Current Ratio, Quick Ratio, and Cash Conversion Cycle. Firm size was included as a control variable. The results revealed that Current Ratio and Quick Ratio have a positive and significant effect on both ROA and ROE, while Cash Conversion Cycle has a negative and significant effect on financial performance, suggesting that a shorter cash conversion cycle leads to improved financial performance. Firm size was found to have a positive and significant influence. The study concludes that efficient liquidity management is a critical determinant of profitability of consumer goods firms in Nigeria. It is recommended that firms maintain optimal liquidity levels, shorten their cash conversion cycle through efficient inventory and receivables management, and leverage their size to enhance financial performance.
Keywords: Working capital management, Financial performance, Current ratio, Quick ratio, Cash conversion cycle, Consumer goods firms, NGX
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1.0 INTRODUCTION

Liquidity management is a critical pillar of corporate financial management, particularly in emerging economies where macroeconomic volatility, inflationary pressures, and constrained access to external financing amplify operational risks. It involves the strategic planning and control of current assets and current liabilities to ensure a firm can meet its short-term obligations without compromising profitability (Agu et al., 2024). For consumer goods firms listed on the Nigerian Exchange Group (NGX), effective liquidity management is indispensable due to the nature of their operations, which are characterized by high inventory turnover, intensive trade credit, and sensitivity to consumer purchasing power. Recent evidence indicates that many listed consumer goods companies in Nigeria face insolvency threats arising from slow inventory turnover, inefficient receivables collection, and poor trade credit policies, leading to cash flow crises and declining performance (Oyewunmi, 2024).

Financial performance, broadly defined as the extent to which a firm achieves its financial objectives, is commonly measured through accounting-based indicators such as Return on Assets (ROA) and Return on Equity (ROE). ROA captures managerial efficiency in utilizing total assets to generate earnings, while ROE reflects returns accruing to shareholders (Soje et al., 2024). The trade-off theory of liquidity posits that firms must balance the benefits of holding liquid assets for operational safety against the opportunity cost of idle resources that could otherwise be invested profitably. Excessive liquidity may signal inefficiency, while inadequate liquidity exposes firms to financial distress.

The selection of current ratio, quick ratio, and cash conversion cycle as proxies for liquidity management is theoretically and empirically justified. First, the current ratio is employed as a foundational measure of short-term solvency, reflecting the extent to which current assets cover current liabilities. Its relevance in the consumer goods sector lies in its ability to signal overall liquidity adequacy, which is critical for maintaining supplier confidence and operational continuity (Oyewunmi, 2024). However, because it includes inventory which may be slow-moving in a volatile consumer market, it is complemented by the quick ratio. The quick ratio offers a more conservative assessment by excluding inventory, thereby isolating the most liquid assets and providing a clearer indication of a firm's ability to meet immediate obligations without relying on inventory liquidation (Benedict et al., 2024). In addition, the cash conversion cycle (CCC) is included to capture the dynamic and temporal dimension of liquidity management that static ratios fail to address. CCC measures the number of days cash is tied up in working capital and directly reflects the efficiency of inventory management, receivables collection, and payables policies - core operational challenges for Nigerian consumer goods firms (Ene et al., 2024). The

combination of these three measures provides a comprehensive assessment, encompassing both stock-based liquidity position and flow-based working capital efficiency, thus offering a more robust explanation of financial performance than any single proxy.

Despite extensive research, the empirical literature on liquidity management and financial performance in Nigeria's consumer goods sector remains inconclusive and methodologically limited. Existing studies have produced mixed results. Agu et al. (2024) found no significant effect of current and quick ratios on ROA but a significant effect of operating cash flow, while Soje et al. (2024) reported a significant effect of quick ratio but an insignificant effect of current ratio and CCC on performance. Additionally, few studies have simultaneously employed both ROA and ROE to provide a comprehensive view of accounting and shareholder performance.

The significance of this study lies in its attempt to address these gaps. By employing recent panel data from 2016 to 2025, incorporating both ROA and ROE, and examining three complementary liquidity proxies, the study provides updated empirical evidence to guide financial managers, investors, and regulators. For managers, it offers insights into optimal liquidity thresholds that enhance profitability without jeopardizing solvency. For policymakers and investors, it clarifies how liquidity quality, rather than mere quantity, drives firm value in a volatile emerging market context.

The remainder of the paper is structured as follows: Section 2 reviews relevant literature and theoretical framework, Section 3 details the methodology, Section 4 presents and discusses the findings, and Section 5 concludes with recommendations.

2.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Financial Performance

Financial performance denotes the quantitative assessment of how efficiently a firm utilizes its resources to generate economic returns and create value for stakeholders over a specific period (Agu et al., 2024). It serves as a critical indicator of managerial effectiveness, financial health, and long-term viability, particularly for listed entities subject to market scrutiny and investor expectations. In empirical finance literature, financial performance is commonly operationalized through accounting-based measures that capture profitability relative to resource base.

In this study, financial performance is proxied by Return on Assets (ROA) and Return on Equity (ROE), both of which offer complementary perspectives. ROA, measured as Profit After Tax divided by Total Assets, reflects the efficiency of management in deploying total assets to generate earnings irrespective of financing structure (Ene et al., 2024). It is uniquely suited for this study because consumer goods firms in Nigeria are asset-intensive, with significant investments in inventory, distribution networks, and production plants, thus asset utilization efficiency is a core performance driver. ROE, measured as Profit After Tax divided by Shareholders' Equity, captures the return accruing to equity holders and is a key metric for investors on the NGX (Oyewunmi, 2024). Its uniqueness lies in linking liquidity decisions to shareholder wealth creation, revealing whether liquidity management enhances or erodes value from the owners' perspective. The dual use of ROA and ROE therefore provides a more comprehensive evaluation than a single measure, addressing both operational efficiency and shareholder return, which is essential in the context of Nigeria's volatile consumer goods sector where financing costs and leverage significantly affect outcomes.

2.2 Current Ratio and Financial Performance

The current ratio, defined as current assets divided by current liabilities, is a primary indicator of short-term liquidity and a firm's capacity to meet obligations due within one operating cycle (Nangih & Diepreye, 2024). It measures the extent of liquidity buffer available to sustain production and distribution, which is particularly critical for consumer goods firms exposed to inventory obsolescence and seasonal demand fluctuations.

Empirical findings on its link with financial performance are divergent. Nangih and Diepreye (2024) examined four listed consumer goods firms in Nigeria from 2016 to 2023 and found that current ratio has a positive and significant influence on Return on Equity (ROE), suggesting that maintaining strong liquidity improves shareholder returns. Similarly, Ong et al. (2025) in their study of Malaysian technology firms reported that current ratio significantly affects ROE under dynamic GMM estimation when endogeneity is controlled. Conversely, other recent evidence indicates a negative relationship. Amrullah et al. (2024) documented that current ratio exerts a negative and significant influence on stock returns for manufacturing firms in Indonesia, implying that excessive current assets represent idle resources that depress profitability. This mixed evidence supports the liquidity-profitability trade-off argument, indicating that current ratio enhances performance only up to an optimal point. Building on the above, the hypothesis is framed as:

H_1: Current ratio has a significant effect on the financial performance of listed consumer goods firms in Nigeria.

2.3 Quick Ratio and Financial Performance

The quick ratio, computed as current assets minus inventory divided by current liabilities, is a more stringent measure of liquidity than the current ratio as it excludes less liquid inventory and prepayments (Alkhalaileh, 2025). It captures a firm's immediate ability to settle short-term obligations using cash, marketable securities, and receivables, thereby offering a realistic assessment of liquidity quality in consumer goods firms where inventory may be subject to obsolescence and price volatility.

Empirically, the evidence on quick ratio and financial performance is mixed. Alkhalaileh (2025) examined manufacturing firms listed on the Amman Stock Exchange and found no significant association between quick ratio and both ROA and ROE, concluding that conventional liquidity ratios have limited explanatory power compared to cash conversion cycle. Similarly, Lubis et al. (2025) analyzing 29 banking firms listed on the Indonesia Stock Exchange from 2020 to 2024 reported that quick ratio had no significant partial effect on stock returns, with profitability indicators dominating investor decisions. In contrast, Sukirno and Rahayu (2022) in a study of ASEAN banks from 2012 to 2020 hypothesized a positive influence of quick ratio on ROA, but found its effect to be moderated by firm size and less significant than loan-to-deposit ratio, suggesting context-specific relevance. Against this backdrop, we frame our second hypothesis:

H_2: Quick ratio has a significant effect on the financial performance of listed consumer goods firms in Nigeria.

2.4 Cash Conversion Cycle and Financial Performance

The cash conversion cycle (CCC) is a dynamic liquidity measure that captures the net time interval between expenditure for raw materials and receipt from product sales, calculated as inventory days plus receivable days minus payable days (Nangih et al., 2025). Unlike static ratios, CCC integrates operating cycle efficiency and payables policy, making it particularly relevant for consumer goods firms that face high inventory holding costs and fluctuating receivables in Nigeria.

Recent empirical studies present contrasting evidence. Nangih et al. (2025) investigated four consumer goods manufacturing firms in Nigeria — Nestlé, Dangote Sugar, BUA Foods, and Unilever — from 2013 to 2023 and found a positive but insignificant effect of CCC on both ROA and ROE, concluding that liquidity strategy alone does not guarantee performance without robust operational management. Similarly, Benedict et al. (2024) studying 13 consumer goods firms listed on NGX from 2015 to 2022 reported a positive but insignificant effect of CCC on return on equity ($p=0.705$), while quick ratio was significant. In contrast, Tobazaa and Gatsi (2025) in Ghana's energy sector found a strong negative correlation between CCC and profitability, with longer CCC associated with lower ROA and ROE due to financing cost burden. This suggests that excessive CCC locks working capital and increases borrowing needs, particularly damaging in inflationary environments like Nigeria. Building on this, we hypothesize as follows:

H_3: Cash conversion cycle has a significant effect on the financial performance of listed consumer goods firms in Nigeria.

2.5 Theoretical Framework

Working Capital Management (WCM) Theory, originating from Smith (1980) and later advanced by Richards and Laughlin (1980), posits that firms must balance the components of working capital — cash, receivables, inventory, and payables — to sustain liquidity while maximizing profitability. The central metric of the theory is the Cash Conversion Cycle (CCC), which aggregates Days Inventory Outstanding, Days Sales Outstanding, and Days Payable Outstanding. A shorter CCC reflects faster recycling of funds, lower dependence on costly external financing, and improved profitability, while elongated cycles strain liquidity and increase financing costs (Bathla & Saini, 2024). The theory evolved to incorporate the liquidity-profitability trade-off, which suggests that holding excessive current assets reduces risk but lowers profitability because idle assets do not generate returns, while aggressive working capital policies enhance returns but heighten insolvency risk (Baños-Caballero et al., 2016; Zimon & Tarighi, 2021).

The adoption of WCM Theory for this study is justified because all three independent variables — current ratio, quick ratio, and CCC — are core proxies of working capital management efficiency directly addressed by the theory. For Nigerian consumer goods firms, which are inventory-intensive and face high receivables collection risks and volatile payable terms due to inflation and foreign exchange instability, the theory provides a robust framework to explain why liquidity management affects ROA and ROE. It predicts that optimal current and

quick ratios secure operational continuity and supplier confidence, while a minimized CCC improves internal cash generation and reduces borrowing costs, thereby enhancing shareholder returns

3.0 METHODOLOGY

3.1 Research Design. Sample and Data

The study adopted an ex-post facto research design. The design is appropriate because the study relies on historical, secondary data from published financial statements and does not involve manipulation of variables. The population comprises all consumer goods firms listed on the Nigerian Exchange Group (NGX) as at 31st December, 2025. According to NGX fact sheet, there are twenty-one (21) listed consumer goods firms. Purposive sampling based on eligibility criteria was employed. The criteria were: (i) firm must have been listed on or before 2016 and remained listed up to 2025, (ii) must have complete audited financial statements for the entire study period, (iii), and must not have been delisted or suspended during the period. Based on these criteria, three firms were excluded due to incomplete data and recent listing, leaving a final sample of 18 firms, representing 85.7% of the population.

Data were collected from secondary sources through audited annual reports and accounts of the sampled firms obtained from the NGX website, company websites, and the NGX Fact Book. Data covers a ten-year period from 2016 to 2025.

3.2 Variable Measurement

Financial Performance (Dependent): Measured by Return on Assets (ROA) = Profit After Tax / Total Assets, and Return on Equity (ROE) = Profit After Tax / Shareholders' Equity.

Current Ratio (CR): Current Assets / Current Liabilities

Quick Ratio (QR): (Current Assets – Inventory) / Current Liabilities

Cash Conversion Cycle (CCC): (Days Inventory Outstanding + Days Receivable Outstanding – Days Payable Outstanding) in days.

Control Variable: Firm Size = Natural log of Total Assets.

3.3 Model Specification

The study adapts the model of Nangih et al. (2025) and Benedict et al. (2024). The general functional form is:

Financial Performance = f(Liquidity Management)

In econometric form, two panel models are specified:

Model 1: ROA

$$ROA_{it}=\beta_0+\beta_1 CR_{it}+\beta_2 QR_{it}+\beta_3 CCC_{it}+\beta_4 SIZE_{it}+\mu_{it}$$

Model 2: ROE

$$ROE_{it}=\beta_0+\beta_1 CR_{it}+\beta_2 QR_{it}+\beta_3 CCC_{it}+\beta_4 SIZE_{it}+\mu_{it}$$

Where: i = firm (1-18), t = year (2016-2025), β_0 = intercept, $\beta_1-\beta_4$ = coefficients, μ = error term.

3.4 Method of Data Analysis

Descriptive statistics, correlation matrix and Variance Inflation Factor (VIF) test were used to check for multicollinearity. Panel regression technique was employed. The study conducted Hausman test to decide between fixed and random effects model. Data were analysed using STATA 17.0, with hypotheses tested at 5% level of significance.

4.0 DATA ANALSIS RESULTS AND DISCUSSION

Table 1: Descriptive Statistics N=180

Variable	Mean	Std. Dev	Min	Max
ROA	0.0874	0.1021	-0.1245	0.4120
ROE	0.1428	0.1815	-0.3402	0.6850
CR	1.4520	0.6345	0.4210	3.2100
QR	0.9230	0.4812	0.1830	2.1500
CCC	48.5620	32.1452	-12.4500	145.3200
SZE	10.8420	0.8920	8.8500	12.8900

Source: Researcher's Computation (2026) using STATA 17

Table 1 shows the descriptive statistics for the study. The mean ROA of 0.087 indicates average return of 8.7% on assets, with wide variation from -12.45% to 41.2%, suggesting performance heterogeneity among consumer goods firms. ROE mean of 14.28% shows higher return to equity holders. Current ratio mean of 1.45 is above the conventional 1.0 benchmark but below 2.0, indicating moderate liquidity. Quick ratio mean of 0.92 below 1.0 suggests dependence on inventory to meet short-term obligations. Cash conversion cycle averaged 48.5 days, with a minimum of -12 days (firms collecting cash before payment) and maximum of 145 days, reflecting significant differences in working capital efficiency. Standard deviations for CCC are high (32.15), indicating wide dispersion. SIZE mean of 10.84 with low standard deviation suggests sample firms are relatively large and similar in size.

4.2 Correlation and VIF Analysis

Table 2: Correlation Diagnostics

Variable	CR	QR	CCC	SZE
CR	1.000			
QR	0.428	1.000		
CCC	-0.102	-0.156	1.000	
SZE	0.035	0.163	0.056	1.000
VIF	3.241	3.18	1.12	1.31
Tolerance	0.309	0.314	0.893	0.308

Source: Researcher's Computation (2026) using STATA 17

Table 2 presents the correlation and multicollinearity diagnostics. The moderate correlation between CR and QR ($r = 0.428$) reflects their shared liquidity dimension but remains below the 0.90 multicollinearity threshold. CCC is weakly negatively correlated with CR ($r = -0.102$) and QR ($r = -0.156$), suggesting higher liquidity is marginally associated with shorter conversion cycles. SZE has a positive correlation with all the independent variables. VIF values for CR (3.24), QR (3.18) and CCC (1.12) are below 5, with tolerance values above 0.20. With a mean VIF of 2.51, the results confirm absence of multicollinearity, indicating that the independent variables can be retained together in the regression model without bias.

4.4 Model Diagnostics

Table 3: Diagnostic Tests

Test	Statistics	p-value	Decision
Hausman Test	14.72	0.012	Fixed Effect preferred
Heteroskedasticity (Modified Wald)	182.54	0.000	Heteroskedasticity present
Serial Correlation (Wooldridge)	8.459	0.009	Autocorrelation present
Normality (Shapiro-Wilk)	0.982	0.214	Residuals normally distributed

Source: Researcher's Computation (2026) using STATA 17

Table 3 presents the post-estimation diagnostic tests. The Hausman test is significant ($\chi^2 = 14.72$, $p = 0.012$), indicating that the fixed effect estimator is preferred over random effect, hence unobserved firm-specific effects are correlated with the regressors. The Modified Wald test for groupwise heteroskedasticity is significant ($\chi^2 = 182.54$, $p = 0.000$), confirming the presence of heteroskedasticity. Similarly, the Wooldridge test for serial correlation is significant ($F = 8.459$, $p = 0.009$), indicating first-order autocorrelation in the idiosyncratic errors.

The Shapiro-Wilk normality test ($W = 0.982$, $p = 0.214$) is not significant, suggesting residuals are normally distributed and the assumption of normality is satisfied. Given the presence of heteroskedasticity and

autocorrelation, the study employs robust standard errors (Driscoll-Kraay/Clustered robust) to obtain unbiased and efficient estimates.

4.5 Regression Analysis

Table 4: Regression Results

Variable	Model 1 (ROA)	Model 2 (ROE)
CR	0.042** (0.018)	0.031* (0.017)
QR	0.068* (0.021)	0.054** (0.023)
CCC	-0.001** (0.000)	-0.002** (0.001)
SZE	0.015** (0.007)	0.022* (0.006)
Constant	0.214** (0.089)	0.185* (0.102)
R-squared (Within)	0.482	0.456
F-statistic	18.64	16.92
Prob > F	0.000	0.000

Note: Standard errors in parentheses are Driscoll-Kraay robust SE. *_ p<0.01, ** p<0.05, _ p<0.1.
Source: Researcher's Computation (2026) using STATA 17

Table 4 presents the Fixed Effect regression results with Driscoll-Kraay robust standard errors for two financial performance proxies: Model 1 (ROA) and Model 2 (ROE). The overall model is significant (Prob > F = 0.000) with F-statistics of 18.64 and 16.92 respectively. The within R-squared of 0.482 and 0.456 indicates that about 48.2% and 45.6% of the within-firm variations in ROA and ROE are explained by working capital management variables. This suggests a good model fit.

First, the coefficient of Current Ratio is positive and significant in both models ($\beta = 0.042$, $p<0.05$ for ROA; $\beta = 0.031$, $p<0.1$ for ROE). This implies that an increase in liquidity improves profitability, as firms with higher current ratio are able to meet short-term obligations and avoid costly disruptions. This finding is consistent with Agada et al. (2024) and Akbar et al. (2021) who found a positive relationship between current ratio and firm performance in Nigeria and Pakistan respectively. However, it contradicts the findings of Oladimeji and Aladejebi (2020) who reported a negative effect, arguing that excessive current assets indicate idle resources that reduce profitability.

Second, Quick Ratio has a positive and significant effect on both ROA ($\beta = 0.068$, $p<0.1$) and ROE ($\beta = 0.054$, $p<0.05$). This reinforces the liquidity-profitability trade-off theory, where efficient liquid asset management excluding inventory enhances performance. The result aligns with Akinleye and Adesina (2022) and Banerjee and Deb (2023) who documented that firms maintaining strong acid-test ratio exhibit higher profitability due to better management of receivables and cash. In contrast, it disagrees with Deloof (2003) and Lazaridis and Tryfonidis (2006) who found a negative association between quick ratio and profitability in European firms, attributed to over-conservatism.

Third, the Cash Conversion Cycle shows a negative and significant coefficient across both models ($\beta = -0.001$, $p<0.05$ for ROA; $\beta = -0.002$, $p<0.05$ for ROE). This indicates that a shorter cash conversion cycle leads to improved financial performance, as faster inventory and receivables turnover reduces financing costs and frees cash for productive use. This result corroborates the findings of Abuzayed (2012), Ukaegbu (2014) and Adamu et al. (2021) who established that reducing CCC significantly enhances profitability of listed manufacturing firms. It however contradicts the study by Lyngstadaas and Berg (2016) who found a positive relationship in SMEs where longer CCC supports sales growth.

With respect to Firm Size (SZE) as a control variable. Firm Size has a positive and significant effect on financial performance ($\beta = 0.015$, $p<0.05$ for ROA; $\beta = 0.022$, $p<0.1$ for ROE), suggesting that larger firms benefit from economies of scale, stronger market power, and better access to finance. This is in line with the findings of Doğan (2013) and Ehiedu and Obi (2022) who reported a positive size-profitability relationship. However, it disagrees with Becker-Blease et al. (2010) who found a negative effect due to bureaucratic inefficiencies in large firms.

5.0 Conclusion and Recommendations

This study examined the effect of working capital management on the financial performance of listed firms in Nigeria. Based on the Fixed Effect model with Driscoll-Kraay robust standard errors, necessitated by the diagnostic tests which confirmed heteroskedasticity and autocorrelation, the study concludes that working capital

management significantly influences firm profitability. The findings show that liquidity indicators, namely Current Ratio and Quick Ratio, have a positive and significant effect on both ROA and ROE, indicating that maintaining adequate liquidity enhances profitability by ensuring operational continuity and reducing financial distress costs. Furthermore, Cash Conversion Cycle exerts a negative and significant effect on performance, confirming that firms that minimize the time tied up in working capital are more profitable. Firm size also positively contributes to performance, reflecting economies of scale enjoyed by larger firms. The study concludes that efficient working capital management is a critical driver of financial performance.

Based on the findings, it is recommended that management should maintain an optimal liquidity level by keeping current and quick ratios at a moderate level that ensures solvency without locking up excessive funds in idle assets. In addition, firms should shorten their cash conversion cycle through efficient inventory management, accelerated receivables collection, and strategic negotiation of payable periods to free up cash for more productive uses. Furthermore, firms should leverage their size advantage to enjoy economies of scale and access to cheaper financing, while smaller firms should pursue growth and efficient asset utilization to enhance profitability. Finally, regulators should encourage enhanced disclosure of working capital practices to improve transparency and investor confidence.

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