Budgetary Control And Financial Performance Of Listed Manufacturing Firms In Kenya: Application Of Liquidity Control

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Abstract: In the recent past, listed manufacturing firms had several challenges, including making losses, inability to pay liabilities, and inability to align the actual expenses to the planned despite extensive use of budgetary control measures. Various attempts were made to enhance financial performance of the listed manufacturing firms including government reducing production costs and allocating budget to act as subsidies but still, the problems persist. Therefore, this study looked at how listed manufacturing firms controlled the liquidity to improve financial performance. The purpose of this study was to establish the influence of budgetary control on financial performance of listed manufacturing firms in Kenya. The specific objectives to examine the influence of liquidity control on the financial performance of listed manufacturing firms in Kenya. The study used current ratio, as the measures for liquidity control. The study was anchored on liquidity management theory. The study used a correlational research design and a pragmatic research philosophy. All the eight manufacturing firms listed at Nairobi Securities Exchange (NSE), were targeted. STATA was used to analyze the collected data, producing descriptive and inferential statistics. According to descriptive statistics, the mean values for Return on Assets (ROA), current ratio (CR) was 0.2078. Pearson correlation analysis revealed that CR had a significant positive relationship with ROA, with an $r = 0.5952$, and p-value of 0.0000. Hausman test was used to choose between fixed and random effect models and the results revealed that random effect regression model was effective, since the hausman had a p-value of 0.0924, greater than 0.05 significant level. The random-effect models showed p-value of 0.000, indicating that the model was appropriate. In addition, the model had an R^2 of 0.5610, indicating that budgetary control contributed 56.1% of ROA, while the 43.9% were contributed by other factors not covered by the model. Furthermore, the study showed that liquidity control had a significant influence on financial performance of listed manufacturing firms in Kenya since they had coefficient values of 0.2585, with p-values<0.05, indicating that all coefficient were significant. The findings will benefit the managers and employees of the listed manufacturing firms in assessing performance and future growth. The study recommends that listed manufacturing firms should monitor the liquidity position of the firms to ensure they meet the required level to increase the financial performance and industrial growth.

Keywords: Budgetary control, liquidity control, financial performance.

1. Introduction

Budgetary control is the process of utilizing the available resources, minimizing expenses, and aligning planned activities to actual results. Manufacturing firms' resources are limited, and budgetary control allows adopting measures that effectively utilize resources and provide returns. Budgetary control is important in the organization since it helps analyze variances and take corrective action (Klimaitiene & Ramanauskaite, 2019).

Manufacturing firms' budgetary control includes liquidity control, debts which enhances the capability of the manufacturing firm to meet daily expenses and finance daily operations. Implementing budgetary control in the manufacturing firms includes benefits like increased profits and ensuring a company's business continuity (Akeem, 2014).

Short-term assets include cash, stock, debtors, and convertible assets. Short-term liabilities include creditors, bank overdrafts, short-term debts, and any other firm liability that takes a period not more than one year before settling it. Current assets being more than the current liabilities ensures continuous business operations and facilitates the effective undertaking of daily activities. When a firm can pay all short-term obligations without selling the fixed assets, the firm is said to be liquid. Through budgetary control, the listed manufacturing firms can monitor the liquidity position by comparing the available current assets of the firm and the current liabilities (DuBrin, 2012).

Different ratios can be used to determine liquidity, but for good performance control, the quick ratio and current ratio are employed to manage liquidity. The quick ratio is computed comparing the current liabilities to current assets less inventories. In contrast, the current ratio is a ratio of short-term liabilities to the most liquid assets. The quick ratio, which does not account for all current assets, gauges a company's capacity to meet the current obligations with its most liquid assets. Therefore, current assets can be used alone to measure liquidity control, while quick ratio depends on the current ratio and cannot be used as a single measure (Sanna, 2013)

Financial performance is the desire of every profitable firm. The concern of every shareholder is not how to get sources of capital to expand and improve the operations of their businesses but effective utilization of the resources allocated. Managers in every organization are required to effectively control revenue expenses and determine micro and macro-economic factors and other economic changes that may affect the organization through the adoption of budgetary control measures (Drury, 2012).

A firm's financial performance can be regarded as the indicator of its overall financial well-being throughout time. It speaks to the degree to which listed manufacturing firms are capable of achieving their financial aims and objectives. Profitability ratios like Return on Assets (ROA) are useful for evaluating financial success. Financial success can be assessed using a variety of factors, including a company's capacity to debts, finance short-term needs, and reduce total costs (Chaudhary & Chaudhary, 2018).

ROA is the total net profit over the total assets. It shows how the listed manufacturing firms can utilize the available assets to generate income. The higher the value, the higher the financial performance of the firm. Higher ROA attracts the potential investors to subscribe to the available shares, enabling the expansion and survival of the listed manufacturing firms' activities (Simiyu, 2018).

Financial goals and objectives are formulated and implemented during the budgetary process. After implementation, control of all activities is required to ensure that the budget activities produce the desired results. Budgetary control, therefore, plays a role as a check between the planned financial objectives and the results. It also provides means of reporting any deviation. Every firm budget short-term assets, liabilities, debts, and expenditures for a certain period, mostly one year (Greenberg, 2011).

Globally, the profitability of manufacturing companies has been fluctuating over the past five years ranging from 2014 to 2019 in European countries. According to a World Bank report (2021), variations experienced resulted from the companies' inability to put into practice what they budgeted for. Most of the variations were identified in debts of the firms, overspendings, and low liquidity rates. The debts were increasing, but the value of the firm and overall returns were reducing every year.

The Engro Company limited, being the most prominent listed manufacturing firm in Pakistan, had a net loss of 13% in 2010 and a general increase of expenditure by 26% in the same year. The company management had to set priorities and monitor activities, control expenses, and well-outlined revenue plans for the next financial year. In 2011, the company registered a 5% increase in profit and a 12% reduction in the total company debts. This indicates that budgetary is a good program and route to the success of manufacturing firms' financial performance (Tahir, Memon, & Mohd, 2012).

African manufacturing companies have implemented international and regional budgetary control to ensure financial performance and economic transformation. There have been conferences and seminars to ensure cost minimization in manufacturing firms and achieve global competitiveness. The budgetary control initiated includes revenue control, expenditure control, and wage control, which improved the financial performance (Abuga, 2019).

Budgetary control in Africa seems to be a tool for directing resources and identifying activities. Issues of corruption in manufacturing firms and the inability of workers to understand the overall process of planning, control mechanisms, and evaluation of performance hinder the profitability of the firms. The study notes that South Africa was the leading country in the continent in conducting industrial budgetary control reforms to ensure a clear understanding of financial goals and objectives. Most of the manufacturing industries in South Africa have grown to be top 20 globally (Torbert, 2019).

In the budgetary control implemented by manufacturing firms in Sub-saharan Africa, only 50% of the budgetary control mechanisms were understood by the company's employees. This was after involving all section heads and other staff in different companies. A large percentage of the people in Africa view budgetary control as a tool to control their actions and not to achieve financial goals. Therefore, firms must ensure good communication and definition of control activities to avoid wastage and losses (World Bank Report, 2021).

Budgetary control is used in Kenya to regulate government and private sectors' financial operations. The government of Kenya has set a good pace in ensuring budgetary control is done in accordance with the laid down rules and regulations. Budgetary control improves financial performance by enhancing every state and the private body's returns.

Through budgetary control, the government of Kenya has tried to ensure the financial performance of manufacturing firms by implementing various reforms and policies. The introduction of vision 2030 in 2008 focused on improving Kenyan manufacturing firms' financial performance by providing a wide market for the produced goods through the revival of the East African Community and other economic partners in the continent (Kenya National Bureau of Statistics, 2021).

In 2013, the government also initiated the big four agenda, which also targeted improving manufacturing firms' performance and increasing the sector's growth rate. The government also supports the manufacturing firms by allocating budget, providing incubation centres for new firms, and giving tax holidays for starting firms. The government's overall aim was to ensure the transformation of the manufacturing sector, attract investors, and guarantee the continuity of the firms (Kenya Association of Manufacturers Report, 2019).

Statement of the Problem

Over the years, manufacturing companies have undertaken various attempts to improve their budgetary control to enhance greater financial discipline (Rhodes, 2020). Manufacturing firms have hired experts to develop budgetary control compatible with the environmental dynamics. Despite the comprehensive implementation of these budgetary controls, many manufacturing firms still suffer liquidity challenges. According to the Kenya National Bureau of Statistics Report (2021), Manufacturing firms operate on negative working capital, have unpaid creditors, and unable to pay all the short term liabilities for effective business running. The overall growth rate of manufacturing firms shows a decline, from 6.2% in 2015 to 4.9% in 2021, which was a threat to realizing the big four agenda and vision 2030. Many studies on budgetary control and financial performance have concentrated on budget formulation and implementation process. Studies on budgetary control and financial performance have focused on budget planning, monitoring, and evaluation and not liquidity control. Therefore, the need to establish the influence of budgetary control on the financial performance of listed manufacturing firms in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To determine the influence of budgetary control on financial performance of listed manufacturing firms in Kenya.

1.3.2 Specific Objectives

i. To examine the influence of liquidity control on financial performance of listed manufacturing firms in Kenya.

Research Hypotheses

i. H_{0_1}: Liquidity control has no significant influence on financial performance of listed manufacturing firms in Kenya.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter covered the theoretical framework, conceptual framework, empirical studies critiques, and research gaps. The conceptual framework included independent and dependent variables, empirical review, research gaps, and critics of the reviewed literature.

2.2 Theoretical Framework

Under this section, the study reviewed the liability management theory

2.2.1 The Liability Management Theory

The liability management theory was proposed by Fleming in 1960. Due to the tight connection between liquidity and liability control, the Liability Management theory states financial performance of any firm depend on its ability to control liabilities of the firm. The idea holds that old ways of holding excess assets such as keeping adequate assets that effectively finance the liabilities of the firm, is irrelevant, because firms can obtain such assets from the capital (Flaming, 1987).

Liquidity control was elaborated as a means of ensuring that institutions maintain an adequate amount of cash and liquid assets. This is done for two reasons: first, to meet all short term liabilities and smooth running of the firms; and second, to convert excess current assets to long-term assets. Maintaining a liquidity position involves ensuring the overall current liabilities, do not outperform the current assets, through either purchased funds or generated within the firm (Murray, 1990).

Excessive use of borrowed money in maintain liquidity position leads to liquidity crisis and eventual bankruptcy of the firm since purchased funds becomes liability upon maturity. Many firms currently only pay attention to the liabilities side of the statement of financial position, without looking at the source of the current assets in maintaining liquidity position. The main contribution of the theory was to ensure firms look at both side of the financial position, which include assets acquired through borrowing (liability) and the internal generated assets. Many firms today uses both assets and liabilities in maintaining liquidity measure, and achieving the financial goals (Post, Lawrence, & Weber, 2002).

According to Ray (2009), increasing liquidity measures in a firm reduces several risks of the company. Some of the risks associated to liquidity include the insolvency risk which involves inability of the firm to pay the short term liabilities. The second risk id the risk of inefficiency whereby the firm cannot perform most of the business activities. The overall impact of the risks is impairment of most activities, making losses and even closure of the firm. Therefore, liquidity control is the overall existence and performance criteria in any profit making firm.

The managerial pressure, as a factor in determining the liabilities of the firm involves managers making decision that is outside the budget plan. In most cases, managers compare their organization with others without looking at the financial structure of the other organizations. On the other hand, the need of managers to colour the organisation wall also limits many organizational performance. Liabilities like short term borrowing meant to facilitate managers' trips, office luxuries and other expenses that were out of budget limits the liquidity position of the organization. Therefore, for firms to achieve their budgeted liabilities, control on the budget should be in place (Latham, 2003).

The theory was criticized by Freeman and Philips (2003). The study stated that firms would react differently to liquidity measures due to differences in structures and even the type of business. Firms that do not convert excess current assets to investments may have higher liquidity position but fail to perform due to the unused assets. The study recommended that in order for a firm to manager a proper liquidity position, close monitoring of the assets is required to ensure any excess is converted to other investments.

The theory's proponents were also criticized in that the budget liquidity arrives from the budgetary process which uses historical information to predict the future. The budgetary control mechanism in relation to liquidity do not provide for uncertainties caused by economic and non-economic factors. Therefore, in any event that requires more liabilities to be incurred, the firm will experience imbalanced liquidity level, but should be short term and not lasting for more than two years. In any case of having a more liabilities than assets in the long run then the firm is at risk of making losses and collapsing (Jonick, 2017).

This theory was relevant and applicable in this study since it helps to understand how listed manufacturing firms maintained liquidity levels for the last ten years. It also helps in understanding the state at which listed manufacturing firms were for the last ten years, and also gives an insight in understanding how the maintaining liquidity controls helps in financial performance of listed manufacturing firms in Kenya. Hence the theory covers one variable which is the liquidity control variable. Liquidity control include the current assets and the current liability, hence by linking to this theory, it helps in drawing conclusion on whether controlling the liabilities and the current assets influences financial performance of the listed manufacturing firms in Kenya.

To reduce the danger that savers won't be able to access their deposits when they need them, liquidity management entails a daily examination and precise estimation of the magnitude and timing of cash inflows and withdrawals over the upcoming days and weeks. An institution must have a management information system in place that is adequate to produce the data required to make reasonable growth and liquidity projections in order to manage liquidity.

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2.3 Conceptual Framework
A conceptual framework is a structure through which the relationship between variables is displayed. Figure 2.1 shows the relationship between the independent variable (budgetary control) and dependent variable (financial performance).
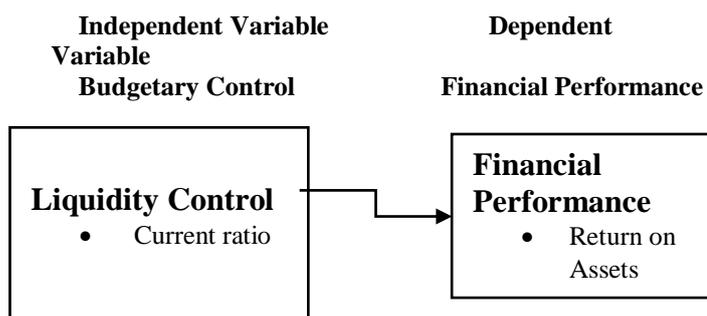
Independent Variable Variable	Dependent Variable
Budgetary Control	Financial Performance

Figure 2.1: Conceptual Framework

2.3.1 Budgetary Control
Budgetary control is the ability of managers to use budgets to control and monitor the liquidity level, debts, and expenditures of the listed manufacturing firms. It is the ability of the managers to manage liquidity, assets, debts, and expenses by ensuring the budgeted figures and the actual values are in line after a specified time. Budgetary control ensures financial performance by providing measures to realize listed manufacturing firms' financial goals and objectives (Drury, 2012).

2.3.2 Liquidity Control
Liquidity control refers to measures that enable listed manufacturing firms to generate assets that could be used to meet short, medium, and long-term obligations. The control ensures the availability of free liquid assets after deducting the liabilities from the current assets of the firms. Liquidity is the ability of a listed manufacturing firm to pay all liabilities when they fall due using the current assets. The measure of liquidity is the current ratio, which compares the current assets with liabilities. It gives the ability of the company to pay debts, creditors, and operational liabilities. The higher the ratio, the higher the financial performance of the firm (Greenberg, 2011).

2.4 Empirical Literature Review

2.4.1 Liquidity Control and Financial Performance
Obida and Owolabi (2012) studied on liquidity management and profitability in Nigerian stock exchange manufacturing companies. The variables used were cash flow management, the company's credit policy, and the cash conversion circle. Primary and secondary data were used in conducting the study. Profitability was measured using Return on Asset and Return on equity. The result obtained was analyzed using descriptive analysis. The results showed that liquidity control had strong positive influences on profitability of listed manufacturing firms in Nigeria.

Ethiedu (2014) based on the impact of liquidity on the profitability of selected manufacturing entities in Nigeria. The study used the current ratio and acid test as liquidity measures, whereas profitability was measured using ROA. The study showed that the current ratio had a significant positive effect on profitability. The study stated that the positive relationship between the current ratio and profitability was due to idle funds, mostly the borrowed funds that could not generate profits.

Two of the analyzed companies had a negative correlation between the acid test ratio and ROA, indicating that the liquidty also had a negative influence on profitabilty. Therefore, according to the study, it could not define any correlation between the current ratio and profitability. The findings were contrary to that of Obida and Owolabi (2012), who established a strong positive relationship.

Nyabate (2015) studied the influence of liquidity on the financial performance of financial institutions listed on the Nairobi Securities Exchange. Cash position was the major varible for liquidity while return on investment was used as a measure of profitability. The research design used was descriptive research design, and secondary data covering five years from 2010-to 2014 were used in the study. The results

imlied that liquidity control has an insignificant relationship with the financial performance of the financial institutions in NSE. The study further stated that there was a negative relationship between cash position and the financial performance of financial institutions.

Mandela (2015) focused on budgetary control and financial performance of public enterprises in Kenya, a case study of Nzoia Sugar Company (a manufacturing company), with a significant focus on the ability of the company to meet the liquidity position. The study used 132 employees, who were interviewed while others filled questionaires. Data was analysed using Statistical Package for Social Science (SPSS). The study revied that there was a significant relationship between liquidity control and financial performance. The study recommended that organizations should embrace liquidity control to enhance financial performance. The research also stipulated that liquidity control is crucial in budgeting as it determines firms' survival.

Alali (2020) studied liquidity management and financial performance of commercial banks in the Kuwait security exchange. The study used ROE and ROA as dependent variables and used the loan to total assets, the ratio of loans, deposits, and the ratio of financing deficit to assets as indicators for measuring liquidity. The study used document analysis to collect secondary data from 2010 to 2018. The study establoshed that liquiduty managemnet had a significant influnce on financial performance of the banks.

Mbogo, Olando, and Macharia (2021) analysed the effect of budgeting practices on the financial performance of manufacturing small and medium enterprises (SMEs) in Nairobi County. Cash control was a measure of the liquidity control for the manufacturing SMEs, while ROA was used as the main dependent variable. The study findings stipulated that cash control had signfinificant possitive influence on the financial performance of the manufacturing SMEs.

CHAPTER THREE: METHODOLOGY

3.1 Introduction
The research philosophy, research design, target audience, data collection process, variable measurements, data processing, analysis and presentation, and ethical considerations are all covered in this chapter.

3.2 Research Philosophy
Research philosophy is a defined structure directing means of conducting research know-how, ideas, and reality. The study adopted a pragmatism research philosophy which stipulates that the research problems determine the choice of methods, techniques, and procedures. Pragmatism philosophy states that reality depends on its observable implication and not any metaphysical attributes (Cline , 2018). This philosophy was used to provide an opportunity for choosing the methods, techniques, and procedures that best fit solving the identified problem. The study came up with conclusions based on the findings and results.

3.3 Research Design
A research design is a framework of the methods and techniques used in the study (Kothari & Garg, 2014). This study adopted a correlational research design to establish the relationship between the independent and dependent variables.

Target Population
A target population is a complete element from which the researcher plans to select a sample for the study (Kothari, 2004). All eight of Kenya's manufacturing companies quoted in NSE listings were the focus of this study. The research goals were successfully attained by the population that was selected. The target population was as shown in appendix I.

3.5 Data Collection Procedure
Data gathering is a methodical process used to compile crucial information for reaching research goals (Kothari, 2004). On the websites of the different companies, the NSE, and the central bank of Kenya, financial statements that had been released were used to compile data on the current ratio, debt ratio, expenditure variance, and return on assets.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction
The chapter is segmented into four sections: descriptive statistics that describe the data and the variables, diagnostic analysis, inferential statistics, and discussion of results.

4.2 Descriptive Statistics

The descriptive statistics used were the mean, standard deviation, minimum, and maximum. The dependent variable (ROA), and the independent variables (current ratio (CR), debt ratio (DR), and expenditure variance ratio (EV) are summarized in Table 4.1 below.

Table 4. 1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	80	0.2078	0.1164	-.1753	0.4438
CR	80	2.878	1.3449	.0696	5.8431

The study used 10 years (2012-2021), and eight listed manufacturing firms were used; hence the expected observations were 80. Table 4.1 shows that all the 80 observations were made for ROA, and CR, implies that all observation in each of the variables was available. The mean established was the average value of the data, and the standard deviation gave a picture of how data was dispersed above and below the mean. A standard deviation closer to zero means that the data is closer to the mean, and a value not closer than zero; indicates that the data is away from the mean. The mean and standard deviation of ROA across different firms over 10 years were 0.2078 and 0.1164, respectively. The mean shows that most of the listed manufacturing firms performed at 20.78%. The standard

deviation shows that there was a wider dispersion below the mean. The maximum value was 0.4438 and the minimum of -0.1753, which indicates a wider variation in the listed manufacturing firms since some of the listed manufacturing firms were making profits while others were making losses. The listed manufacturing firms' ROA generally fluctuated for the ten years.

The CR had an average mean of 2.878 and a standard deviation of 1.3449, indicating that most of the listed manufacturing firms could pay short-term obligations, but some of the firms could not meet the daily obligation due to the wider variation in standard deviation below the mean. The minimum and maximum values further backed this up. The minimum value shows 0.0696, indicating that some listed manufacturing firms could not meet the short-term obligations. The value shows that some listed manufacturing firms had higher short-term liabilities than their current

assets. On the contrary, the maximum value shows a ratio of 5.8431, indicating that some companies were holding more current assets that could be used in investment. The maximum value also shows that some listed manufacturing firms could pay their creditors and meet other short-term obligations.

4.2.1 Normality Distribution Test Results

A normality test is a statistical test undertaken to understand if the panel data is normally distributed. The normal distribution is a symmetrical continuous distribution defined by the mean and standard deviation of the data. The normality test is important because it helps to understand data distribution and aligns with the t-statistics assumptions that the data should be normally distributed. The test also suggests using inferential statistical tools (Serakan & Bougie, 2013).

Table 4. 2: Shapiro-Wilk W Test for Normal data

Variable	Obs.	W	V	Z	Prob.
ROA	80	0.97	1.57	0.99	0.158
CR	80	0.97	1.54	0.94	0.172

At a significance level of 5%, the Shapiro-Wilk W test for normality was applied, assuming that the variable was normally distributed. The investigation would fail to refute W values were close to 1. The results are presented in table 4.2 below.

the null hypothesis that the data gathered were normally distributed if the p-value found was more than 0.05, and the

Pearson Correlation Coefficients

Table 4. 3: Pearson Correlation Coefficients

VARIABLE	ROA	CR
ROA	1.0000	
CR	0.5952*	1.0000
	(0.0000)	

Note. Values in parenthesis ( ) are p-values and * indicate statistically significant given p-value < 0.05.

The test findings in Table 4.4 demonstrate that the CR and the ROA are positively correlated. A substantial positive correlation between the CR and the ROA was shown by the variable, which had a coefficient of r = 0.5952 and a p-value

of 0.0000, which was less than the 0.05 significant level. This indicates that the CR and ROA have a positive linear connection. As a result, the findings show that a unit increase in the CR causes an increase in the ROA of 0.5952.

Random Effect Model

Table 4. 4: Random Effect Results

ROA	Coef.	S.E	Z	p>|z|	Prob > chi2	R-squared
CR	.2585	.0759	3.40	0.001	0.00	0.561
Con	.2445	.0374	6.54	0.000		
Rho	.1008					

The results of the random effect model that gave out the regression model as shown in the random effect model were discussed in accordance with the study's objectives, theories, literature review, research philosophy, and research design. The random effect model showed that all variables were statistically significant at a 0.05 significant level. The Prob > chi2 shows a model fit at 0.05. A value lower than the significant level indicate a model fit; hence, the above model was fit since it had a p-value of 0.0000. The model also

shows an R-squire of 0.5610, meaning that 56.10% were contributed by the budgetary control, while 43.90 were contributed by other variables. The interclass correlation Rho, showed a coefficient of 0.1008, indicating that 10.08% variation in ROA is not related to the differences across listed manufacturing firms. Lastly, the model had a constant coefficient of 0.245, implying that 20.5%, of ROA can be produced in absence of the budgetary control among listed manufacturing firms.

4.4 Discussion of Results

The study adopted random effect model which was significant at 5% significant level. All the variables coefficients were also significant since they had p-values less than 0.05. The findings were in relation to the pragmatism philosophy since the method of data collection and analysis was based on the research problem, and the model gave significant results. This also indicates that failure to maintain budgetary control in the listed manufacturing firms would lead to poor financial performance since the variable contributes to 56.10%. In addition, the correlational research design chosen for this study is relevant since the study was able to establish the relationship between budgetary control and financial performance, as discussed below.

4.4.1 Liquidity Control and Financial Performance

Liquidity control was measured using the current ratio (CR). The results in the correlation analysis showed r= 0.5745, with a p-value of 0.000, indicating that there was a significant positive association between CR and financial performance ROA. The random effect results show a regression coefficient for the current ratio of 0.258464 and a p-value of 0.001, less than the 0.05 significant level.

The results implied that the variable had a significant positive influence on the financial performance of listed manufacturing firms in Kenya. It also shows a percentage increase in the current ratio by a 25.84% increase in financial performance (ROA). The null hypothesis that liquidity control had no significant influence on financial performance of listed manufacturing firms was rejected at 5% significant level.

The findings show that regulating the current ratio as a liquidity control measure improves financial performance. The strong association between the current ratio and the return on assets indicates that the current ratio should increase at a moderate level to ensure firms work according to the industrial limits. The findings were similar to the findings by Ethiedu (2014), who carried out a study on the impact of liquidity on the profitability of selected manufacturing companies in Nigeria and found that liquidity control had a significant influence on financial performance. The finding is in line with the liquidity management theory holding that firms are required to hold liquid assets to offset their short-term obligations. This shows that liquidity control enhances financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.1 Introduction

This chapter covers the summary, conclusions, recommendations, and areas for further study.

5.2 Summary

A panel of 8 manufacturing firms listed in the NSE was included in the study for 10 years ranging from 2012 to 2021. The measures used for the variables were ROA for financial performance, the current ratio for liquidity control. The observations for all variables were 80. The descriptive statistics showing the average for the variables understudy for the listed manufacturing firms indicated that the ROA, liquidity control had 0.2078, indicating that there was variation across the firms as explained by the standard deviations.

The random effect results show a coefficient of determination R^2 of 56.10%, with p-value 0.000 indicating that the model was significant and relevant since budgetary control constants contributed 56.10% to financial performance. The coefficients for variables 0.258464, with p-values less than 0.05. This is an indication that, liquidity has a significant influence on financial performance of listed manufacturing firms. The study showed that increasing liquidity level, increases financial performance, hence proper control should be in place to ensure, listed manufacturing firms have current assets to finance the short term obligations.

5.3 Conclusions

This section gives the conclusion of the study based on the study summary. Each conclusion was derived from the findings in summary.

5.3.1 Liquidity Control and Financial Performance

The current ratio was used as a measure of liquidity control. Since the results showed a correlational coefficient of r = 0.5952, with a p-value <0.05, and a regression coefficient of 0.2585, meaning liquidity control had a significant positive influence on financial performance. The study, therefore, concluded that liquidity control has a significant influence on financial performance since maintaining current assets that could meet all the liabilities as budgeted increases financial performance

5.4 Recommendations

The following recommendations were drawn based on the conclusions.

5.4.1 Liquidity Control and Financial Performance

Since the current ratio was above the industrial rate, listed manufacturing firms should develop measures to ensure that the budgeted liquidity level is in line with the industrial value. This will assist in ensuring the availability of the required liquid cash to meet all the current liabilities and ensure investment of the excess assets to enhance financial performance.

Since some firms have a low current ratio rate, meaning they cannot finance their daily activities, the managers should impose a liquidity control mechanism to ensure that listed manufacturing firms do not operate below the margin. This will help the company to run smoothly and ensure the achievement of the global and national goals like the big four agenda and vision 2030. In addition, the government can create funds to support firms with low liquidity levels to boost their continuity.

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