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Current Assets and Efficiency of Listed Firms in Kenya: Evidence from the Nairobi Securities Exchange

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Abstract

Firms listed on NSE are key to Kenya's industrial development through employment creation, value addition, and economic growth. The World Bank lowered Kenya's growth projection to 4.5% due to rising public debt, higher borrowing costs, and reduced private sector credit access. However, over the last decade, majority of these firms have experienced declining efficiency with a decline in average ROA and over 40% of firms issuing profit warnings between 2015 and 2020, operational cost ratios persistently ranging between 68% and 85%, and multiple firm delisting during 2016–2023 linked to sustained underperformance. Consequently this study assessed effect of current assets on organizational efficiency among firms listed on NSE. The study was guided by Working Capital Management Theory and Capital Asset Pricing Model. Positivist philosophy and explanatory research design informed the study. The target population included all the 66 firms listed on NSE over the study time scope 2013-2024. The study adopted a census approach targeting the 66 firms listed on NSE and used panel data with listed firms at the Nairobi Securities Exchange serving as the unit of analysis. Data analysis was carried out using a combination of descriptive measures, bivariate correlation tests and econometric panel regression models. The findings revealed that Cash conversion cycle had a negative and significant effect on efficiency ($\beta = -0.21487$, $p = 0.014$), while inventory turnover had positive and significant effect of efficiency ($\beta = 0.087451$, $p = 0.016$). In view of these results, the study recommends that the National Treasury, CMA, NSE, and CBK should develop and enforce policy frameworks that promote disciplined asset allocation, affordable financing, transparent asset reporting and stable macroeconomic conditions to enhance operational efficiency among firms listed on the Nairobi Securities Exchange.

Keywords: Current Assets, Firm Efficiency, Cash Conversion Cycle, Inventory Turnover, Nairobi Securities Exchange.

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1.0 Introduction

Listed firms play a critical role in economic growth by promoting industrialization, creating jobs, and enhancing value addition through raw material processing (Seyoum, 2024). According to Bahodurov, Khoshimov and Alsaoub (2025), these firms significantly contribute to national output, export growth, and supply chain development. Given their influence on economic stability, maintaining efficiency is vital for their long-term sustainability (Yang, Wang, Dong & Cheng, 2024). Recent studies have increasingly focused on efficiency, attracting interest from scholars, industry professionals, and policymakers who seek to understand factors influencing firm performance (Supsermpol, Thajchayapong, & Chiadamrong, 2023; Sarfraz *et al.*, 2023). Publicly traded firms, in particular, are under constant scrutiny and must optimize efficiency to meet stakeholder expectations. This need has intensified in response to global challenges such as political instability, technological change, and economic disruptions, which demand greater resilience and adaptability (Alabdullah, 2023; Udo *et al.*, 2023).

Efficiency of listed firms is to a greater extent influenced by changing market conditions, including economic recessions, technological advancements, and geopolitical events (Du, Tang, Qi & Zhao, 2023). The advent of digital technologies has forced traditional retail companies to adapt or risk losing market share to online competitors. These changing market conditions have put pressure on firms to reconsider their asset structure as a way to improve efficiency. Asset structure details how a firm is able to use its resources, like cash, inventory, and property, and liabilities, like loans or debts, to operate and grow (Yudi, 2023). For example, during periods of high inflation or economic downturns, companies might opt to reduce long-term assets like property and instead focus on liquid assets like cash reserves (Yongding, 2023). This provides the flexibility to adapt to market conditions quickly and ensures that the company has enough liquidity to cover immediate expenses (Yudi, 2023).

Regionally, given Africa’s diverse economic environment, efficiency of listed firms in varies widely. In countries like South Africa and Nigeria, listed firms have often seen strong efficiency due to relatively stable political and economic environments (Akorede, 2023; Johannesburg Stock Exchange, 2022). However, challenges such as economic inequality and corruption have put pressure on companies' bottom lines. Ghana faces unique challenges that impact the efficiency of their listed firms. Listed companies in Ghana have grappled with declining performance due to political instability, high inflation, and issues related to corporate governance. Moreover, while the economy has been growing, listed firms in Ghana are often hampered by low liquidity and market depth, which affect their ability to raise capital and affect efficiency negatively (Andoh, Abugri & Anarfo, 2023).

The Kenyan government, together with private sector firms and individuals in the private sector, has been making efforts to create a business-friendly environment in the country. As a result, many firms listed on NSE have seen improved performance over the past decade (NSE, 2022), while others have faced declines, and some have even been delisted from NSE over the same period. Major efforts to revive or liquidate these struggling companies have primarily centered on asset restructuring. Yet, there remains a lack of comprehensive guidelines for managers to make optimal decisions with regards to asset structure (Kibet *et al.*, 2021). Despite the challenges faced by companies under statutory management leading to loss of stakeholder wealth and diminishing investor confidence in the NSE, most of these issues have been broadly linked to asset structure (Chebii, Kipchumba and Wasike, 2019). Based on the above studies, contextual gaps are evident when comparing prior studies with the present research focus. It is evident that most global and

regional studies have concentrated on board diversity, remuneration, and governance in shaping operational outcomes, but little has been done on the direct influence of asset structure on firm efficiency. Despite their vital role in Kenya's economy, most of the listed firms on NSE have been experiencing a decline in efficiency (Wandabusi, Ombok & Nyamita, 2023; Tanui & Serebemuom, 2021).

1.1 Research Problem

The World Bank (2024) emphasizes that stock markets such as the NSE are pivotal in accelerating national development, supporting Kenya's long-term goal of expanding industrial and financial sectors. The manufacturing segment alone contributed 7.3% to GDP in 2024, up from 7.1% in 2023, underscoring its role in industrialization (Kenya Economic Survey, 2025). Together, NSE-listed companies act as both an economic barometer and a platform for mobilizing long-term capital, positioning Kenya as a regional investment hub (World Bank, 2023). Despite recent improvements, Kenya continues to face economic challenges. In mid-2025, the World Bank revised the country's projected growth downward to 4.5 percent, attributing the slowdown to mounting public debt estimated at 65.5 percent of GDP rising borrowing costs, and reduced credit access for the private sector. These factors have strained key industries such as manufacturing, which play a major role in supporting companies listed on the NSE (Reuters, 2025b). Even so, most NSE-listed firms are still experiencing positive market performance and maintaining investor confidence, though broader economic pressures remain uneven (NSE, 2025).

According to KNBS (2025), Kenya's economy registered broad-based growth in 2024, with sectors represented on the Nairobi Securities Exchange (NSE) including finance, energy, agriculture, services, and manufacturing acting as key drivers. The NSE currently lists over 60 firms across these sectors, whose collective market capitalization exceeded Ksh 2.1 trillion in 2025, depicting their significance in mobilizing savings, creating employment, and enhancing regional competitiveness (NSE, 2025). Even though listed firms contribute significantly to GDP growth, export earnings, and technological development, existing statistics points to a declining and unstable efficiency trajectory among listed firms in Kenya. According to NSE (2020), the average return on assets (ROA) for listed non-financial firms declined from 8.6% in 2013 to below 4.5% by 2019, reflecting weakening asset utilization efficiency. Over the same period, cost-to-income ratios for several manufacturing and commercial firms rose above 70%, signaling reduced operational efficiency (NSE, 2020). In addition, more than 40% of listed firms issued at least one profit warning between 2015 and 2020, with many reporting sharp year-on-year fluctuations in operating margins and earnings per share.

Erratic trends mainly for efficiency have been documented amongst firms listed on NSE. In the year 2016, eighteen of these firms issued profit warning out of the sixty-seven firms listed at the NSE by then, with some still facing serious financial distress. Most of the listed firms at NSE issued profit warnings during the period between year 2016 and 2020 (NSE, 2021). Between year 2013 and 2017, the proportion of profit warnings issued by commercial and services firms listed at the NSE varied significantly. In year 2013, these firms accounted for 43 percent of all profit warnings. The figure increased to 55 percent in year 2014, indicating a rise in financial performance concerns within the sector. In year 2015, the percentage dropped to 39 percent, suggesting a temporary improvement. This downward trend continued into year 2016, when only 18 percent of profit warnings came from commercial and services firms. However, in year 2017, the proportion rose again to 25 percent, reflecting a partial reversal in the previous year's decline (CMA, 2018). Empirical evidence from different contexts presents mixed and sometimes

conflicting results on the drivers of efficiency, revealing clear gaps. These gaps justify the present study, which examined the effect of current assets on efficiency among firms listed on the Nairobi Securities Exchange, Kenya.

1.2 Research Objective

To establish the effect of current assets on efficiency of firms listed on Nairobi Securities Exchange, Kenya.

1.3 Research Hypothesis

H₀: Current assets has no significant effect on efficiency of firms listed on Nairobi Securities Exchange, Kenya.

1.4 Value of the Study

The study is expected to be of great importance to a range of stakeholders. From a policy perspective, the study will provide evidence-based insights to regulatory bodies such as CMA and CBK, enabling them to formulate regulations that encourage balanced asset structuring among listed firms while safeguarding market stability and investor interests. The findings will support the development of more targeted frameworks aimed at improving corporate transparency, governance, and financial resilience within Kenya’s capital markets. From a theoretical perspective, this study will add to the existing body of knowledge in corporate finance by offering empirical evidence on how asset structure influences efficiency in emerging markets, with a specific focus on the Kenyan context. To practice, the study will offer corporate managers clear guidance on how different asset structures influence efficiency, assisting them in making informed strategic decisions related to resource allocation, risk management, and operational optimization. Investors will also benefit by gaining a deeper understanding of how asset composition affects firm performance, which can guide investment choices and portfolio management.

1.5 Scope of the Study

This study examined the effect of current assets on the efficiency of firms listed on the Nairobi Securities Exchange (NSE). This study geographically concentrated on enterprises listed on the NSE, utilizing secondary data mostly obtained from financial reports and NSE websites. The study was conducted covering a period of 12 years, from 2013 to 2024, offering a comprehensive perspective on trends and effects. The 2013–2024 timeframe was warranted since it encompasses a whole economic cycle, legislative modifications, and industry developments influencing asset composition and operational efficiency among companies listed on the NSE.

2.1 Literature Review

This study was underpinned by Working Capital Management Theory and Capital Asset Pricing Model.

2.2 Theoretical Framework

2.2.1 Working Capital Management Theory

According to Segan's (1955) Working Capital Management Theory, a company's short-term assets and liabilities must be carefully managed. The theory holds that maintaining an appropriate balance between current assets and current liabilities improves operational efficiency and supports higher profitability by enabling smooth day-to-day business operations (Shin & Soenen, 1998). This theory argues that firms must manage their cash, accounts receivable, and inventory

efficiently to avoid liquidity constraints while maximizing returns (Deloof, 2003). Working capital efficiency is important in preventing financial distress, as firms that mismanage their short-term resources may struggle with solvency issues (Lazaridis & Tryfonidis, 2006). The theory thus emphasizes the importance of managing short-term financial decisions to ensure sustainable business operations and profitability (Afza & Nazir, 2009). The Working Capital Management Theory emphasizes the significance of current asset management in enhancing efficiency. Firms that efficiently manage their working capital components cash, receivables, and inventory achieve optimal liquidity, enabling them to meet short-term obligations while maintaining smooth operations (Shin & Soenen, 1998).

2.2.2 Capital Asset Pricing Model

The Capital Asset Pricing Model (CAPM) was introduced by Sharpe in 1964 and further improved by Lintner in 1965 as a framework for determining the expected return of an asset relative to its systematic risk (Sharpe, 1964; Lintner, 1965). The model states that investors require compensation for both the time value of money, captured by the risk-free rate, and the risk taken, represented by the asset’s beta relative to the overall market (Black, 1972). In the context of firm-level decision-making, CAPM underscores that the efficiency of capital allocation particularly in long-term investments depends on whether such investments generate returns that exceed the required cost of equity (Fama & French, 2004). By linking risk and return, the theory provides a financial benchmark for evaluating whether long-term capital allocations enhance shareholder value (Jagannathan & McGrattan, 1995). Applying CAPM to this study was relevant as it informs the variable of efficiency offering a theoretical foundation for analyzing how firms listed on the Nairobi Securities Exchange allocate resources to capital projects. For NSE-listed firms, long-term investments such as expansion projects, acquisitions, and technological upgrades are critical for competitiveness but expose the firms to market volatility and financing costs (Sharpe, 1964). By applying CAPM principles, this study evaluated whether the asset structures of these firms would promote efficiency through risk-adjusted capital allocation. The framework thus provided both a conceptual basis and a market-oriented analytical tool for examining how current assets influence efficiency among listed firms.

2.3 Empirical Review

This section reviewed empirical literature on the relationship between current assets and efficiency across different sectors and countries. The section presents key findings, methodological approaches, and gaps in existing studies, thereby justifying the need for the study focusing on firms listed on the Nairobi Securities Exchange in Kenya. Al-Shattarat (2022) investigated how asset management efficiency influences the financial performance of industrial companies listed on the Amman Stock Exchange in Jordan. The study examined the impact of non-current asset turnover, total asset turnover, and working capital turnover on return on assets (ROA) as an indicator of financial performance. Results showed that both non-current asset turnover and total asset turnover significantly improved ROA, suggesting that firms managing their assets effectively tend to achieve stronger financial outcomes. Nonetheless, the research concentrated solely on financial performance, leaving unanswered how asset management efficiency affects overall operational efficiency a key factor in resource utilization and productivity, particularly in manufacturing.

Mkama and Kagoro (2022) assessed the effects of non-current assets management on the performance of regulated water utilities in Tanzania, focusing on the Morogoro Water Supply and Sanitation Authority. The study used a sample size of 103 respondents drawn from different

departments at MORUWASA, selected through purposive and stratified random sampling techniques. The findings indicated that non-current asset planning positively influenced organizational performance, suggesting that strategic planning, maintenance, and utilization of non-current assets improve efficiency and service delivery. However, the study focused solely on water utilities, creating sectoral gap in understanding the role of non-current assets in other industries, such as manufacturing. Additionally, the study did not examine how non-current asset management affects efficiency, which is a key determinant of cost optimization and resource utilization.

Eze, Inyama, and Ezugwu (2024) examined how the management of current assets influences operational outcomes among Nigerian consumer goods firms. The study relied on secondary information drawn from published annual reports and audited financial statements of selected fast-moving consumer goods companies, adopting an ex post facto design over a ten-year span from 2013 to 2022. The empirical results revealed that inventory turnover has a negative and statistically significant effect on firm turnover, as reflected by a t-value of -2.269713 and a corresponding p-value of 0.0255 . The study however focused only on financial turnover as a measure of operational performance, creating conceptual gap in understanding how current assets management affects broader efficiency metrics such as cost reduction, resource utilization, and productivity in manufacturing firms. Additionally, the study was limited to FMCG firms in Nigeria, creating a contextual gap regarding how current assets influence efficiency in different industries and economic environments. In order to fill these gaps, this study analyzed how enterprises listed on the Nairobi Securities Exchange in Kenya use existing assets to improve their efficiency.

Maranga, Otieno and Mogwambo (2025) evaluated how manufacturing companies registered on the Nairobi Securities Exchange (NSE) in Kenya fared in the market after disclosing their financial assets, controlling for business size. Improved financial asset disclosures increase investor confidence and make it easier for them to make well-informed decisions, which in turn increases market returns. But the research didn't cover how asset structure including current assets, intangible assets, property, plant, and equipment, and long-term investments affects efficiency in manufacturing organizations; it just looked at financial asset declarations and their impact on market returns. In order to fill these gaps, this study analyzed how asset structure affects efficiency for NSE-listed companies. It provided a broader view of how asset management improves manufacturing productivity, cost efficiency, and tool use.

2.4 Conceptual Framework

In this study, the dependent variable is the efficiency of firms listed on the Nairobi Securities Exchange, Kenya, which is influenced by current assets. The conceptual framework is as shown in Figure 1.

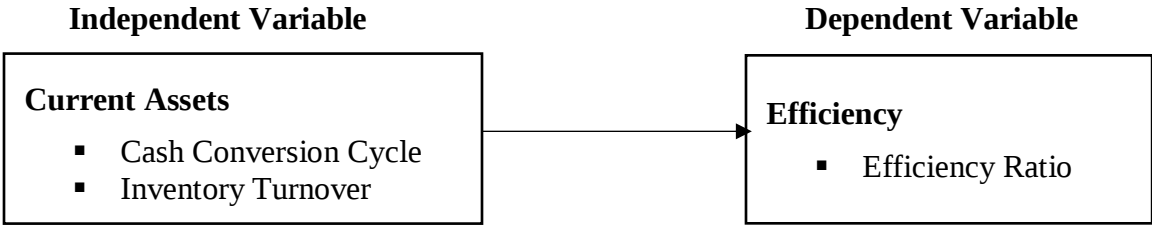


Figure 1: Conceptual Framework

Source: Researcher (2025)

3.0 Methodology

3.1 Research Design and Philosophy

The study adopted a positivist research philosophy and an explanatory research design to examine the effect of asset structure on the efficiency of firms listed on the Nairobi Securities Exchange. Positivism was suitable because the study relied on measurable financial data and objective statistical testing, while the explanatory design helped establish causal relationships between asset structure and firm efficiency.

3.2 Target Population

The study targeted all 66 firms listed on the NSE between 2013 and 2024 and used a census approach because the population was manageable and allowed full inclusion of all firms. The study used secondary panel data obtained from audited annual reports, company websites, NSE records, and other credible published sources.

3.3 Data Collection and Analysis

Data were collected using a structured extraction tool and analyzed using STATA version 24.0. Descriptive statistics summarized the study variables, while Pearson correlation and panel regression tested the relationships among variables. Since some firms had incomplete records, an unbalanced panel regression model was adopted to retain all available observations across the study period.

$$E_{it} = \alpha + \beta CA_{1it} + \epsilon_{it}$$

Where:

E_{it} = Efficiency of firm i at time t .

α = Constant term.

CA_{it} = Current Asset of firm i at time t .

β_i = Coefficients of the explanatory variables.

ϵ_{it} = Error term.

Before panel regression analysis was conducted, diagnostic tests were conducted for normality using the Jarque–Bera test, heteroscedasticity using the Breusch–Pagan test, autocorrelation using the Durbin–Watson test, stationarity using the Levin–Lin–Chu unit root test, and model specification using the Hausman test. Ethical clearance was obtained from Kenyatta University Graduate School and NACOSTI, while all data were handled confidentially and used only for academic purposes (Saunders et al., 2009).

4.0 Findings and Discussion

4.1 Descriptive Statistics

Using descriptive statistics the researcher was able to condense the features of the elements linked to current assets and efficiency. Making use of central tendency measures the mean, minimum, and maximum values, in addition to the standard deviation performed a thorough evaluation of the data distribution. The mean was selected as the primary measure of central tendency since it incorporates all of the dataset's observations (Gravetter, Wallnau, & Forzano, 2016). Table 1 provides a descriptive summary of the variables over a 12-year period (2013–2024), for all 66 companies listed on the Nairobi Securities Exchange.

Table 1: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ER	768	0.285409	0.815124	0.548317	0.15566119
CCC	768	-348.73	316.62	-42.1448	166.76599
IT	768	4.13136	9.26062	6.647167	1.472963207

ER = Efficiency Ratio, CCC = Cash Conversion Cycle, IT = Inventory Turnover

Source: Research Data, 2025

Descriptive results in Table 1 indicate that the efficiency ratio (ER) had a mean of 0.548317 with a standard deviation of 0.15566119, a maximum value of 0.815124, and a minimum of 0.285409. This shows moderate variability in efficiency among listed firms over the 2013–2024 period. The mean value suggests that, on average, firms converted slightly above half of their inputs into productive output, pointing to moderate operational efficiency. The spread demonstrated by the standard deviation indicates that some firms performed significantly better than others. The same sentiments were also echoed by Eze, Inyama, and Ezugwu (2024) who found that current asset management such as inventory turnover had significant implications for operational outcomes.

The findings also shows that the cash conversion cycle (CCC) recorded a mean of –42.1448 with a high standard deviation of 166.76599, ranging from –348.73 to 316.62. The wide dispersion shows high level of heterogeneity in working capital management among firms. A negative mean CCC indicates that, on average, firms collected cash from sales before paying suppliers, reflecting strong liquidity management for many firms. However, the results indicates indicate that several firms experienced delays that to some extent strain short-term financing. This concurs with concurs with assertion by Al-Shattarat (2022) that asset management efficiency directly influences financial performance through improved asset turnover.

The results further shows that inventory turnover (IT) had a mean of 6.647167 and standard deviation of 1.472963207, with a minimum of 4.13136 and maximum of 9.26062. The results show moderate variability in inventory trajectory across firms, with higher turnover reflecting efficient inventory management and strong sales performance. The mean value suggests that most listed firms restocked inventory roughly six to seven times a year, which is considered healthy in capital-intensive sectors. This indicates that firms managing their current assets effectively tend to sustain higher levels of efficiency, supporting the relevance of current asset structure in the study. These descriptive analysis results are in line with the observations made by Mkama and Kagoro (2022), who demonstrated that non-current asset planning and utilization influenced organizational performance.

4.2 Trend Analysis

Trend analysis involves examining how variables change over time to identify patterns, directional trajectories, or structural changes that influence firm behaviour and performance.

4.2.1 Trend Line Analysis for Efficiency Ratio

This section presents the trend line analysis results for the efficiency ratio which in this case is the dependent variable, showing how it changed across the 12-year period and indicating whether firms recorded improvement, stability, or variations in their efficiency levels. Figure 2 shows trend analysis for efficiency ratio.

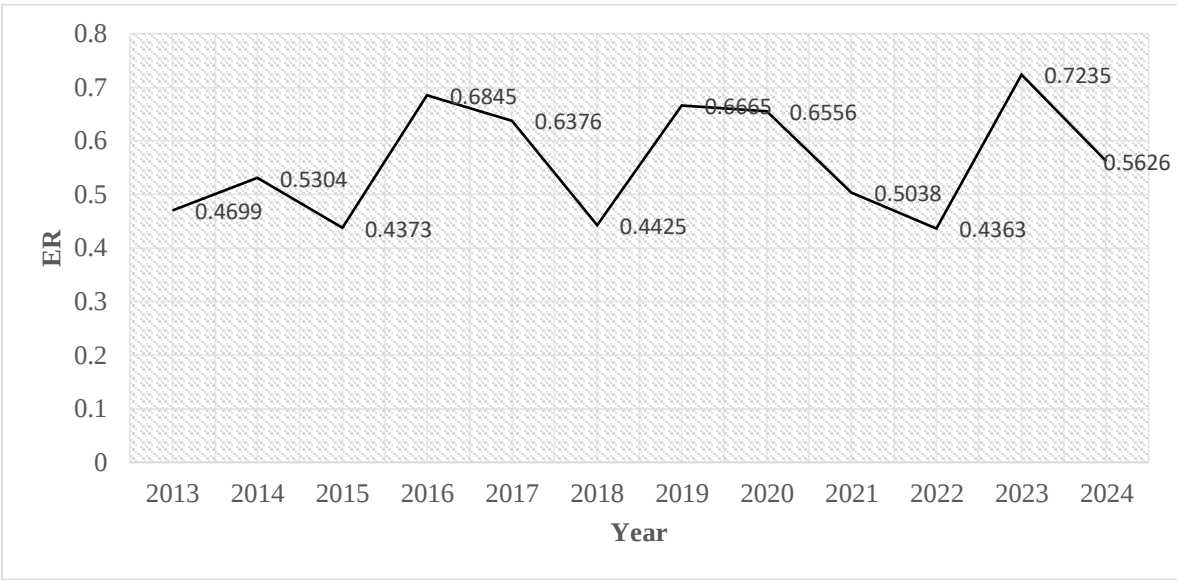


Figure 2: Trend Line for Efficiency Ratio

Source: Research Data, 2025

The efficiency trend among firms listed on the Nairobi Securities Exchange fluctuated between 2013 and 2024, showing inconsistent asset utilization across the period. Efficiency improved notably in 2016, 2019, 2020, and 2023, with the highest level recorded in 2023 at 0.7235, indicating stronger asset use and operational performance. However, declines were observed in 2015, 2018, 2021, and 2022, reflecting periods of weaker efficiency and operational challenges. Overall, the trend shows that firm efficiency varied over time, with changes likely influenced by asset structure, market conditions, and strategic management decisions.

4.2.2 Trend Line Analysis for Cash Conversion Cycle

Figure 3 displays the trend pattern for the CCC across the study period.

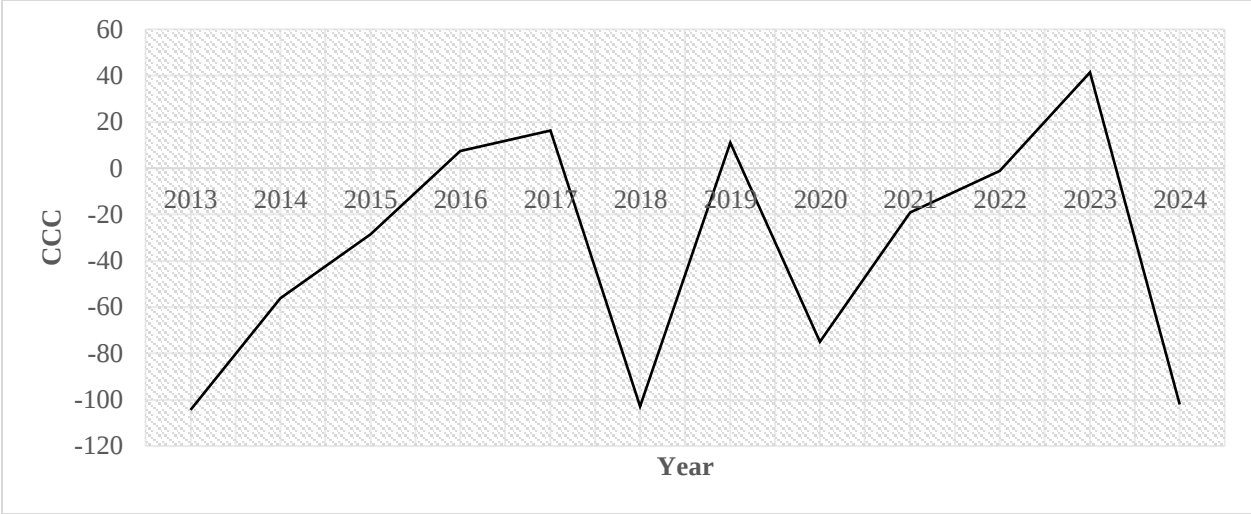


Figure 3: Trend Line for Cash Conversion Cycle

Source: Research Data, 2025

The Cash Conversion Cycle trend for firms listed on the Nairobi Securities Exchange shows fluctuating working capital efficiency between 2013 and 2024. The CCC was largely negative in several years, including 2013, 2018, 2020, and 2024, indicating faster conversion of inventories and receivables into cash and stronger liquidity management. However, positive CCC values in 2016, 2017, 2019, and 2023 showed periods of slower working capital turnover and increased operational pressure, with 2023 recording the highest CCC at 41.41. Overall, the trend indicates alternating periods of efficient and delayed cash conversion, with negative CCC values reflecting stronger working capital management and positive values showing longer operating cycles.

4.2.3 Trend Line Analysis for Inventory Turnover

This section presents the trend line analysis results for inventory turnover (IT), indicating how efficiently listed firms converted their inventory into sales over the 12-year period. The IT trend helps illustrate changes in operational performance by showing whether firms were improving, maintaining, or slowing in their inventory utilization. Figure 4 depicts the pattern of inventory turnover across the study period.

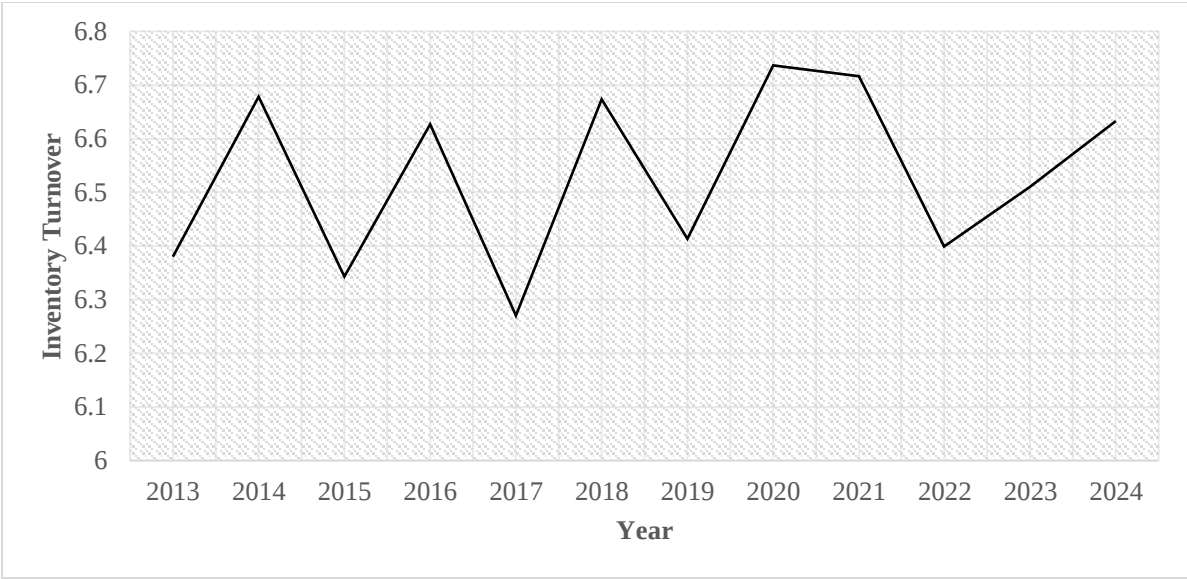


Figure 4: Trend Line for Inventory Turnover

Source: Research Data, 2025

The inventory turnover trend among firms listed on the Nairobi Securities Exchange showed moderate fluctuations but remained relatively stable between 2013 and 2024, mostly ranging between 6.2 and 6.7. Inventory turnover increased from 6.380016 in 2013 to 6.678171 in 2014, before dropping slightly to 6.343346 in 2015. It then increased to 6.627241 in 2016, followed by a small decline to 6.270333 in 2017. A further increase was recorded in 2018, where inventory turnover increased to 6.673073, before dropping slightly to 6.413266 in 2019. The highest level was reported in 2020 at 6.736511, showing strong inventory movement, and remained high in 2021 at 6.716649. However, inventory turnover dropped to 6.398847 in 2022, before increasing again to 6.510204 in 2023 and 6.633292 in 2024. The trend overall depicts that listed firms maintained fairly steady inventory management, with periodic increases and drops reflecting changes in demand, operational adjustments, and supply chain conditions.

4.3 Correlation Analysis

Correlation analysis was applied to determine how cash conversion cycle and inventory turnover relate to firm efficiency among companies listed on the Nairobi Securities Exchange. This analytical approach is important because it provides preliminary evidence of potential relationships that may warrant further investigation through more advanced techniques like panel regression analysis. It also helps identify variables that exhibit strong associations, which can inform model specification and support theoretical expectations regarding how asset structure influences firm performance. The correlation matrix for this study was generated at the 5 percent significance level using stata software, and the coefficients are presented together with their corresponding p-values in Table 2.

Table 2: Correlation Matrix

Variable	ER	CCC	IT
ER	1.0000		
CCC	-0.4218*	1.0000	
IT	0.5093*	-0.3327	1.0000

ER = Efficiency Ratio, CCC = Cash Conversion Cycle, IT = Inventory Turnover

Source: Research Data, 2025

Inventory turnover (IT) shows the strongest association with efficiency ratio (ER) ($r = 0.5093^*$) which was also found to be positive and significant indicating that firms converting inventory into sales more rapidly tend to demonstrate higher operational efficiency. Just like in this study, Eze, Inyiama, and Ezugwu (2024) reported a statistically significant relationship between inventory turnover and performance among Nigerian FMCG firms. While their study documented a negative association with financial turnover, the current research extends the discourse by showing that in a broader and more diversified market such as the NSE, efficient inventory management supports higher efficiency through improved working capital flows and resource utilization.

4.4 Panel Regression Analysis

Prior to estimating the panel regression model, diagnostic tests were conducted to confirm the suitability of the data for regression analysis. The results showed no multicollinearity, since the VIF values ranged from 1.43 to 2.56, all less than the threshold of 10. Normality was confirmed as all Jarque–Bera probability values were above 0.05, while the Breusch-Pagan test showed homoscedasticity, $\chi^2(1) = 0.4732$, $p = 0.4915$. The Durbin–Watson statistic of 1.982 indicated no autocorrelation, and the unit root results confirmed stationarity at level or after first differencing. Finally, the Hausman test result, $p = 0.8874$, supported the use of the random effects model for panel regression analysis.

This study set out to determine how current assets influences the efficiency of firms listed on the Nairobi Securities Exchange. To achieve this objective, panel regression techniques were employed to empirically assess the relationships under investigation. Regression analysis, as noted by Rencher and Schaalje (2009), provides a systematic framework for explaining variations in an outcome variable by examining its simultaneous association with multiple explanatory factors, thereby allowing for a comprehensive analysis of their combined effects. The random effects regression results revealed that the cash conversion cycle (CCC) had a significant and negative relationship with efficiency ($\beta = -0.21487$, $p = 0.014$). This means that firms experiencing longer durations to convert working capital into cash tend to exhibit lower efficiency. A prolonged CCC indicates operational challenges in inventory management, receivables collection or payables policy, leading to resource tie-ups and reduced productivity.

In addition, inventory turnover (IT) exhibited a significant positive relationship with efficiency ($\beta = 0.087451$, $p = 0.016$). This indicates that firms that convert inventory into sales more rapidly achieve higher efficiency. High turnover reflects effective demand forecasting, streamlined supply chain processes, and reduced holding costs, all of which positively influence operational productivity. These results are contrary to the negative turnover–performance relationship found by Eze et al. (2024), but the difference arises from conceptual distinctions. Additionally, the study by Eze et al. (2024) measured financial turnover, while the study evaluates operational efficiency, which captures more productive capacity, cost management, and resource utilization. Thus, firms listed on the NSE benefit from higher inventory turnover because it frees capital, reduces storage

costs, and promotes just-in-time production strategies that contribute to efficiency. Therefore, the null hypothesis was rejected, indicating that higher inventory turnover contributes positively to firm efficiency. These results contradict the findings of Eze et al. (2024), who reported a negative relationship between IT and turnover performance among FMCG firms.

5.0 Conclusion

Efficient working capital management is critical in shaping firm efficiency among firms listed on the Nairobi Securities Exchange. Firms that reduced the cash conversion cycle by managing inventories, receivables, and payables more effectively were better able to release capital for production, procurement, and service delivery. Similarly, strong inventory turnover reflected proper demand forecasting, lean operations, and effective stock movement, which improved operational efficiency. Therefore, cash conversion cycle and inventory turnover were not merely accounting measures but strategic indicators of how well firms managed resources, maintained agility, and strengthened competitiveness in the market.

6.0 Recommendations

The study recommends that policymakers, including the National Treasury, CMA, NSE, and CBK, should develop supportive frameworks that promote disciplined asset allocation, efficient resource use, transparent asset reporting, affordable financing, and stable macroeconomic conditions for listed firms. It further recommends that firms listed on the Nairobi Securities Exchange should strengthen internal asset management by improving working capital practices, cash conversion cycles, inventory turnover, and human capital development. Managers should adopt digital tools, lean inventory systems, just-in-time procurement, cash flow audits, and employee training programs to enhance asset utilization, liquidity, operational agility, and overall firm efficiency.

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