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Moses Ambasa Odendo, Malgit Amos Akims, Samuel Moragia Nyachae & Levi Mbugua

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Quick Ratio and Financial Performance of Agricultural Firms Listed at the Nairobi Securities Exchange, Kenya

[*1]Moses Ambasa Odendo, [2]Malgit Amos Akims, [3]Samuel Moragia Nyachae & [4]Levi Mbugua

[1& 3]California Miramar University San Diego, California

(odendomoses@gmail.com),

[2]Kenyatta University, Nairobi Kenya (malgitakims@gmail.com),

[4]Technical University of Kenya

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Abstract

The study was informed by the continuous decline in financial performance of the Agricultural firms listed at the Nairobi Securities Exchange, Kenya. The study emanates from the Doctoral dissertation of the first author in which the co-authors served as supervisors. A census approach was adopted where secondary data from audited annual financial reports of all the six Agricultural firms listed at the Nairobi Securities exchange, Kenya was used, covering the period 2015 to 2022. Descriptive analysis and panel regression analysis were applied. Based on the outcome of the panel regression analysis, the study established that quick ratio has significant effect on financial performance of the Agricultural firms listed at the Nairobi Securities Exchange, Kenya. The study established that quick ratio has significant effect on financial performance of the Agricultural firms listed at the Nairobi Securities Exchange, Kenya. The study further recommends that holding of quick assets should be done with caution by firms. Holding of quick assets should be done in view of underlying short-term liabilities since excessive levels lead to declining financial performance.

Keywords: *Quick Ratio, Financial Performance, Trade-Off Theory and Dividend Signaling Theory*

1.0 Introduction

The global economy had a slowdown in the 2020s due to the Covid-19 pandemic. Global economy has been characterized by supply constraints, climate shocks that adversely affected the Agricultural sub-sector; escalating inflation and rising financial risk (illiquidity) due to high and increasingly vulnerable debt levels. Results include food and energy-fueled inflation. The Russian and Ukraine war has worsened the already existing tensions and vulnerabilities affecting, especially the African continent. Governments require short-term and medium to long term policies that will accelerate the recovery of the continent from these vulnerabilities (World Bank Group Report, 2022) and the Agricultural sub-sector is challenged to improve on their productivity to contribute towards their country's economic recovery. Short term measures should be used to contain inflationary pressures and medium to long term policies to accelerate the structural transformation and creation of more and better jobs, through main-stream involvement of the Agricultural sub-sector.

The general economic growth of Africa has continued to show a growth of 3.5% compared to that of the global growth of 2.9% for the year 2019 (World Bank report, 2018). Africa's promising economies in growth rate include Angola and Ethiopia. Hence, Africa remains a favorable competitive market to invest in. Africa's listed Agricultural sub-sectors are challenged to take advantage of this favorable economic growth to improve on their financial performance. Yet, the past studies on the sub-sector's financial performance by Masavi, Kiweu and Kanyili (2017) confirms that most of the Agricultural firms in Africa have declining performances.

In general, past studies have emphasized the importance of liquidity and financial performance of agricultural sub-sectors listed on the security exchanges, including those in Africa. To this effect, East Africa, including Kenya, has remained the fastest growing economy in Africa; spearheaded by Ethiopia's growth of 8.1%, attributed to public investment. Higher oil prices have supported the growth in Ghana, but it has not been the case with regard to Nigeria, due to shortage of foreign exchange reserves – which should be seen to be due to a form of a financial crisis. As indicated earlier, it is evident that economic growth rate in the African continent is largely attributed to the financial performance of its Agricultural sub-sectors and their country's securities markets. These sub-sectors in Africa have continued to be the highest contributors to GDP growth in Sub-Sahara Africa (NSE report, 2018).

Regarding the financial performance studies of the Agricultural subsector, only a few of such have been carried-out, and most of them have only used liquidity as one of their selected determinants. Financial performance was mainly measured using the financial ratio of ROA. But in doing so, and in most cases, past studies have provided mixed findings (contrasts or ambiguity) with regard to their findings on liquidity's effects on financial performance Liargovas and Skandalis (2008); Omondi and Moturi, (2013); Ayako, Kungu and Githui (2015); Odalo, Achoki, and Njuguna, (2016); and Maroa, and Kioko (2016). And, only a few of these studies have focused on the listed Agricultural firms, in spite of the sub-sector being a significant-giant contributor to economic and social development of any country; especially the developing economies (Odalo & Achoki, 2016). It also contributes towards the alleviation of poverty, and unemployment in any country.

1.1 Statement of the Problem

As regards to the importance of Kenya's Agricultural sub-sector, Omboi (2011) indicated that the growth and development of the sub-sector and that of securities exchange, the NSE, remains

critical to the overall economic growth and social development of Kenya. These facts are statistically supported as follows: The Agricultural sub-sector contributes about 33% of Kenya's Gross Domestic Product (GDP) and a further 27% through linkage with the manufacturing, distribution and service-related sectors in Kenya. The sub-sector is also a large-extensive, and complex platform for production of raw material used in non-agricultural sub-sectors, and in the export businesses like horticulture, tea, coffee among others. As such, the sub-sector contributes 65% of Kenya's total export, and provides employment to over 40% of the country's total population. Noting that, 80% of Kenya's population (≡49,699,862) resides in the rural areas, where they entirely depend on Agriculture for their livelihood (Kenyaplex.com, 2020, FAO, 2021).

Despite of the Kenya government's efforts in the last decades, to create a favorable business environment for all listed firms in the country as evidenced by most of the listed firms improving on their financial performances. However, a number of the firms, especially, those in the Agricultural sub-sector have continued to exhibit declining trends in their financial performance. Typical examples include Rea-Vipingo Sisal Plantations Company that was delisted from the NSE in 2015 (Otieno, 2017, Omboi, 2011, & NSE report, 2015). Generally, some the members of the sub-sector have had unfavorable financial performance. They include sugar industries like the Mumias Sugar Company (pending receivership by Kenya Commercial Bank, KCB), Dairy firms of which 50% closed down between 2003 and 2010. Efforts to turn them around or liquidate them has mostly been focused on restructuring them financially. Yet, as discussed earlier (it is a wrong prescription case) due to the glaring fact that their main challenges have been mostly attributed to their poor liquidity levels (illiquidity).

The importance of the relationship between liquidity and financial performance doesn't need to be overemphasized in the Kenyan perspective. However, this relationship has been under researched in the Kenyan perspective, especially with regard to the financial performance of listed Agricultural sub-sectors (Ayako *et al*. 2015). The importance of the sub-sector has been under played, as evidenced by only a few of such financial performance studies having been conducted; but, as indicated earlier, they have mostly provided mixed findings. Besides, only a few and now referred to as classical financial performance studies have focused on the listed Agricultural firms, despite of the sub-sector's important role in the socio-economic development of the country, Kenya (Odalo & Achoki, 2016; Odalo *et al*., 2016). Coupled with this, most of these financial performance studies on Kenya have only mostly focused on the use of liquidity as one of their selected measures Examples include: Omondi and Muturi (2013); Omar (2013); Waswa, Ndede and Jagongo, (2014); Odalo (2015), Maroa and Kioko (2016). As such, only a limited number of studies on financial performance have used liquidity ratios as predictor variables (Odalo, 2015; Odalo, Achoki, & Njuguna, 2016). Besides, studies in the Agricultural sub-sector in Kenya have been quite few. This clearly indicates that this study area has a significant gap and has been under-researched with regards to liquidity ratios and financial performance of the agricultural firms listed at the Nairobi Securities Exchange, Kenya.

2.1 Theoretical Review

2.1.1 Trade-Off Theory

The pioneers of this theory are Kraus and Litzeberger (1973) who postulated that a firm chooses how much debt finance and how much assets finance to use by balancing the cost and benefits (Omar, 2013). This suggests that firms target optimum levels of liquidity to balance the benefits

and cost of holding cash. Firms should therefore always strive to maintain a balance between conflicting needs of liquidity and profitability (Njoroge, 2015). The benefit of holding cash (a higher liquidity) includes saving transaction costs to raise funds and not having a need to make payments; the firm can use liquid assets to finance its operations and investment, if other sources of funding are unavailable.

And, the cost of holding cash includes low rate of returns from the assets, due to low liquidity premiums, and in some cases tax disadvantages. The use of debt financing increases the financial risk of the firm leading to financial distress. As such, this theory advices firm managers not to maintain a too high or a too low liquidity levels. The theory predicts that firms with high financial performance (high profitability) have a high debt servicing capacity and more taxable income to cover for the higher debt ratios. A firm that has high growth opportunities has low debt levels, by borrowing less and relying on assets financing; in avoiding losing value, attributed to financial distress. Hence, the theory is quite relevant to this study. Therefore, it is one of the theories that informs it.

2.1.2 Dividend Signaling Theory

The theory is based on two professors of the Massachusetts Institute of Technology (MIT), Poterba and Summers (1983 – 1985), who found that an increase in dividend pay-out conveys good news to investors (signal). It is an indication of a favorable financial performance. Managers with good investment potential are more likely to signal while those without such a potential may refrain. The three arguments of the theory include the following. It argues that corporate executives and board members (insiders) more information about the firm's prospects that the outsiders (the wider public), including shareholders, so the decisions they make are revelations of their firms' finances and hence the firm's health. Outsiders have an interested receive as much information as possible on firms so as to manage their portfolio allocation. Secondly, increasing firm's dividend payout may predict good performance of the firm's securities in the future (dividend anticipated future price increase). Dividends portrays the present and future cash flows of a firm's investments. Thirdly, it suggests that firms that announces an increase in dividend payment is an indication of positive future payments or the firm should be more profitable than those paying a little dividend.

2.2 Empirical Review

Anzala and Samreen (2015) assessed the effect of quick ratio on profitability of automotive industries of five Karachi-based companies. Return on assets and return on equity are the metrics for the profitability or efficiency of the business. This study focused on the automotive industries of five Karachi-based companies: Pak Suzuki, Nissan Ghandhara, Toyota, Honda Atlas, and Hino Pak. The information was gathered from many sources, including financial statements, links to other sites, and so forth. The analysis of the relationship between liquidity and profitability revealed a negative correlation between quick ratio and profitability. It indicates that a company lacks the finances or possibilities to invest in a different class and that it lacks effective policies or usage plans to meet its immediate obligations.

Fayyaz and Nabi (2016) examined how GATM and NML's financial ratios impacted their financial performance to determine whether firm was performing better. Data was gathered for the two companies GATM and NML during the years of 2003 and 2017 from the websites of Standard Capital Security and the companies' annual reports. Additionally, it took into account return on assets and other financial performance metrics. And return on equity, as well as

liquidity situation, as shown by the quick ratio, all of which, in accordance with earlier studies and conditional theories, have a significant impact on financial performance. The results of this study indicate that the quick ratio is one of the key factors affecting liquidity and has little effect. The outcome also demonstrates that both companies are operating at higher levels, but NML's liquidity situation is superior to NML's, and both companies' fast ratios for ROE demonstrate a notable difference.

Durrah, Rahman, Jamil and Ghafeer (2016) investigated the connection between quick ratio and profitability ratios a measure of financial performance in the food industry companies listed on the Amman Bursa between 2012 and 2014. Eight industrial enterprises that work in the food industry and are listed on the Amman Stock Exchange made up the study sample. According to the findings, there is no correlation between any quick ratio and gross profit margin, however there is one between quick ratio and each of operating profit margin, net profit margin, and operating cash flow margin. Quick ratio and return on assets have a favorable association.

Marsha and Murtaqi (2017) examined the application of the Acid Test Ratio and its impact on the firm value of 14 Indonesian companies in the food and beverage industry from 2010 to 2014. Tobin Q Ratio is used as a measure of firm value to determine whether or not financial ratios have an impact on firm value. Multiple regression analysis is used to analyze this, using ATR as the independent variable and Firm Value as the dependent variable. This study's findings show that all three financial parameters significantly affect firm value. Acid test ratio and firm value have a Negative Relationship. Based on these results, the study draws the following conclusions: Businesses should pay better concentrate on financial ratios, and there is a growing need for a more reliable and complete description of financial metrics in the yearly reports of businesses.

Madushanka and Jathurika (2018) studied "the impact of liquidity ratios on ROA (with special reference to listed manufacturing companies in Sri Lanka)" Their target population was 15 members of the sub-sector listed on Colombo Securities exchange over a period of 2012 to 2016 and correlation and regression analysis, as well as, descriptive statistics were used in the study. Their findings suggested that ATR had a positive and significant effect on ROA. In their recommended they argued firm managers to pay more attention on their firms' liquidity ratios, such as ATR, due to its significant effect on their firms' profitability (ROA). They indicated that "the ultimate goal of the companies is to enhance the wealth of shareholders. Liquidity and its management are the attributes of growth and profitability of a firm".

Farhan, Alhomidi, Almaqtari and Tabash (2019) analyzed how fast ratios affected the financial health of Indian pharmaceutical enterprises. 82 pharmaceutical companies' panel data were used for the examination of the paper's data, which covered the years 2008 to 2017. The GMM model is employed to estimate the outcomes. As stand-ins for a company's financial performance, two accounting-based metrics and one marketing-based measure are employed. According to the study, the quick ratio has a large and favorable impact on the financial performance of pharmaceutical companies as evaluated by return on assets and Tobin Q. Because pharmaceutical businesses are extremely liquid and their liquidity ratio has a favorable correlation with financial success, the study concludes that they are effectively managing their liquidity.

Mustafa, Sethar, Pitafi, and Kamran (2019) examined the relationship between quick ratio and profitability. With the help of substitutes like return on equity and return on assets, the profitability or financial performance of the company was evaluated. For the investigation, panel

data from 12 automakers listed on PSX over a five-year period was used. The Hausman test was used to determine which model, out of the fixed and random effect models, was the most appropriate for the empirical inquiry. The analysis's findings showed that the quick ratio has a favorable impact on profitability. Quick ratio is favorable because it only considers assets that can be quickly turned into cash. It also shows that higher liquidity ratios suggest stronger liquidity, which in turn positively affects firm profitability. Therefore, organizations must enhance their financial liquidity position and performance in order to increase performance and profit.

Aniyah, Dwi, Cahya, Dewiana, Tenuh and Masduin (2020) evaluated the partial or simultaneous impact of quick ratio on Return on Equity (ROE) at PT. XYZ from 2012 to 2019. In addition to descriptive and associative causal research, the study also quantitative. The financial statements of PT. XYZ for the years 2012 to 2019 serve as the research's source of data. The data is analyzed using the traditional assumption analysis test method and is secondary data that has been posted on the Indonesia Stock Exchange (IDX) utilizing financial ratio analysis methods. The findings indicated that there is a slight but favorable relationship between quick ratio and return on equity. In order to compete for investors' trust and make it simpler to raise money from outside the company, the company should enhance its performance. Before making an investment decision, investors should consider the return on equity value since it indicates how much of the company's net earnings goes into funding its capital.

Etim, Ihenyen and Nsima (2020) assessed the factors that affect financial performance in the Nigerian oil and gas industry based on listed oil and gas businesses. This investigation is based on the hypothesis that organizations operate better when financial performance indicators are greater, so it is necessary to confirm this hypothesis in the Oil and Gas industry as it is the backbone of the Nigerian economy. Ex-post facto research methodology was used, using data taken from publicly available annual reports of the tested oil and gas businesses for the years 2012–2018. Correlation analysis, R-square, adjusted R^2, t-statistic, Durbin-Watson (DW) statistic, F-ratio, and P-value derived from multiple regression analysis at a 5% level of significance were used to examine the data collected. The study's acid test ratio variables are what produce the variance in ROA, according to the result. It was suggested that the oil and gas businesses should efficiently manage their liquidity by reducing their excessive current assets, selling some tangible assets without negatively affecting operations, and acquiring debt instruments such debenture instruments.

Ukwueze and Ohagwu (2020) examined into the usefulness of the acid test ratio as a company liquidity metric. The study used an ex-post facto research design because it was based on historical data. The study uses data from secondary sources. Additionally, a stratified random sampling technique was used. An independent sample t-test was employed in SPSS to examine the stated and modeled hypotheses. With the help of SPSS, the independent sample t-test was carried out with a 95% or 90% confidence interval, resulting in an error margin of 5% or 10%. The study shows that there is no discernible difference between acid test ratios utilized as firm liquidity measures and that acid test ratio is really employed as such. The directors must effectively use the acid test ratio as a gauge of the firm's liquidity. Acid test ratios also balance the tension between the pursuit of profit and the need for money.

Appah, Onowu, and Tonye (2021) investigated the impact of profitability ratios and acid test ratios on the expansion of profits at listed oil and gas companies in Nigeria. Data for the study was taken from the annual reports of sample companies for the years 2014 through 2019 and was

gathered using an ex-post facto and correlational design. The secondary data derived from the public financial statements of the sampled companies was analyzed using multiple regression, a correlation matrix, and descriptive statistics. The findings of the multivariate analysis indicated that the use of the acid test ratio had a favorable and significant impact on the increase in profit of Nigerian listed oil and gas companies. According to the study's findings, a company's growth is influenced by its liquidity and profitability ratios. The study therefore offered the following recommendations, among others, that businesses utilize financial ratios to monitor the pace of corporate profit growth in order to understand the conditions of businesses that may ultimately influence investment decisions.

Nabil, Anwar, Suhaib, Mosab and Eissa (2021) determined quick ratio and factors affecting the financial performance of listed Indian companies. In this study, generalized moment methods (GMM) are used in conjunction with static models (pooled, fixed, and random effects). Also utilized as independent factors are a group of financial performance determinants, including Tobin-Q, return on assets, profit after tax, return on capital used, and return on equity. The findings showed that Tobin-Q, Return on Equity, Profit After Tax, and Return on Capital Employed are the most important financial success factors that affect financial leverage of Indian listed companies. The results demonstrated that the quick ratio has a significant impact on the financial success of Indian listed companies. The study's findings enable business managers to evaluate a sustainable capital structure while taking the country's central bank's laws into account, as well as the impact of financial performance factors and firm quick ratio. It is recommended that regulators and policymakers take company quick ratio and financial performance determinants into consideration in a way that will improve the financial leverage of listed Indian enterprises.

Muhaimin, Nely and Karina (2021) assessed the impact of quick ratio on PT. Unilever Indonesia Tbk's financial performance from 2009 to 2018. The data used in this study are secondary data that were gathered from the financial statement results of PT Unilever Indonesia Tbk, which were published on the company's official website and listed on the Indonesia Stock Exchange. With the aid of the SPSS 21 analytic tool, multiple linear regression analysis is used in the data processing procedure. The findings indicated that throughout the 2009–2018 period at PT. Unilever Indonesia Tbk, quick ratio and financial performance had no discernible impact. Because companies that can pay off short-term debts will find it easier to get funding from creditors and investors to smooth out their operations so that profits can also rise, the study advised that quick ratio must be maintained in order for the condition of the company to continue to be said to be smooth in fulfilling its financial obligations. The profitability of the business is doing well. This demonstrates that the company's ability to generate profits is in good shape, and the company must keep it that way. Investors should focus more on the variables that can impact the company's financial success if they want to invest in parties that wish to invest.

Adekanmi, Odewole and Adeoye (2022) determined the impact of liquidity management on the financial performance of listed Nigerian food and beverage companies. In order to examine the link between the variables, the study used an ex-post-facto research design using secondary data. Twenty-one (21) food and beverage companies that are listed on the NSE made up the study's population, however only eight (8) samples were taken from them. The information was gathered from their annual financial report, which covered the years 2010 through 2019 in total. Regression analysis utilizing Ordinary Least Squares (OLS) was used to examine the data that had been gathered. The data showed that the acid test ratio has a considerable impact on the

financial performance of Nigerian listed food and beverage companies. A strong liquidity predictor of the financial performance of listed food and beverage firms in Nigeria, acid test ratio, as a liquidity measurement ratio, has maintained a positive and significant relationship with financial performance of listed food and beverage firms in Nigeria.

Prasetyaningrum, Kustiyah and Marwanti (2022) examined the impact of the quick ratio on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange for the period 2017–2019. The 182 manufacturing businesses that were listed on the Indonesia Stock Exchange from 2017 to 2019 comprised the study's sample. In this study, 11 companies were sampled using the purposive sampling method. The data gathering method is secondary data, and the data is gathered from the financial statements of Manufacturing Companies listed on the IDX 2017–2019 through the Indonesia Stock Exchange website. According to the study's findings, each organization has experienced a variety of increases and decreases based on the quick ratio held. The companies with the best financial health from 2017 to 2019 are PT HM Sampoerna Tbk, PT Tempo Scan Pasific Tbk, and PT Mayora Indah Tbk, according to the points received. And PT Wismilak Inti Makmur Tbk is the business with the worst state of financial health from 2017 to 2019.

3.0 Research Methodology

Explanatory research design was used in the study. Both descriptive data analysis and panel data analysis were used. The descriptive quantitative analysis provided descriptive and regression (or causal relationships) statistics of the variables involved; while the inferential analysis provided related predictions and estimates (parameters).

The study targeted the six (6) agricultural firms listed at the NSE, Kenya. The target period was 2015-2022.The list of target firms included Eaagads Ltd., Kapchorua Tea Company Ltd., Limuru Tea Company Ltd., Kakuzi, Sasini Ltd., and Williams Tea Kenya Ltd. In this study, census approach was adopted where all the six targeted firms were included. Secondary data of audited financial statements of the sub-sector submitted to the Capital Market Authority (CMA), Kenya was used.

After the successfully completing the data collection process, analysis of data was carried out. Mean, standard deviation, maximum and minimum values were established for the study variables, based on the descriptive analysis. Panel regression analysis was applied in the study. The hypothesis testing was guided by a threshold of 0.05 significance level. A p-value below 0.05 implies a significant effect and a p-value above 0.05 meant an insignificant effect. In the empirical model, quick ratio was expressed as a function of financial performance:

$FNP= \beta_0+\beta_1 QKR_{it} +\varepsilon$

Where:

FNP= Financial Performance

QKR = Quick Ratio

$_i$ = Firm (1 to 6)

$_t$ = Time period (2015 -2022)

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4.0 Findings and Discussions

4.1 Descriptive Analysis

In order the document the basic features of the research data, the descriptive analysis was conducted. Through this, descriptive statistics cutting across mean, total observations, standard deviation, minimum and maximum values were recorded as captured in Table 1.

Table 1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Financial Performance	48	.249186	.4568764	-.52312	1.635935
Quick Ratio	48	5.464481	6.957525	.2368	48.1908

Source: Study Data (2023)

Based on the descriptive summary of the variables, the average financial performance of the firms in the study was 0.249186%, with a standard deviation of 0.4568764%. This means that the financial performance of the firms varied from each other by 0.4568764% on average. The range of financial performance values was -0.52312 to 1.635935.

The average quick ratio of the firms in the study was 5.464481, with a standard deviation of 6.957525. This means that the quick ratio of the firms varied from each other by a relatively high amount, with a minimum value of 0.2368 and a maximum value of 48.1908.

4.2 Panel Regression Analysis

The panel regression analysis was carried out in line with the objective of the study, hence it was utilized as a basis for the hypothesis testing as guided by the threshold of 0.05 significance level. The findings of the panel regression analysis are contained in Table 2.

Table 2: Panel Regression Results

Financial Performance	Coef.	Robust Std. Err.	Z	P>z	[95% Conf.	Interval]
Quick Ratio	-.1084927	.0348735	-3.11	0.002	-.1768436	-.0401419
_cons	.0598644	.0741373	0.81	0.419	-.085442	.2051708
R^2	0.2284					
Wald Chi2 (4)	27.18					
Prob>Chi2	0.0000					

Source: Study Data (2023)

F-value of 27.18 and p-value of 0.0000 in the results in Table 4.9 indicate that the model is significant in explaining financial performance. The R-square, which was indicated by 0.2284, indicated the model's goodness of fit. This suggested that 22.84 of the variations in the financial performance of firms can be attributed to all of the explanatory variable.

H_O: Quick ratio has no significant effect on financial performance of Agricultural Firms listed at the Nairobi Securities Exchange, Kenya.

The study analyzed the effect of quick ratio on financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. In view of this objective, the hypothesis stating that

quick ratio has no significant effect on financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya was formulated and tested. The results obtained in Table 4.2 indicate a p-value of 0.002 and coefficient of -0.1084927. Hence, quick ratio has a significant effect on financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. The negative coefficient notably implied that a unit increase in quick ratio leads to a corresponding 0.11 decrease in the financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. Quick assets which include cash and assets which can easily be transformed into cash within a short period captures the ability of firms in using quick assets to address maturing liabilities, hence its importance's in predicting the financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya.

In view of previous researches, the findings of this study on quick ratio and financial performance nexus are similar. Anzala and Samreen (2015) found a negative nexus between quick ratio and profitability. Similarly, Fayyaz and Nabi (2016) identified liquidity (quick ratio) as one of the factors affecting the financial performance of GATM and NML's. Marsha and Murtaqi (2017) examined the application of the acid test ratio and its impact on the firm value of 14 Indonesian companies in the food and beverage industry. It was documented that quick ratio and firm value have a negative relationship. Madushanka and Jathurika (2018) reported that quick ratio had a positive and significant effect on ROA for listed manufacturing companies in Sri Lanka. Yameen, Farhan and Tabash (2019) reported that quick ratio had significant effect the financial performance of Indian pharmaceutical enterprises.

5.0 Conclusion and Recommendations

The study found that quick ratio has a significant effect on financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. It was consequently concluded that quick ratio is a key predictor of financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. Fluctuations in the liquidity of firms based on quick ratio have important implications for underlying financial performance.

It was established and concluded that quick ratio has a significant effect on financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. Despite the importance of quick assets, which is ease of converting to cash within a short period; having too much of it can be detrimental to the financial performance of firms. The study therefore recommends that holding of quick assets should be done with caution by firms. Holding of quick assets should be done in view of underlying short-term liabilities since excessive levels lead to declining financial performance.

The recommendations emphasize caution in holding quick assets, advocating for a balance that avoids excessive levels which could lead to declining financial performance. These conclusions and recommendations are grounded in thorough empirical analysis, making them both credible and highly relevant for stakeholders in the agricultural sector, aiming to enhance financial performance amidst dynamic economic conditions.

5.1 Contribution to Knowledge

Overall, the study is a valuable addition to the literature on financial management, providing a well-researched and thoughtfully analyzed perspective on the importance of liquidity management in the agricultural sector, particularly in the context of the Nairobi Securities Exchange. The detailed presentation of data analysis, including mean, standard deviation, and

regression results, adds a layer of clarity and depth to the research, making it a valuable contribution to the field of financial management in the agricultural sector. The study successfully establishes that the quick ratio, a key liquidity metric, significantly influences the financial performance of agricultural firms listed at the Nairobi Securities Exchange, Kenya. The empirical findings provide a deeper view of the relationship between quick ratio and financial performance, highlighting the delicate balance firms must strike in managing their liquidity. The discovery that an increase in the quick ratio correlates with a decrease in financial performance is an important contribution to existing literature, providing a counterpoint to the often-assumed positive relationship between liquidity and financial performance. Hence, the conclusion of the study that a higher quick ratio can negatively impact financial performance is particularly enlightening, challenging conventional perceptions about liquidity management.

This finding is particularly relevant for practitioners and policymakers in the agricultural sector, offering them a fresh perspective on liquidity management, suggesting a more nuanced approach to managing quick assets in relation to short- term liabilities. The alignment of these findings with previous research in different contexts, as noted in the empirical review, not only validates the results of the study but also positions it within a broader, global discourse on liquidity management and financial performance. Furthermore, the conclusions and recommendations of the study are both practical and insightful, emphasizing the need for agricultural firms to manage their quick assets judiciously.

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