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Liquidity management and financial performance of consumer goods firms in Nigeria

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Abstract

This research aims to study how managing liquidity affects the financial position of consumer goods companies in Nigeria. Using an ex-post-facto design, the study gathered data from secondary sources to examine the correlation between various factors. The population of the study consists of twenty-one consumer goods firms listed on the Nigerian Exchange Group (NGX) from which thirteen of them were selected as samples. Data covering eight years (2015-2022) from the annual financial statements were analyzed through multiple regression analysis. The outcomes indicated that while the current ratio didn't significantly influence the financial performance of these firms ($p < 0.720$), the cash conversion cycle showed a positive but insignificant effect ($p < 0.705$). Conversely, the quick/acid test ratio demonstrated a significant effect on the financial performance of the listed firms ($p > 0.002$). The study therefore recommends that managers and owners of consumer goods companies in Nigeria should consider the risk-return trade-off between liquidity, represented by current assets, and profitability, as depicted by returns on equity, when making decisions.

Keywords: Current ratio, Financial performance, Liquidity, Management, Return on equity

1. Introduction

The need for liquidity management has become a critical topic of discussion in field of accounting and finance due to its profound impact on an organization's performance and financial stability. Lack of adequate liquidity management not only poses a threat to a company's survival but also leaves it vulnerable to bankruptcy. When banks suspends overdraft credit and creditors demand instant payment on supplies, businesses faces significant challenges if it cannot quickly convert current assets into cash (Christopoulos et al., 2020). The adequacy of managing liabilities and assets is a top priority for all companies, regardless of whether they are financial or non-financial entities. Liquidity can be likened to the circulation of blood in the human body; just as a lack of blood weakens the system, poor liquidity weakens corporations. Proper liquidity management in a firm ensures the availability of funds for investments, allowing the company to withstand liquidation threats and avoid selling assets at distressed prices (Effiong & Enya, 2020). Consequently, the efficient administration of a firm's resources becomes a crucial aspect of its development and success. The liquidity of a firm portrays the amount of money that is available to meet its immediate obligations and for investment. A liquid business possesses sufficient liquid assets, including cash holdings, and has the capacity to quickly raise resources from other ventures to meet payment obligations and financial commitments promptly (Eke & Jinjiri 2022). Maintaining this liquidity balance is vital for the seamless functioning of the firm and the overall value it creates for stakeholders.

In the context of consumer goods firms, liquidity management assumes even greater importance. These firms significantly contribute to consumer living standards, economic expansion, and the creation of value chains. However, without effective liquidity management, any sector or industry, including consumer goods, risks becoming obsolete in the competitive business environment and global financial challenges (Effiong & Enya, 2020). Management of liquidity involves two key aspects: the capacity to satisfy short-term commitments by using available cash and current assets, and the ability to swiftly convert assets into cash when needed (Bordeleau & Graham 2019). Hence, companies must strike a balance between liquidity and profitability. This is due to the fact that holding liquid assets may enhance profitability, excessive holdings can have adverse effects on a firm's profitability (Akenga, 2017; Orshi, 2016). So, a precise business policy and conventional procedures for monitoring, measuring, and managing liquidity assets are imperative for achieving both liquidity and financial performance objectives.

This study seeks to examine the nexus between liquidity management and performance in consumer goods firms, with a specific focus on listed companies in Nigeria. The research article aims to reexamine traditional techniques and explore new approaches to liquidity management decision-making processes. By analyzing the annual financial statements of

firms in the consumer goods sector in Nigeria, the study will x-ray the nature of the connection between managing liquidity and financial performance. To be able to accomplish the objectives, the study will use various financial ratios such as acid test ratio, current ratio, and cash conversion cycle, to measure liquidity, while the dependent variable, financial performance, will be represented by Return on equity (ROE). In summary, this research project will contribute to a deeper understanding of liquidity management's impact on the performance of firms in the consumer goods sector, providing valuable insights for managers and stakeholders in the Nigerian business landscape.

2. Background of the study

The impetus for this research project stems from several compelling reasons: The critical role played by consumer goods firms in shaping economic policies, especially in Nigeria, a nation grappling with numerous economic challenges, underscores the significance of this research. The consumer goods sector in Nigeria has faced significant challenges during the COVID-19 era, and the rise in the price of fuel in Nigeria further complicated the whole situation, particularly the period from 2015 to 2022. Furthermore, the outbreak terrifically brought about serious economic loss for many businesses across the world (Dane et al., 2021). This has presented challenges for various segments of society, with consumer goods firms particularly impacted. As the backbone of Nigeria's economy, these firms contribute significantly to employment generation, economic diversification, and poverty reduction. However, the COVID-19 era, and the rise in fuel prices, particularly the period from 2015 to 2022 have led to a noticeable increase in operational costs, especially transportation expenses, which is vital for the procurement and distribution of goods and services. As a result of this, profits have been slashed, reputations have been damaged, management has been blindsided and firms have been lost out or being distressed. Based on this, the need to reexamine the influence of managing liquidity on the financial performance of businesses trading in the consumer goods segment in Nigeria Exchange Ltd has become imperative.

Consequently, a number of studies such as Adekanmi et al. (2022), Alhassan and Islam (2021), Terseer et al. (2020), and Sathyamoorthi et al. (2020) among others investigate the association between Liquidity management and financial performance. However, these studies have not given adequate attention to the consumer goods sector rather the focus has been on other sectors like banks, food and beverage, and oil and gas, and considering the very important role of consumer goods sectors makes this study imperative. While very few empirical studies such as Eke and Jinjiri (2022), Chabbal and Ibrahim (2022), and Effiong and Enya (2020) focus on the Consumer goods sector in Nigeria, despite these studies, the measure of financial performance were Returns on Asset (ROA), Returns on capital employed (ROCE) and Earnings per shares (EPS) were adopted leaving out an important measure Return on Equity (ROE). Hence, this study intends to fill the existing gap in knowledge by investigating the nexus between liquidity management and financial performance using return on equity (ROE) as a proxy for firms' financial performance for the period of eight years spanning from 2015-2022. The major focus of this article is to investigate the correlation between managing liquidity and the financial performance of consumer goods firms in Nigeria between 2015 and 2022. In particular, the article intends to:

- i. Examine the effect of the current ratio on the financial performance of the consumer goods sector quoted in the Nigerian Exchange.
- ii. Evaluate the effect of the quick ratio on the financial performance of consumer goods businesses listed in Nigeria.
- iii. Determine the impact of the cash conversion cycle on the financial performance of the consumer goods sector in Nigeria.

3. Literature review

Basically, the review focuses on conceptual review, theoretical review and empirical review in order to review relevant concepts, theories and previous studies on the subject matter.

3.1. Concept of financial performance

Firm performance refers to the extent to which a company conducts its operations to achieve its goals and objectives. Financial performance, on the other hand, is a subjective evaluation of how effectually and efficiently a business utilizes its resources to create additional resources. It is typically demonstrated by the completion of tasks by the business and its workers. Moreover, firm performance encompasses the quality of the accomplished responsibilities at the end of a defined business period, which is evaluated against predetermined objectives. However, financial performance is best understood within the framework of the economic concept of profit maximization for firms (Nworie & Mba, 2022). Therefore, financial performance serves as a measure of a firm's ability to leverage assets from its core operations and generate revenue.

3.2. Concept of liquidity management

Liquidity management is crucial for all organizations as it pertains to their ability to efficiently convert current assets into cash. Cash holds significant importance in any institution as it ensures the sustainability of business operations (Patjoshi, 2016). Conversely, in the banking sector, liquidity refers to a bank's capability to generate funds that can cover its obligations as they become due (Onyekwelu et al., 2018). Effective management of working capital within an organization facilitates the maintenance of liquidity, thus enabling smooth daily operations and the timely fulfillment of business commitments without hindrance (Ibe, 2013). According to Dalgaard (2009), liquidity denotes the ease at which assets or securities can be marketed without impacting their price. A liquid asset is recognized by high trading activity and plays a vital role in financial market functionality. Market liquidity ensures that asset holders can sell their holdings at prices

without incurring significant losses, enabling them to secure the necessary funds to meet other obligations. Liquidity, by implication, is associated with various ratios such as the current ratio and the liquid ratio derived from balance sheet analysis, as well as the operating cash flow ratio derived from cash flow analysis. Bolek and Wolski (2012) explain that an organization's ability to meet its short-term liabilities is assessed through different financial ratios, allowing the firm to manage its debt and offer extended payment terms to clients. Liquidity challenges can adversely affect a bank's earnings and capital. Previous studies by Lyndon and Paymaster (2016), and Syed (2015) define liquidity as a business's capability to meet its instant financial obligations conveniently.

3.3. Empirical review

3.3.1. Current ratio and return on equity

In the study conducted in 2023, Wardah et al. (2023) explored the relationships between variables using the SEM-PLS method. The study opted for this method because it is suitable for small sample sizes and can handle non-normal distributions well. In SEM-PLS, path analysis assesses how dependent variables influence independent ones. The analysis was done using Smart PLS version 4.0. Path significance was determined using standard estimates, where a P value of ≤ 0.1 , corresponding to a 10% error rate, was considered significant. The results revealed that there was no significant correlation between 'DER' and 'ROE', as indicated by a p-value > 0.1 . On the other hand, 'Current Ratio' (CR) displayed a positive correlation with 'ROE', with a low p-value of 0.005, supporting the initial hypothesis. To sum up, while 'DER' did not show a significant impact, 'CR' emerged as a meaningful predictor of 'ROE' due to its positive significance. These outcomes enhance our understanding of the financial dynamics in this particular context.

Muhamad and Yayang (2022) investigated the influence of various factors, namely Current Ratio (CR), Net Profit Margin (NPM), Debt to Equity Ratio (DER), and Total Asset Turnover (TAT), on Return on Equity (ROE). Their research methodology involved proportional sampling based on specific criteria: (1) Selecting manufacturing firms whose shares are listed on the JSX with financial statements for the years ending December 31 2005-2009, accessible through ICMD and annual reports. (2) Ensuring that such companies remained listed during the period of the observation. (3) ROE, CR, DER, TAT, and NPM are clearly stated in the account. (4) Ensuring data availability throughout the observation period. Based on these, a total number of 51 samples out of 205 companies in the manufacturing sector over the five-year period. After excluding 26 outliers with extreme data, the final sample size totaled 229 over the five years. Analysis was done using multiple linear regression using least squares, hypothesis testing with partial t-tests and simultaneous F-tests at a 5% significance level, and adjusted R-square tests. The findings revealed that DER, CR, TAT, and NPM positively impacted the ROE of manufacturing companies listed on the JSX during the 2005-2009 period, each with a significance level of 5% (each 0.000%). All four independent variables—DER, CR, TAT, and NPM—significantly influenced ROE at a 5% significance level of 0.000%. The adjusted R-square indicated a predictability of 97.9% for the four variables on ROE.

3.3.2. Quick ratio and return on equity

Lufiyandi and Justina (2023) conducted an examination into the effects of Quick Ratio, Debt to Equity Ratio, Firm Size, and the influence of COVID-19 on Return on Equity within companies operating in the tourism, restaurant, and hotel sectors listed on the Indonesia Stock Exchange (IDX). They employed purposive sampling, resulting in a sample size of 27 companies. Quantitative data were gathered from annual reports accessible on the Indonesia Stock Exchange's official website, and analysis was performed using descriptive statistics and panel data regression techniques. Their findings indicated that: Quick Ratio displayed a positive impact on Return on Equity, but the effect was not statistically significant; Debt to Equity Ratio exhibited a negative and significant effect on Return on Equity; Firm Size demonstrated a positive influence on Return on Equity, but it was not statistically significant; COVID-19 had a negative and statistically significant impact on Return on Equity.

In another study, Lanemey et al. (2022) explore how the quick ratio enhances the profitability of companies in the manufacturing sector in Indonesia. Basically, three parameters ROA, NPM, and ROE were used to gauge profitability. Various variable were introduced as control variables such as company size, fluctuations in net operating profit, growth in sales, gross domestic product growth, and leverage. Analysis was carried out on data from 158 manufacturing firms, drawn from accounting information released between 2012 and 2016 using regression. The outcome shows a positive correlation between the quick ratio and NPM as well as ROA among manufacturing firms, although no such relationship was observed with ROE.

3.3.3. Cash conversion cycle and return on equity

Doğan and Kevser (2020) debated Keynes's theory that firms demand cash for transactional, precautionary, and speculative purposes. The study revealed that both return on assets (ROA) and return on equity (ROE) were affected. They acknowledged a significant adverse correlation between CCC and both ROA and ROE. In addition, it was also observed that a positive relation between ROA and company size exist while noticing a negative and significant correlation between the debt ratio (DEBT) and ROA. The study analyses data using the correlation coefficient for data collected from companies operating in the BIST industrial index for the period of 11 years (2008-2018).

Nguyen and Sundaresan (2018) in their own study observed the nexus between the cash conversion cycle and profitability in Thailand's agriculture and food sectors. Their aim was to examine how different cycles—production, cash collection, and cash payment—affect profitability, while also considering control variables such as company size and

debt ratios. Using data obtained from 34 publicly quoted companies in the agriculture and food industry on the Stock Exchange of Thailand spanning from 2009 to 2013, they employed Pearson’s correlation and regression analysis. The results indicated a noteworthy negative relation between the cash conversion cycle (CCC) and profitability among Thailand's agriculture and food companies. Moreover, they found that the production cycle and debt ratio were inversely associated with return on assets (ROA), while the payment cycle and company size were positively correlated with return on equity (ROE). Though, they did not discover a significant relationship between the cash collection cycle and profitability.

3.4. Theoretical framework

One of the underpinning theories of this study was the Tradeoff theory, which is from the work of economists Modigliani and Miller in the 1950s. The theory states that companies struggle to attain an optimum liquidity level to balance the pros and cons associated with cash holding. The costs of holding cash include the opportunity cost of not investing the cash in other assets, as well as potential tax implications. However, holding cash provides dual advantages. Firstly, it reduces transaction costs associated with raising funds, as firms do not need to sell assets to meet payment obligations. Secondly, it enables firms to utilize current assets to finance operations and investments when other investment options are limited or undervalued.

According to the theory, firms with high leverage face increased costs associated with servicing debt, which can impact profitability and hinder their ability to access funds from alternative sources (Jensen, 1986). This concept elucidates the differences in capital structures observed across industries. However, it does not explain the reasons behind the decrease in debt ratios among profitable companies within the same industry. The Tradeoff theory clarifies why profitable firms often leverage significant tax benefits and rely more heavily on debt financing.

4. Research methods

This investigation employed an ex-post facto methodology. This method is adopted based on the aim of this article which is to evaluate the influence of the management of liquidity on the financial performance of companies. The ex-post facto design, otherwise known as causal-comparative research, is used because the event under this study has already taken place and the data are already in existence. According to Osuala (2010), this design is suitable and favored in a cause-effect relationship where there is existing data as it allows researchers to examine the existing data for possible links between the variables. The study population comprises all twenty-one (21) consumer goods firms with regional, national, and international authorizations Included on the Nigerian Exchange Group (NGX) roster as of December 31st, 2022.

For any consumer goods firm to be included as sample of a study, it must be quoted on Nigerian Exchange Group. Therefore, using a judgmental sampling techniques method, a sample of thirteen (13) firm in consumer goods sector were selected out of the (21) firm in the sector in the Nigerian Exchange Group Ltd as of December 2022. Judgmental sampling was applied to hand-pick sample on the bases of data availability for the period under study and year of listing and such firms must remain on the Exchange listing throughout the periods of the study. The data used for this research was mined from audited corporate financial statements and annual reports of the thirteen (13) selected consumer goods firms submitted to the Nigerian Stock Exchange Fact Book, covering an operating period of eight (8) years from (2015 to 2022). For the purpose of this study, the dependent variable is the financial performance proxy by Return on Equity while the independent variable is the liquidity management proxy by Cash conversion cycle, Current ratio, and Quick ratio.

Table 1: Measurement of variables

Variables	Nature of Variable	Measurement of Variables	Source
Return on equity (ROE)	Dependent	Net income divided by Total Equity	. Li (2020)
Current ratio (CR)	Independent	Current assets are divided by current liabilities.	Garba (2020)
Quick ratio (QR)	Independent	Current assets less inventory divided by current liabilities	Effiong and Enya (2020)
Cash conversion cycle (CCC)	Independent	Inventory collection period plus debtors’ collection period less creditors’ payment period.	Ugwu et al (2021)

Source: Compiled by the researcher

4.1. Model specification

The multiple regression model that examines the combined effect of current ratio, acid test ratio, and cash conversion cycle on return on equity listed consumer goods listed in Nigeria. The model is specified below:

$$ROE_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 QR_{it} + \beta_3 CCC_{it} + \epsilon_{it}$$

Where:

ROE = Return on equity
 CR = Current ratio
 QR= Quick ratio
 CCC = Cash conversion cycle
 β_0 is the regression intercept (constant)
 $\beta_1 - \beta_4$ = Coefficient of independent variables.
 i = Individual firms
 t = Time i.e. (2015-2022)
 it = Sectorial comparison

ε = error terms. The error term account for other possible factors that could influence Return on equity (ROE) that are not captured in the model.

5. Data analysis

Prior to the analysis, pre-estimation tests were conducted to check for whether or not the data series are normally distributed and also check against harmful multicollinearity among the selected variables of the study. To test for the existence of multicollinearity amid the independent variables, the Variance Inflation Factor (VIF) test was employed. Variance Inflation Factors (VIFs) were employed to identify collinearity, also known as multicollinearity, among predictors in a multiple linear regression model.

Table 2: Multicollinearity Test Table

	VIF	1/VIF
CR	1.01	0.986074
QR	1.04	0.963337
CCC	1.03	0.971882
Mean VIF	1.03	

Source: STATA Output Version 15.0

The result showed the average VIF of 1.03 which suggests that there is absence of multicollinearity amongst the manipulated variables of the study based on the test parameter of a value less than 10.

Descriptive Statistic

Table 3: Summary of Descriptive Statistics

Variables	Obs.	Minimum	Maximum	Mean	Std. Deviation
ROE	104	-18.3654	24.5151	11.0288	5.61918
CR	104	.0359	2.9960	1.3096	.7991
QR	104	.1908	2.1387	.8398	.4604
CCC	104	-94.0047	97.4168	31.8217	38.1298

Source: STATA Output version 15.0

From Table 3, the return on equity is having a mean value of 11.0288; this represents the average return on equity of the sampled quoted consumer goods for the period of study which is around 11.03%. The table also revealed that the minimum and maximum return on equity were -18.37% and 24.52% respectively; this represents the lowest value observed on the data, indicating both negative and positive returns for the observations. ROE has a standard deviation of 5.62 which is below the mean. This situation implies that there is a low variation in the distribution of return on equity among the studied consumer goods firms.

Similarly, it can be observed from Table 3 that the current ratio has a least value of 0.359 and the highest of 2.99. This result implies that some of the firm’s current ratios are below the recommended 2:1 while some companies are in excess of the recommended industry standard ratio of 2:1. In both cases, it is not healthy for the firms. The table also reveals that the mean of the current ratio is 1.31, which implies that on the average, the current ratio of the studied firms is approximately 2:1 which indicates a fair liquidity level. The standard deviation of 0.7991 is below the mean and it implies a low variation in the distribution of liquidity among the sampled firms.

From Table 3 also, it can be observed that the quick ratio has the lowest and highest of 0.1908 and 2.1387 correspondingly. The result suggests that some of the firm’s quick ratio are below the recommended 1:1 while some companies had in excess of the recommended industry standard ratio of 1:1, signifying that some entities have a relatively low quick ratio while some have a relatively high ratio demonstrating both a strong and weak potential to cover current liabilities to the most liquid assets. The quick ratio also has a mean of 0.8398, this means on average, the firms have 0.84 to cover their current liabilities excluding inventory. Also, the standard deviation of 0.4604 indicating that most of the sampled firms are within the same range of quick ratio in terms of return on equity.

Lastly, it can be observed from Table 3 that the cash conversion cycle has a minimum of -94.0 and a maximum of 97.42. This result implies that some of the firms are able to collect revenue from sales before settling their suppliers, while

Liquidity management and financial performance of consumer goods firms in Nigeria

some companies have relatively long cash conversion cycles, indicating a favorable position for cash flow but also signaling inefficiencies in managing working capital and turning inventory into cash. The table also reveals that the mean of the cash conversion cycle is 31.82 days, implying that on average, it takes a firm 31.82 days to convert investment in inventory to cash flows from sales. The standard deviation of 38.1298 is above the mean and it implies a high variation in the distribution of cash conversion cycle among the sampled firms.

Correlation matrix

Correlation describes the statistical association between more than one variable for predicting relationships between them. The coefficient of correlation ranges from -1 to +1. The sign of the value explains the nature of the relationship. Higher values indicate a strong relationship while lower values indicate a weak relationship. The coefficients of the correlation on the diagonal are 1.0000, which implies that each of the variables perfectly correlates with itself.

Table 4: Correlation matrix

	ROE	CR	QR	CCC
ROE	1.0000			
CR	-0.1100	1.0000		
QR	0.7873	-0.1105	1.000	
CCC	0.1520	-0.0588	0.1626	1.000

Source: STATA Output Version 15.0 at 5% level of significance.

Table 4 reveals that the correlation coefficient between the current ratio and return on equity is -0.1100, which shows a negative and weak link between the two variables. Furthermore, Table 5.3 shows the coefficient of correlation between quick ratio and return on equity (ROE) is 0.7873. The result implies there is a positive and strong correlation between the two variables. Similarly, Table 4 shows that the correlation coefficient among CCC and ROE is 0.1520. This result implies that there is a positive and weak nexus between CCC and ROE of consumer goods firms listed in Nigeria.

Regression results

This article used multiple regression analysis in order to draw inferences and test the hypotheses stated in the study.

Table 5: Summary of Regression Results

FRT	Coefficients	T-value	P-value
CR	-.1567069	-0.36	0.720
QR	9.531846	12.45	0.000
CCC	.0034909	0.38	0.705
Constant	3.117803	3.16	0.002

R² = 0.6209
 Adj R² = 0.6209
 Prob > F = 0.000

Source: STATA Output Version 15.0

Table 5 above indicates the summary of the regression model. From the Table, the R² value is 0.6209; this implies that about 62.09% of the variations in the outcome was explained by the collective effects of the causal variables incorporated in the research model while the remaining 37.91% could be attributed to other factors not captured in the model. The probability value of 0.000 indicates that the model is fit to investigate the impact of liquidity on performance consumer goods sector in Nigeria Exchange.

From Table 5 it can be observed that current ratio has a coefficient of regression of -0.1567, a z-value of -0.36 and p-value of 0.720. The negative coefficient entails that for any increase in current ratio by one unit, return on equity is expected to decrease by -0.1567 and vice versa. The 0.720 significance value indicates a negative and insignificant relationship between current ratio and return on equity of listed consumer goods firms in Nigeria.

Similarly, the Table reveals a quick ratio with a regression coefficient of 9.5318, a z-value of 12.45 and a p-value of 0.000. This result depicts a significant and positive effect of quick ratio on return on equity such that if the quick ratio level is increased by one unit, the return on equity is expected to increase by 9.5318 and vice versa.

Lastly, it can be seen from Table 5.4 that the cash conversion cycle has a significantly positive effect on the return on equity of the studied consumer goods in Nigeria ($\beta = 0.0035$, $z = 0.38$, $p = 0.705$). The positive coefficient implies that return on equity is expected to increase by 0.0035 should the cash conversion cycle be increased by 1 unit and vice versa.

The p-value of 0.705 indicates that cash conversion has a positive insignificant statistical influence on the return on equity of the studied consumer goods firms in Nigeria.

6. Findings and Discussion

For the current ratio and return on equity, the regression coefficient amid current ratio and return on equity is -0.3033 , with a t-value of -1.33 and a p-value of 0.186 which displays a negative and insignificant correlation between the current ratio and return on equity of listed consumer goods firms in Nigeria. This illustrates that an increase in a current ratio by one unit will result in decrease in return on equity by 0.3033 and vice versa. Several factors could potentially explain this unexpected relationship. One possibility is that consumer goods firms with a higher current ratio may be holding excessive levels of non-productive or low-yield current assets, such as excess cash or idle inventory, which could be dragging down their return on equity. In such cases, a bloated current ratio may reflect inefficiencies in managing working capital and suboptimal asset utilization, ultimately leading to lower profitability and returns on equity. This finding is in line with the outcome of Qahfi and Defi (2021) and Yeti (2022) but contrary to the outcomes of Lusy et al (2018) who established a positive significant relationship.

For quick ratio and return on equity, the regression coefficient between quick ratio and return on equity is 9.5318 , with a t-value of 12.45 and a p-value of 0.000 which shows a positive and significant relationship between quick ratio and return on equity of listed consumer goods firms in Nigeria. This illustrates that an increase in quick ratio by one unit will result in an increase in return on equity by 9.5318 and vice versa. One possible explanation for this relationship is a significant quick ratio, which demonstrates a company's capacity to fulfill immediate financial obligations using its most readily available assets, suggests a reduced likelihood of encountering financial difficulties, and an increased ability to seize business opportunities. This, in turn, may contribute to improved return on equity as the firm is better positioned to enhance profitability and sustain business growth. The conclusion of this study is in conformity with the outcomes of Widia (2021) but contrary to the findings of Aniyah et al. (2020) and Lanemey (2022) who found a positive but insignificant relationship. This is findings is also similar to Sani and Inyang (2024) who they discovered lack of adequate liquidity (liquidity risk) results in low financial performance in the banking sector.

For CCC and ROE, the regression coefficient between the current cycle and return on equity is 0.0035 , a t-value of 0.38 and a p-value of 0.705 which indicate a positive as well as insignificant link between CCC and ROE of listed consumer goods firms in Nigeria. This illustrates that an increase in the cash conversion cycle by one unit will result in an increase in return on equity by 0.0035 and vice versa. The fact that there exists a positive but insignificant nexus between the cash conversion cycle and return on equity suggests that while a longer cash conversion cycle may not significantly impact the returns on equity, there is still a positive relationship between the two variables. Several factors might contribute to this positive yet insignificant relationship. For consumer goods firms, a longer cash conversion cycle could be reflective of their strategic approach to inventory management and sales terms with customers. For example, a longer cash conversion cycle might be a deliberate choice to offer more extended credit terms to customers in order to increase sales and market share, even if it means a longer wait for cash inflows. In such cases, the positive relationship could indicate that a longer cash conversion cycle supports higher sales and revenue generation, even if it does not directly translate into significantly higher returns on equity. The result of this study is in conformity with the outcomes of but contrary to the findings of Nguhen and Sundaresan (2018) but contradicts the findings of Muhammed (2018) who found a positive significant relationship.

7. Contributions of the study

This study has contributed to the body of knowledge by establishing the relationship between liquidity management and financial performance of the consumer goods sector in Nigeria thereby opening up what has been examined in other sectors to this very important sector of the economy. Sequel to the results presented above, the study found a negatively insignificant impact of the current ratio on the return on equity of the consumer goods sector in Nigeria. Hence it is concluded that firms that are holding more cash and cash equivalents specifically non-productive or low-yield current assets are bound to perform less as compared to companies with more tangible assets than cash and cash equivalents.

Also, it was established that a significant positive effect of quick ratio on Return on Equity of listed consumer goods firms in Nigeria. This indicates a low risk of financial problem and an increased ability to seize business opportunities.

8. Implication of the study

This study implies that some consumer goods firms with higher current ratio may be holding excessive levels of non-productive or low-yield current assets, such as excess cash or idle inventory, which could be dragging down their return on equity. In such cases, a bloated current ratio may reflect inefficiencies in managing working capital and suboptimal asset utilization, ultimately leading to lower profitability and returns on equity.

9. Conclusions and Recommendations

Based on the findings of the study, it conclude that quick ratio is a key predictor of return on equity of consumer goods firms listed in Nigeria. Furthermore, the findings provided evidence that the cash conversion cycle has a positive insignificant effect on return on equity of the studied firms. This indicate that a longer cash conversion cycle is supporting higher sales and revenue generation, even if it does not directly translate into significantly higher returns on equity. Hence, it is concluded that cash conversion cycle is not a key predictor of return on equity of consumer goods sector in Nigeria

Sequel to the above findings, the following recommendations were made:

- i. Consumer goods firms in Nigeria need to recognize the trade-off between liquidity, depicted by current assets, and profitability, represented by returns on equity. Maintaining a high level of liquidity may lead to reduced profitability, while prioritizing profitability may require sacrificing liquidity and holding lower levels of current assets. Therefore, it's crucial for these firms to strike a balance between the two extremes.
- ii. This study revealed that the Quick ratio positively impacts financial performance. Consequently, consumer goods firms listed in Nigeria should adopt a credit policy aimed at minimizing unnecessary inventory accumulation. Additionally, implementing an inventory management strategy focused on reducing stock investment and maximizing profitability is recommended.
- iii. Financial managers often grapple with liquidity management issues, underscoring the importance of effectively managing the cash conversion cycle to optimize returns on investment. Despite its limited positive effect, reversing this impact on listed consumer goods firms in Nigeria can significantly enhance their financial performance.

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