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EFFECT OF LIQUIDITY MANAGEMENT ON THE FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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Abstract

Insolvency and bankruptcy have been the bane of many consumer goods companies CGCs due to frequent challenges such as slow inventory turnover, inefficient collection processes, and poor trade credit policies in consumer goods companies which have been negatively impacting cash flow, liquidity management, and customer payment behavior, thus resulting in bad debt and financial crisis. This research investigates the effects of liquidity management on the financial performance of listed consumer goods companies (CGCs) employing an ex-post-facto research design. All 21 listed consumer goods companies make up the population; fifteen of these were specifically selected using a judgmental sampling technique for reasons based on their capital bases, their readiness of data for ten years (2014–2023), and their listing on the NGX. Secondary data were used to analyze the financial accounts of the listed consumer goods companies. The panel OLS was the data analysis technique employed. The results revealed that liquidity management significantly affects ROA ($p = 0.000000$) and ROE ($p = 0.000000$) at a 1% significant level. The study concluded that liquidity management has a significant effect on consumer goods sectors in Nigeria. Therefore, it recommended that consumer goods companies invest in strategies that can increase profitability without significantly compromising liquidity.

Keywords: Financial performance, Liquidity management

JEL Code: G32, M21

INTRODUCTION

Every company desires to be effective and achieve the goals of the business. The primary aim of any business is to maximize shareholders' wealth by achieving high profits. A key measure of the financial performance of a company is its capacity to fulfill all short-term obligations while generating substantial profits. Higher profits indicate superior company performance, reflecting effective management and financial health. The more a company's performance improves, the more it attracts investors to (Ola, 2023). One of the ways for consumer goods companies (CGCs) to perform is through proper liquidity management. Efficient liquidity management is essential for maximizing financial performance in the consumer products industry. In recent periods, illiquidity has been a concern for listed consumer goods firms since it can result in insolvency, and lead to bankruptcy and the liquidation of CGCs in Nigeria because of poor liquidity management. The persistent liquidity problems encountered by listed consumer goods companies in Nigeria, negatively affect their financial performance. In Nigeria, CGCs have faced considerable pressure from economic volatility and inflation.

As of mid-2023, the sector's GDP growth rate was 3.2%, which reflects both potential and significant challenges for profitability (NBS, 2023). Despite the sector's potential for growth, these companies face challenges in managing cash flow due to external economic factors, such as a 17% inflation rate reported by the NBS in mid-2023, as well as internal operational inefficiencies such as delayed receivables, slow inventory turnover, illiquidity and limited financing options (Olabisi et al., 2019) which lead to a high rate of bad debt write-offs and other financial difficulties, lackluster credit risk assessment, and ineffective cash flow management. Companies that grant and receive credit often face difficulties settling their bills due to overtrading and excessive inventory, leading to potential liquidation and asset quality issues. The report highlighted that 62% of executives see liquidity as a major concern, further complicated by supply chain disruptions and rising input costs (Deloitte, 2022). Insufficient liquidity might result in lost opportunities and heightened financial strain, further exacerbating these challenges, resulting in bad debt and a decline in overall financial performance, insolvency, and bankruptcy.

The demise of companies lead to job cuts, reduction in the standard of living, increased poverty, reduction in government revenue, economic instability, insecurity of lives and properties (Fidelis & Umoffong, 2020), lack of infrastructure, poor healthcare, and economic under-development. Addressing these issues can help businesses balance liquidity management, contributing to economic growth and minimizing the risk of bad debt and cash flow crises. Studies conducted on liquidity management and financial performance have most empirical studies on ROA with few on ROE like (Adekanmi et al., 2022; Alhassan & Islam, 2021; Akintola et al., 2021; Chabbal & Umar, 2022; Effiong & Enya, 2020; Eze & Agu, 2020; Mustafa et al., 2019; Nworie & Ofoje, 2021; Nugi et al., 2020; Sani et al., 2021; Wuave et al., 2020; Yameen et al., 2019). However, no consensus has been reached.

The study focuses on listed consumer goods companies (CGCs) because they effectively represent the industry's financial management practices and provide easily accessible financial data for analysis. Given the sector's significant role in Nigeria's economy, the findings are expected to have a meaningful impact. The aim is to analyze the effect of liquidity management on the financial performance of listed CGCs in Nigeria. The findings could improve financial management procedures, sustainability, and policy decisions for CGCs expansion in Nigeria. Performance stands as the cornerstone and vitality of any organizational presence. Furthermore, Performance is in two categories; non-financial performance and financial performance. For the aims of this study financial performance is necessary for thorough investigation and correct presentation of the research issue.

Research Hypotheses

Based on the above objectives, the following hypotheses are expressed to guide the outcome of the study.

- i Ho₁: Liquidity Management has no significant effect on the return on assets of listed CGCs in Nigeria.
- ii Ho₂: Liquidity has no significant effect on the return on equity of listed CGCs in Nigeria.

LITERATURE REVIEW

Conceptual Review of the Study

Financial Performance

Financial performance is a critical pointer of a company's achievement and sustainability. It reflects the overall health of a business's finances over a given timeframe. It is assessed by analyzing how effectively the company generates revenue from its assets and core business operations. It is a comprehensive term that incorporates numerous aspects of a company's financial health, including profitability, efficiency, liquidity, and solvency (Ross et al., 2019). According to Nugi et al. (2020), financial performance describes a company's financial status during a specific time frame, encompassing aspects of fundraising and allocation of funds. One of the most peculiar tasks of financial managers is to maximize shareholder wealth by determining the greatest combination of financial and human resources to maximize the worth of the company by selecting an area to invest their funds (Olaoye et al., 2020). Strong financial performance indicates efficient resource management and benefits the national economy. Key metrics like profitability and liquidity help stakeholders evaluate past and current economic conditions (Olowookere et al., 2021). Effective financial performance is essential for companies to achieve their strategy objectives, attract investors, and maintain competitiveness in the market. Profit is crucial for evaluating a business's short-term viability, but it should not overshadow wealth maximization. Profitability ratios assess the company's effectiveness and viability, providing stakeholders with informed decision-making (Alhassan & Islam, 2021). Shareholders view performance in terms of profits generated, and this study focuses on financial performance using key metrics like ROA and ROE (Efuntade & Akinola, 2020).

Return of Assets

Return on Assets is a performance measure used to evaluate a company's ability to make revenue from its assets. ROA should demonstrate a profit margin rather than a loss. ROA measures how well assets are managed. It reflects a company's earnings with its total assets, indicating how effectively a business turns the investments into net income (Choiriyah et al., 2020). It is essential for survival, growth, and economic stability, and can be improved through asset utilization and cost management. The formula is $ROA = \text{Net Profit after tax} / \text{Average Total Assets}$ (Okerekeoti, 2021). However, investors and analysts should be aware that ROA does not account for outstanding liabilities and may overstate profit levels. Positive ROA ratios indicate rising profit trends, while a declining ROA suggests overinvestment in unprofitable assets (Okerekeoti, 2021). Efficient asset utilization is a better approach to achieving high ROA than simply increasing profit margins.

Return on Equity

Return on Equity is a strategic measure used for evaluating a company's profitability and efficiency in creating returns for its shareholders (owners). Also known as owner's equity, ROE measures the profitability of shareholders' investments in the firm. The primary aim of every business is to pursue earnings and maximise wealth for the owners. When a company's equity returns are greater than its equity cost, shareholder value is generated. High ROE is preferred by shareholders as it indicates effective utilization of their capital (Sunaryo, 2022).

It measures the profit generated from shareholders' investments and reflects the success in managing equity capital for net income. A higher ROE suggests efficient use of equity, attracting more investors and indicating positive financial health. ROE also accounts for the impact of

company debt, highlighting management's success in maximizing shareholder returns (Sunaryo, 2022). ROE is computed as (Net Profit after tax divided by Shareholders' Equity) x 100% (Okerekeoti, 2021).

Liquidity Management

Liquidity is the capacity of the organization to fulfill all commitments when they become due. A company's obligations may encompass the payment of daily operating expenses, contingencies, catastrophes, or unforeseen. It plays a vital role in the effective operation of a business. Liquidity management refers to an organization's capacity to efficiently convert its current assets into cash and sustain a steady cash flow. Cash is a more liquid asset in a company than fixed assets. Profit is not the same as cash. Profits may not always be reported, yet cash is required daily. Profits are ineffective without money. Cash is more crucial than profit in the short term, even though it is expected that profit and cash flow will roughly equalize over time. According to Ndimele (2024), "Long-term, profit is king. An unprofitable company with cash will survive longer than one that is profitable but lacks it. Every day, bills are paid with cash rather than net revenue". To efficiently meet obligations, businesses need to retain a part of their total liquid assets in cash. Inflation affects cash, but it can reduce portfolio risk (Mustapha et al., 2019). Good liquidity management is crucial to prevent insolvency and bankruptcy. Liquid companies maintain a good image with customers and creditors. Liquidity ratios, including current and acid test ratios (Sani et al., 2023).

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay its short-term obligations using its current assets (Akenga, 2017; Brigham & Houston 2020). It estimates a business's capacity to pay back overdue loans and accounts payable using assets, including cash, marketable securities, inventories, and accounts receivable (Sani et al. 2023). A higher ratio indicates better financial health, while a ratio below 1 suggests a company's liabilities exceed its assets (Sajiyya et al., 2023). The high ratio could be a sign of poor asset management or ineffective utilization of assets. (Appah et al., 2021). A low Current Ratio (CR) indicates effective use of current assets, while a high CR can negatively impact profit and require companies to maintain liquidity (Waskito et al., 2022). It is calculated by dividing the company's current assets by its current liabilities. (Mustafa et al., 2019; Olaoye, 2020; (Brigham & Houston 2020)). Since a lower current ratio indicates that a company's assets are being used to expand the business, investors generally prefer it.

Acid Test Ratio

A financial metric called the acid test ratio (ATR) is the ability of a business to satisfy short-term obligations with its most liquid assets to assess its liquidity. It is sometimes referred to as the quick ratio (Ola, 2023). ATR is a reliable indicator for short-term liquidity, evaluating a firm's capability to settle temporary loans. ATR indicates that businesses prioritize cash over fixed assets, as it can be quickly converted into cash. Lower ratios indicate increased liquidity risk due to reliance on inventory. ATR of 1 shows that, the company can pay off current creditors immediately, indicating short-term solvency and overall financial health. The computation involves deducting inventory from current assets and dividing the result by current liabilities. (Adekanmi et al., 2022).

Theoretical Review

This research reviews the following theories Trade-off theory, Transaction (or Operational) Theory, and Pecking order Theory.

Trade-off theory

Modigliani and Miller (1958) introduced the trade-off idea. The Modigliani-Miller Theorem, which Modigliani and Miller established in 1963, is credited with helping to establish the trade-off theory (Li et al., 2020) by emphasizing the tax benefits of obligation and the trade-offs related to capital structure choices. Myron Gordon explored taxes' effects on capital structure decisions, while Michael Jensen emphasized the role of debt in mitigating agency costs. The trade-off theory suggests that businesses can reduce expenses of debt financing by deducting interest expenses from income and recognizing expenses from financial hardships. It suggests businesses should balance the advantages of debt with disadvantages like opportunity costs and inflation risk. To manage liquidity risk and financial crisis expenses, firms may maintain credit lines and cash reserves. Despite criticisms, the theory remains the dominant corporate capital structure theory (Uchechi, 2022).

The trade-off theory emphasizes the importance of liquidity management in enhancing financial performance by urging firms to find an optimal liquidity level that balances short-term cash needs with the pursuit of higher returns. This balance helps mitigate risks linked to both excessive liquidity, which can diminish returns, and insufficient liquidity, which can cause financial distress. By managing liquidity effectively, companies can seize investment opportunities, meet short-term obligations, and build stakeholder confidence, ultimately improving their financial stability and performance for long-term success.

The Transactions Costs Theory

Ronald Coase propounded the Transaction Cost Theory in 1937 as a means of explaining why companies exist. According to his theory, there are expenses associated with transactions made through market mechanisms, especially those related to finding exchange partners and creating and upholding contracts. Later, it was contributed by Oliver Williamson in the 1975 and 1980s and examines economic and organizational decision-making. Oliver Hart (1979) made contributions to the theory of the firm. Critics argue that the Transaction Cost of Economics (TCE) ignores differential capabilities, power relations, trust, and evolutionary considerations (Richardson 1972). However, TCE remains a thriving industry (Henricks, 2020). This theory proposes businesses reduce transaction costs through seeking, negotiating, and monitoring, improving liquidity management, efficiency, and financial performance.

Pecking Order Theory

The Pecking Order Theory (POT) was proposed by Donaldson in 1961 and later, in 1984 Myers and Majluf revised it. According to theory, businesses would rather use internal finance like retained earnings, debt, and stock financing due to knowledge asymmetry and signaling expenses than external borrowing to avoid revealing sensitive information and incurring unfavorable selection costs. Businesses often finance new projects with internal funds, with more profitable ones opting for external financing (Myers & Majluf 1984). Critics argue it oversimplifies financing decisions, may not apply to all industries, and may neglect financial constraints and managerial financing costs (Jensen & Meckling, 1976).

Empirical Review

Liquidity and Return on Asset

Waqar et al. (2019) examined the effect of liquidity and profitability of automobile firms in Pakistan. The quick, cash, and current ratios were used to evaluate the liquidity. Panel data from twelve automakers that were listed on PSX over five years (2013 to 2017) are used in the study. The analysis concludes that ROA is positively impacted by liquidity (as measured by the Acid test ratio). Contrarily, ROA, and liquidity (cash and current ratios) have a negative relationship. It was noted, although, that there are methodological and contextual flaws, such as the little study time and the restricted geographic scope (only Pakistan). Additionally, there is no integration of theoretical frameworks, no comparison with other businesses or nations, and the model specification is not stated.

Yameen, et al., (2019) carried out a study on the Impact of Liquidity on Firms' Performance: Empirical Investigation from Indian Pharmaceutical Companies between 2008 to 2017. A balanced panel of 82 pharmaceutical companies' data across ten years is used for the analysis. The findings showed the profitability of pharmaceutical firms was positively and significantly impacted by the current liquidity ratio and quick ratio as evaluated by return on assets, but the profitability of pharmaceutical companies was negatively impacted by control variables including leverage, firm size, and age. Furthermore, there is no comparison with other companies or countries, nor is there any integration of theoretical frameworks (such as agency theory, stakeholder theory, and trade-off theory).

Ahmad et al. (2021) studied the impact of liquidity and solvency management on the financial performance of Jordanian manufacturing companies listed on the Amman Stock Exchange from 2010 to 2019. The findings indicated that liquidity has a negative and insignificant effect on ROA. The study has several limitations, including a need for further research on specific manufacturing sectors and a failure to consider external factors like global events or regulatory changes. It also did not measure financial performance using ROE and lacks theoretical frameworks and comparisons with other sectors or countries, reducing its comprehensiveness and applicability. Nworie and Ofoje (2021) conducted the effect of liquidity on Nigerian listed food and beverage companies' financial performance between 2012 and 2021. A study design employed was ex post facto. The study only investigated on return of assets and findings showed that the ROA of Nigerian food and beverage companies that were listed was not significantly improved.

Adekanmi et al., (2022) carried out a study on the effect of liquidity management on the financial performance of listed foods and beverage companies in Nigeria between 2010 and 2019. This study was conducted on food and beverages in Nigeria. This study used an ex post facto research design. There were twenty-one food and beverage companies in the study's population, and there were eight in the sample. The findings indicated that the ROA of listed food and beverage companies in Nigeria has a significant effect on liquidity management. The study fails to integrate theoretical frameworks like agency theory, stakeholder theory, and trade-off theory. It also does not analyze the impact of external factors—such as global events, regulatory changes, or economic downturns—on the relationship between liquidity management and financial performance in the food and beverage industry.

Oyewunmi, A. A. (2024). Effect of liquidity management on the financial performance of listed consumer goods companies in Nigeria. *Malete Journal of Accounting and Finance*, 5 (1), 62-77

Chabbal and Umar (2022) investigated the relationship between liquidity management and profitability in Nigerian consumer goods companies listed on stock exchanges from 2012 to 2019, using return on assets (ROA) as the sole measure of profitability. They utilized secondary data and conducted panel data regression analysis in STATA, focusing on independent variables such as tangibility, liquidity, and long-term liability. The results indicated that effective liquidity management could increase ROA for these companies by nearly 58%, suggesting a positive impact on business performance. However, the study lacks integration of theoretical frameworks like agency theory, stakeholder theory, and trade-off theory.

Sani et al., (2023) examined liquidity management and financial performance of insurance companies that are listed in Nigeria. The research used a descriptive inquiry design. Twenty (20) insurance companies listed on the Nigerian Exchange (NGX) Group as of September 30, 2021, between 2014 and 2019, made up the study's population. The methodology gaps are limited sample size (only insurance companies listed in Nigeria) and a short study period that is seven (7) Nigerian insurance and assurance companies comprise the study's sample size. The results showed that a firm's liquidity significantly impacted ROA.

Liquidity and Return on Equity

Eze and Agu (2020) investigated liquidity management and performance of deposit money banks in Nigeria between 2013 and 2019. The study was on the banking industry and no result in correlation analysis. An ex-post facto design was employed to analyse the result. The results showed the relationships between liquidity and current ratio and return on equity were statistically insignificantly negative. Wuave et al. (2020) examined the effect of liquidity management on the financial performance of banks in Nigeria. The research was conducted between 2010 and 2018. The research utilizes secondary data from five banks that are listed on the stock exchange of Nigeria. The Hausman test and panel regression analysis are used in the study to estimate the model and select between the fixed effect and random effect models. According to the study, the liquidity ratio (LQR) significantly and favorably affects DMB's financial performance as determined by ROE.

Imronudin et al. (2022) analysed the effect of liquidity and capital structure, company growth, and size on the firm value of manufacturing companies listed on the Indonesia Stock Exchange for the year 2020. The study adopted secondary data and the sample size was 150 companies. The result demonstrated that liquidity does not have a significant effect on ROE. However, there was no integration of theoretical frameworks.

Theoretical Framework

The trade-off theory assumed relationship between liquidity management, and financial performance. It is relevant to this study and was used to anchor the study. It emphasizes the need for businesses to balance conflicting objectives regarding liquid assets. While maintaining cash can reduce bankruptcy risk, excessive liquidity may lead to underutilization of assets. The theory suggests there is an optimal level of liquidity that maximizes financial performance, allowing firms to mitigate risks associated with both too much and too little liquidity. The theory further indicates that there is an optimal liquidity level that maximizes financial performance. Firms that effectively manage their liquidity can avoid the risks linked to both excessive and insufficient liquidity. Effective liquidity management allows companies to invest in profitable opportunities, meet their

financial obligations, and minimize risks, ultimately leading to improved financial performance. In conclusion, the trade-off theory highlights the necessity of achieving a balance in liquidity management to enhance financial performance. By sustaining an appropriate level of liquidity, firms can protect their operational capabilities while also capitalizing on growth opportunities, resulting in better financial results. This framework establishes a clear predictive relationship that can inform both empirical research and practical strategies in financial management.

METHODOLOGY

This study adopted an *ex post facto* research design which also known as “after the fact research. The study’s population comprises twenty-one (21) listed CGCs trading on the floor of the NGX Group, covering the periods of 2014 to 2023. A consumer goods company is a business that manufactures and sells items for home or individual use, including technology, food, drink, household supplies, and baby items. Judgmental sample method was used in this research based on the following: the capital base, those that are listed on the NGX, as well as those that are readily available and consistently included in the financial statements from 2014 to 2023, with no year being skipped were chosen for this study and their listing on the NGX. There are 21 CGCs listed on NGX, of which fifteen (15) comprised the study's sample size. The 71 percent of the population covered the sample size of this study. The time frame for this investigation spans 10 years, from 2014 to 2023.

Table 1 Sample of the Study

S/N	Listed consumer goods companies for sample size	S/N	Listed consumer goods companies for sample size
1	BUA Food Plc	9	International Brewery Plc
2	Cadbury Nigeria Plc	10	Vita Foam Nig. Plc
3	Champion Brewery Plc	11	Nigeria Flour Mills
4	Dangote Sugar Refinery Plc	12	Nestle Nigeria Plc
5	Flour Mills Nigeria Plc	13	Nigerian Breweries Plc
6	PZ Cussons Nig. Plc.	14	Unilever Nigeria Plc
7	Guinness Nigeria Plc	15	NASCON Allied Industries Plc
8	Honeywell Flour Mills Plc		

Source: Generated by the researcher from Nigerian Exchange Group (NGX)

The study made use of secondary data from Nigerian listed firms audited financial statements and income statements to calculate their ROA and ROE, current assets, and current liabilities using a quantitative approach. This study utilized E-View statistical software and secondary data for descriptive and inferential statistics. Descriptive statistics provided information on the variables' mean, median, and standard deviation. Inferential statistics measured the correlation coefficient and used panel Least Square regression analysis to predict changes in one variable's value.

Model specification

This study adapted model from the work of Sani et al, (2023). In the model current ratio and the acid test ratio were used to evaluate the study's independent variable, liquidity management, while

return on equity (ROE) and return on assets (ROA) served as proxies for the dependent variable, financial performance.

The functional model is presented thus:

$$Y = f(x) \text{-----Eq. (3.6.1)}$$

3.6.1 Econometrically:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \epsilon_{it} \text{-----Eq. (3.6.2)}$$

$$ROA_{it} = \alpha_0 + \alpha_1 CTR_{it} + \alpha_2 ATR_{it} + \epsilon_{it} \text{----- (i)}$$

$$ROE_{it} = \alpha_0 + \alpha_1 CTR_{it} + \alpha_2 ATR_{it} + \epsilon_{it} \text{----- (iii)}$$

To study the potential interaction between liquidity management on financial performance the research considers this specification.

Where: ROA= Return on asset; ROE= Return on equity; CCC =Cash Conversion Cycle;

RTR = Receivable Turnover Ratio; PTR = Payment Turnover Ratio; CTR= Current Ratio; ATR= Acid Test Ratio; α_{4it} = co-efficient of CTR; α_{5it} =co-efficient of ATR; ϵ_{it} = Error term

RESULTS AND DISCUSSIONS

Descriptive Statistics Results

Table 1: Result of the Summary Statistics

	CTR	ATR	ROA	ROE
Mean	1.113645	0.722518	0.046360	0.104196
Median	1.016421	0.671759	0.040170	0.092522
Maximum	2.880813	2.457554	0.264935	0.505399
Minimum	0.380527	0.050847	-0.300952	-0.679839
Std. Dev.	0.518158	0.442947	0.087259	0.198600
Skewness	1.191913	1.345860	-0.332545	-0.692790
Kurtosis	4.533441	5.330731	4.479282	4.870859
Jarque-Bera	50.21295	79.23542	16.44139	33.87465
Probability	0.000000	0.000000	0.000269	0.000000
Sum	167.0467	108.3777	6.953981	15.62942
Sum Sq. Dev.	40.00469	29.23405	1.134513	5.876834
Observations	150	150	150	150

Source: Researcher's computation (2024) Using E-Views 13

Table 1 shows the overview of the data used in this study. The minimum, mean, median, maximum, standard deviation, skewness, kurtosis, and Jarque bera statistics were briefly analyzed in this study. The results showed that on average ROA and ROE are 4.64% and 10.42% within the period and CTR signifies that, consumer goods companies have slightly more current assets than current liabilities, implying financial stability. Concerns have been raised about these consumer products businesses' capacity to meet short-term obligations without excessively depending on inventories, as evidenced by their mean ATR of 0.722518, which is below the optimal criterion of 1.

Correlation Matrix

Table 2 displays the relationship between liquidity management, and consumer products firm performance.

Tale 2: Result of the Correlation Matrix

Probability	CTR	ATR	ROA	ROE
CTR	1.000000			
ATR	0.829180	1.000000		
ROA	-0.018838	0.041244	1.000000	
ROE	-0.032166	0.020844	0.857784	1.000000

Source: Researcher's computation (2024) using E-Views 13

The CTR demonstrates a highly significant positive relationship with the acid test ratio (ATR) at 0.829180, significant at the 1% level. The current ratio and profitability measures show weak and statistically insignificant relationships, with relationships of -0.018838 and -0.032166 with ROA and ROE, respectively. The acid test ratio (ATR) shows a positive but insignificant relationship with both ROA at 0.041244 and ROE at 0.020844. This indicates that between the ATR and financial performance, there is little correlation, suggesting that a higher acid test ratio does not necessarily lead to increased profitability. ROA demonstrates a robust positive relationship with ROE at 0.857784, 1% level of significance, indicating that increased ROA is strongly associated with higher ROE. In the model it was review that the result shows no existence of multicollinearity.

Table 3 Hausman Test for Hypothesis One is as follows;

ROA Model	
Chi-Sq Statistics	7.868235
Prob	0.0478

Source: Research's computation, 2024

The outcome in the above table reveals a (Chi-Sq) of 0.0478(7.868235) < 0.05 which is statistically significant. The FE model is adopted.

Table 4 Hausman Test for Hypothesis two

ROE Model	
Chi-Sq Statistics	7.143492
Prob	0.0445

The findings in table 4 above displays a prob (Chi-Sq) of 0.0445(7.143492) < 0.05 which is statistically significant. The FE model is adopted.

Hypothesis One

Table 5: Regression Result of Hypothesis one using the Fixed Effect

Ho₁ Liquidity management has no significant effect on return on asset of consumer goods companies in Nigeria

Variable	Coefficient	t-Statistics	Probability
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CTR	-0.011996	-0.437281	0.6626
ATR	0.005015	0.166388	0.8681
C	0.056096***	3.082705	0.0025
R²	0.377709		
Adj R²	0.302847		
F Stat (Prob)(3, 147)	0.000000***		
Durbin Watson Stat	1.879028		

Source: Researcher's computation 2024

Based on the FE model (Tables 3 and 5) to investigate the effect of liquidity management on the return on assets (ROA) of CGCs, the results of hypothesis one show that CTR negatively effects ROA of CGCs in Nigeria ($\beta_1 = -0.011996$) but not statistically significant $p = 0.6626 > 0.05$. The negative coefficient indicates that as CTR increases, ROA decreases, but the effect is minimal, suggesting that the company's financial performance is not significantly influenced by its liquidity position. Furthermore, the acid test ratio shows a positive effect on ROA ($\beta_2 = 0.005015$). This indicates that a 1% rise in consumer goods companies' ATR will result in a 0.005015 increase in ROA. The statistical significance of the beneficial effect of ATR on ROA is not supported by the p-value, which indicates $0.8681 < 0.05$. Nonetheless, the overall regression using the Prob (F statistics) indicates 0.000000*** which means, the ROA of the CGCs in Nigeria is significantly impacted by liquidity, rejecting the assertion of hypothesis one. The R² value of 0.377709, indicates that fluctuations in CTR and ATR account for approximately 38% of ROA, the remaining 62% being accounted for by variables not included in this model. The Adjusted R², on the other hand, is 0.302847. Approximately 30.28% of the variation in the dependent variable is explained by the independent variable model. The remaining 69.72% of the variation is unexplained. The model can predict approximately 30% of the variation in the dependent variable, indicating moderate predictive ability. There's room for improvement, as 69.72% of the variation remains unexplained. The Durbin-Watson statistic is 1.879028, which is closer to 2. Therefore, the model shows no signs of autocorrelation between the independent variables.

Hypothesis two

H₀₂: Liquidity management has no significant effect on return on equity of consumer goods companies in Nigeria

Table 6: Regression Result of Hypothesis two Using the Fixed Effect

Variable	Coefficient	t-Statistics	Prob
CTR	0.014531	0.238090	0.8122
ATR	-0.025439	-0.379407	0.7050
C	0.106394	2.628129	0.0096
R²	0.405433		
Adj R²	0.333907		
F Stat (Prob) (3, 147)	0.000000***	Significant	
Durbin Watson Stat	1.804368	No Auto-correlation	

Source: Author's computation 2024

Based on the result of hypothesis two using the FE model (Table 4 and 6) to determine the effect of liquidity management on ROE of CGCs in Nigeria, it showed that CTR has a positive effect on ROE of consumer goods companies in Nigeria ($\beta_1 = 0.014531$) but not statistically significant $p = 0.8122 > 0.05$. Hence an increase in CTR will cause ROE to increase by 0.014531. The study revealed that a company's liquidity management, as measured by CTR, does not significantly impact its financial performance, as indicated by a positive coefficient. Furthermore, acid test ratio shows a negative effect on ROE ($\beta_2 = -0.025439$). This means that 1% increase in ATR will result in -0.025439 decrease in ROE. But the p-value is $0.7050 > 0.05$, indicating that there is no statistically significant relationship between ATR's negative impact on ROE. Therefore, it is not statistically significant to use CTR or ATR to explain the relationship between liquidity and financial performance of CGCs in Nigeria.

The Prob (F statistics) 0.000000***results indicate that liquidity significantly impacts the ROE of CGCs, rejecting the assertion of hypothesis two. The R^2 value of 0.405433 confirms that about 40.5% of ROE is accounted for by variations in CTR and ATR whereas other variables not included in the model account for 59.5%. However, the adjusted R^2 shows 0.333907 which is 33.4%. Approximately 33.4% of the variation in the dependent variable is explained by the independent variable model. The remaining 66.6% of the variation is unexplained. The model can predict approximately 33% of the variation in the dependent variable, indicating moderate predictive ability. There's room for improvement, as 66.6% of the variation remains unexplained. The Durbin-Watson statistic is 1.804368, which means, the model shows no signs of autocorrelation between the independent variables.

Discussion of Findings

Hypothesis one demonstrates that a company's ROA is negatively impacted by the current ratio, implying that high liquidity levels may reflect unused resources or conservative financial measures. In contrast, the ATR, a stricter measure of liquidity, had a modestly favorable effect on return on assets. This outcome aligns with the trade-off theory, which postulates that unusually high liquidity levels may be a sign of underutilized resources or conservative financial practices, both of which have the potential to restrict profitability without providing equivalent benefits. The liquidity ratio has a positive and significant effect on the ROA of Nigeria listed consumer goods companies. The results of Adekanmi et al. (2022), Chabbal and Umar (2022), Mustafa (2021), Sani et al. (2023) and Yameen et al., (2019) indicating liquidity management significantly impacts on a company's profitability provide support for this study. In contrast, this outcome is in conflict with the report of Ahmad et al., (2021); and Nworie and Ofoje (2021).

The result in hypothesis two shows that ROE is positively, although not significantly, impacted by CTR. It would seem from this that stronger liquidity, as indicated by higher current ratios, does not significantly enhance consumer goods companies' financial performance in terms of equity returns. Conversely, findings of the ROE are negatively impacted by the acid test ratio, but the effect is statistically small. While maintaining high liquidity might be seen as advantageous for stakeholder reassurance and operational stability, it does not always drive higher financial performance metrics like ROE. This result highlights a complex view in contrast to hypothesis one, where the current ratio had a negative, insignificant effect on ROA. This aligns with the trade-off approach, which maintains that while liquidity is crucial, excessive liquidity could indicate

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underutilized resources, which would not materially improve financial performance. The outcome indicates that liquidity ratio possesses a positive significant effect on ROE, and this is consistent with the investigation conducted by Wuave et al. (2020), which investigated the effect of liquidity management on the financial performance of banks in Nigeria. However, the findings of Eze & Agu (2021) and Imronudin et al. (2020) are in conflict with this outcome.

CONCLUSION AND RECOMMENDATION

The study concludes that liquidity management has positive significant effect on the ROA and ROE of listed CGCs in Nigeria. The study posits that consumer goods companies should invest in areas that increase profitability without affecting liquidity, and regularly check liquidity ratios. To balance profitability and liquidity, businesses should implement dynamic financial rules, adjust loan terms based on market conditions, and consult financial specialists for informed investment decisions and performance monitoring. Companies should implement just-in-time inventory systems, manage receivables efficiently, and negotiate extended conditions of payment with suppliers to maximize cash flow and maintain a healthy ATR. This will reduce excess stock, improve liquidity, and accelerate collection processes, while avoiding late fees.

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