

FINANCIAL PERFORMANCE INDICATORS AND PROFITABILITY: A STUDY OF NIGERIAN CONSUMER GOODS FIRMS

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Abstract: This study used panel data approach to investigate the impact of current on profitability of consumer goods manufacturing firms listed on the Nigeria Exchange Group. It specifically examined the effect of Current Ratio on Return on Assets (ROA) and Return on Equity (ROE). The research was anchored on the Liquidity Preference Theory, proposed by Keynes in 1930, which suggests that investors prefer cash or other highly liquid holdings. A quantitative, longitudinal research design was adopted. Purposive sampling techniques was employed to select Nestlé Nigeria Plc, Dangote Sugar Plc, Bua Foods PLC, and Unilever Plc as samples used for the study. Data were collected from 2016 to 2023 and were analyzed using descriptive statistics correlation and regression analysis, with the aid of Eviews analytical software. The findings indicate that the Current Ratio positively influences ROE. The study recommends that firms prioritize maintaining a strong Current Ratio.

Keywords: Current Ratio, Return on Assets, Return on Equity, Nigeria Exchange Group

1.0 INTRODUCTION

In Nigeria, the Consumer goods manufacturing firms play very significant roles in the economy, necessitating an in-depth understanding of how liquidity management influences their financial performance. Hence, given their peculiar nature and significance to the economy, understanding the interplay between their liquidity management and financial performance will be quite essential for policymakers, investors, and corporate managers. Further, since they are majorly affected other environmental or economic challenges, including fluctuating exchange rates, inflation, and inconsistent power supply, which affect production costs and profitability (Ademola & Adebayo, 2022); management of such firms are expected to ensure effective liquidity management to be able to withstand financial pressures and maintain operational stability.

In particular, current ratio monitoring (which is a critical aspect of liquidity management), is essential to managers of consumer goods manufacturing sector. This is because their ability to meet short-term obligations is vital for the sustenance of their operations as well as achievement of long-term profitability (Nangih, 2023). The current ratio measures a firm's capability to meet up its current obligations with its current assets. A higher current ratio indicates a stronger liquidity position, implying that the firm can easily meet its current obligations (Duru & Nyseboame, 2022). A high current ratio indicates a strong liquidity position, suggesting that the firm can easily meet its short-term obligations without facing financial distress (Duru & Nyseboame, 2022). Conversely, a very high CR might indicate inefficiency in using current assets, potentially leading to lower returns on investment.

This paper attempts to explore the effect of sound current ratio management on profitability of consumer goods manufacturing firms in Nigeria.

1.2 Statement of the Problem

The effect of liquidity management on firm performance has been a subject of extensive research. Nangih, Obuah and Kumah (2020) argued that proper management of liquidity is sine qua non for effective management of the firm liquidity. Previous studies have shown mixed results, with some indicating a positive and significant relationship between efficient liquidity management and enhanced financial performance (Agyemang & Agyei-Mensah, 2021), while others suggest a minimal or negative relationship (Fapohunda & Falana, 2021). Additionally, there seems to be no prior studies that have investigated the effect of current ratio (as a proxy of liquidity management) of profitability of listed firms in Nigeria. If they so exist, they are relatively scanty, considering the importance of the subject matter to firms survival and growth. This study addresses that gap by investigating the extent to which variations in current affects return on assets (ROA) and return on equity (ROE) in these firms. In particular, this study aims to fill the gap in the existing literature. Specifically, the following research questions are expected to be answered at the end of the study;

1. To what extent does current ratio affect return on assets (ROA) among consumer goods manufacturing firms listed on the Nigerian Exchange Group?
2. To what extent does current ratio influence the return on equity of consumer goods manufacturing firms listed on the Nigerian Exchange Group?

Over all, it is believed that this study will offer substantial contributions to various stakeholders such as academics, accountants, financial managers, and the government by providing insights that can form policy decisions aimed at improving the regulatory framework and supporting the growth of the consumer goods manufacturing sector. Further, this research is expected to foster a deeper understanding of financial dynamics within the Nigerian Exchange Group, promoting sustainable growth and development across multiple sectors.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Concept of Current Ratio (CR) - The current ratio is also a critical indicator for investors and creditors. It provides insights into a company's ability to meet its obligations, influencing credit decisions and investment evaluations. Companies with strong current ratios are generally perceived as lower risk, making them more attractive to lenders and investors (Chukwuemeka & Chukwuma, 2023). It is computed by dividing total current assets by the total current liabilities. A higher current ratio indicates a stronger liquidity position, suggesting that the firm can comfortably cover its short-term obligations, while a lower ratio may signal potential liquidity issues (Duru & Nyseboame, 2022). A current ratio of 1 or higher is generally considered acceptable, indicating that the company has at least as many assets as liabilities. However, the ideal current ratio can vary by industry and specific business circumstances. For example, firms in industries with quick inventory turnover might operate efficiently with lower current ratios, while those in sectors with longer cash conversion cycles might require higher ratios to ensure adequate liquidity (Osagie & Omole, 2023). While a high current ratio is often seen as a sign of good liquidity, an excessively high ratio may indicate inefficiency in asset utilization. Companies with very high current ratios might be holding too much inventory or have excessive receivables, which could be better utilized for investment or debt reduction (Ademola & Adebayo, 2022). Therefore, it is essential to strike a balance that ensures liquidity without compromising operational efficiency.

2.1.2 Concept of Profitability- Profitability is a measure of financial performance that indicates how well firms use their resources to generate revenues and profits over a specific period. It encompasses how efficient, and effective the management puts to use the firm's financial and nonfinancial resources to achieve financial goals (Osagie & Omole, 2023). In this study, profitability is measured using return on assets (ROA) and return on equity (ROE). These are discussed below;

2.1.3 Concept of Return on Assets (ROA) - Return on Assets (ROA) measures the ratio between operating profit and total assets. By focusing on optimizing ROA, consumer goods manufacturing firms can improve financial performance, strengthen profitability, and enhance overall business sustainability in a dynamic market environment. This metric provides insights into the effectiveness of management in generating profits from its investments in assets (Duru & Nyseboame, 2022). A higher ROA indicates that the company is generating more profit per dollar of assets, reflecting effective asset management and operational efficiency (Ademola & Adebayo, 2022). Conversely, a lower ROA may indicate inefficiencies in asset utilization or lower profitability relative to the size of the asset base.

Analyzing ROA over time helps management and investors evaluate the company's financial performance trends, identify areas for improvement, and make informed strategic decisions. For instance, improving ROA through enhanced operational efficiency, cost management, or strategic investments can enhance shareholder value and competitive advantage in the market (Chukwuemeka & Chukwuma, 2023).

2.1.4 Concept of Return on Equity (ROE) - Return on Equity (ROE) is a key performance metric that measures how effectively a company generates profits relative to shareholders' equity. By focusing on improving ROE, consumer goods manufacturing firms can enhance financial performance, attract investor confidence, and strengthen long-term competitiveness in the market. Analyzing ROE over time helps management and investors gauge the company's profitability trends, compare performance against industry peers, and assess management's effectiveness in creating shareholder value. Strategic initiatives to improve ROE may include enhancing operational efficiency, optimizing capital structure, or investing in high-return projects (Chukwuemeka & Chukwuma, 2023).

2.2 Theoretical Foundation

This study was anchored on the Liquidity Preference Theory. The Liquidity preference theory was developed in the 1930's by Keynes. In his book, Keynes presents liquidity preference theory there as a liquidity [preference] theory of interest, a theory that is supposed to fill the vacuum left by what he regarded as the flawed classical [savings] theory of interest., and rejected the notion that households and business want to hold a constant that, the income velocity of money depends on many complex variable factors Uchendu (2011). Liquidity preference theory suggests that investors prefer cash or other highly liquid holdings. It further holds that investments that are more liquid are easier to cash in at full value, thereby seeing cash as the most liquid asset of the firm.

Consumer goods manufacturing firms often face challenges related to managerial discretion in using company resources, including cash. Managers may prioritize personal goals or shortterm gains over long-term shareholder value maximization. By applying liquidity preference theory, firms can design incentive structures that encourage managers to adopt liquidity management strategies that enhance financial performance metrics such as ROA and ROE (Eisenhardt (1989).

The liquidity preference theory is relevant to this study because firms prefer to hold cash and other cash equivalents, as a priority, in order to meet their daily obligations as they occur. This is because, without adequate liquidity, the organization may be illiquid and in extreme cases go bankrupt, if not properly managed

2.3 Empirical Review

Almakura, Shiaki, Gambo and Muhammad (2024) investigated the influence of liquidity management on profitability of listed oil and gas firms. The study employed current ratio, quick ratio and cash employed as proxies of the independent variable, while return on capital was used as the measure of firm performance. The study adopted the ex-post facto research approach. The purposive sampling technique to collect secondary data. Data from the period of 2012 to 2021 were used for the study and was analyzed using descriptive statistics and regression analysis. Results showed that cash and quick ratios had insignificant and positive effect on firm performance.

Duru and Nyseboame (2022) investigated the association between current ratio (CR) and financial performance in Nigeria using the Consumer Goods sector as the study population. The study employed secondary data from annual financial statements over a five-year period. Employed correlation analysis and found a positive relationship between current and return on assets.

Indrati and Putri (2021) examined the effect of current ratio, net profit margin, debt equity ratio, return on equity, to financial distress in Indonesia. The study made use of 96 data points from a total of 24 firms in the Goods and Consumption Sector listed on the Indonesia Stock Exchange in 2016-2019. Data were sourced using the purposive sampling technique while analysis was carried out using the using multiple linear regression methods. Findings showed that current ratio had a significant influence in predicting financial distress in the company. In contrast, the results of the hypothesis test study partially showed that the current ratio, debtequity ratio, return on Equity had a significant influence. Favorable to financial distress

Nangih, Obuah and Kumah (2020) investigated the effect of current assets on stock performance. The study population was listed oil and gas firms in Nigeria. The study adopted the ex post facto research design. Purposive sampling technique was employed to select five (5) listed from the study population. Data were sourced from financial reports and was analyzed based on correlation and simple regression statistics. The study findings showed that receivables and inventory positively and significantly influenced stock prices while cash did not.

Dadepo and Afolabi (2020) examined the impact of liquidity management on financial performance of selected manufacturing firms in the Nigeria. Descriptive, correlation and multiple regression techniques were used to examine panel data acquired from annual reports of 10 representative enterprises for the period 2012-2016. Findings revealed that liquidity management proxied by current ratio, cash ratio, and quick ratio have a significant negative impact on financial performance proxied by return on assets while cash ratio and quick ratio had a positive but insignificant effect.

3.0 METHODOLOGY

The research design for this study is quantitative, utilizing a longitudinal approach to analyze the relationship between current ratio and profitability of listed firms in Nigeria. It employed data over the period from 2016 to 2023. The population of this study comprises all consumer goods manufacturing firms listed on the Nigeria Exchange Group during the specified period. The study adopted the Purposive sampling technique to select a

representative sample of consumer goods manufacturing firms from the population which include Dangote sugar, Nigeria Breweries, Guinness Nigeria and Flour Mill Plc, were selected for the study. Annual financial reports of the selected consumer goods manufacturing firms served as the secondary instruments for data collection. The simple regression technique was applied using the Econometric view (E-view) as the software for the analysis. The decision rule was to reject the null hypothesis if the p-value is less than 0.05, indicating a statistically significant effect of the independent variable on the dependent variable.

3.1 Measurement of Variables

Current Ratio (CR): The current ratio is calculated as the ratio of current assets to current liabilities. It measures the firm's ability to meet its short-term obligations with its short-term assets. A higher current ratio indicates better liquidity and financial health.

Return on Assets (ROA): ROA is a financial metric that measures a company's profitability by evaluating its ability to generate earnings from its assets. It is calculated as net income divided by average total assets. A higher ROA indicates better efficiency in utilizing assets to generate profits.

Return on Equity (ROE): ROE is a financial ratio that measures the return generated on shareholders' equity investment. It is calculated as net income divided by average shareholders' equity. A higher ROE signifies better profitability and efficiency in utilizing equity capital.

3.2 Model Specification

The dependent variables in this study, Return on Assets (ROA) and Return on Equity (ROE), are widely used indicators of firm profitability. ROA measures a firm's efficiency in generating profits from its assets, while ROE assesses the profitability relative to shareholders' equity. Both metrics are essential for investors and stakeholders to gauge the financial health and performance of a company (Osagie & Omole, 2023). The general equation for the model is:

$$Pf = \beta_0 + \beta_1(CR) + \epsilon$$

$$ROA = \beta_0 + \beta_1(Current\ Ratio) + \epsilon$$

$$ROE = \beta_0 + \beta_1(Current\ Ratio) + \epsilon$$

Where; Pf= Profitability

ROA= Return on asset ROE= Return on

Equity ϵ = error

4.0 ANALYSIS AND INTERPRETATION OF RESULT

4.1 Descriptive Statistics

This table presents the results of the descriptive statistics for the regression analysis, detailing the means, standard deviations, and other relevant statistics for each variable in the study. **Table 4.2.1 Descriptive Statistics**

	CR	ROA	ROE
Mean	1.011564	0.046858	0.128544
Median	1.032358	0.044718	0.115530
Maximum	2.194909	0.192909	1.628152
Minimum	0.387006	-0.119791	-0.880082
Std. Dev.	0.456513	0.064473	0.349708

Skewness	0.869066	-0.409000	1.721277
Kurtosis	3.804984	3.895904	13.68943
Jarque-Bera	4.892140	1.962359	168.1536
Probability	0.086633	0.374869	0.000000
Sum	32.37004	1.499461	4.113420
Sum Sq. Dev.	6.460536	0.128859	3.791165
Observations	32	32	32

Source: Researcher's Computation using Eviews.

The descriptive statistics reveal key financial metrics for the firms studied. The mean Return on Assets (ROA) is approximately 0.047 or 4.7%, while the mean Return on Equity (ROE) is 0.129 or 12.9%. The Current Ratio (CR) averages is 1.01. The standard deviation indicates a higher spread in the variables, indicating significant variability in these metrics. However, the kurtosis indicates some peakness, especially CR and ROE. The standard deviations, particularly in ROA and ROE, suggesting diverse profitability among firms. The Jarque-Bera statistics suggest that all the variables except ROE are normally distributed, given that their probabilities are all greater than 0.05.

4.3. Correlation Statistics

Correlation analysis enables the researcher to ascertain the nature of the relationship between any two variables.

The result of the correlation statistics is shown in table 4.3. **Table 4.3.1 Correlation Statistics**

	CR	ROA	ROE
CR	1.000000		
ROA	0.432032	1.000000	
ROE	0.007788	0.715146	1.000000

Source: Researcher's Computation using Eviews.

The correlation analysis shows significant relationships among the variables. ROA has a moderate positive correlation (0.4320) with the Current Ratio (CR), indicating that higher liquidity is associated with better asset efficiency. ROE shows a very weak positive correlation with CR (0.0078).

Table 4.3.2: Multiple Regression Test

Dependent Variable: ROA

Method: Panel Least Squares

Date: 09/03/24 Time: 16:05

Sample: 2016 2023

Periods included: 8

Cross-sections included: 4

Total panel (balanced) observations: 32

White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	0.082068	0.038910	2.109189	0.0447
C	-0.031019	0.042161	-0.735708	0.4685
R-squared	0.531761	Mean dependent var		0.046858
Adjusted R-squared	0.441715	S.D. dependent var		0.064473
S.E. of regression	0.048173	Akaike info criterion		-3.060672
Sum squared resid	0.060337	Schwarz criterion		-2.785846
Log likelihood	54.97074	Hannan-Quinn criter.		-2.969575
F-statistic	5.905435	Durbin-Watson stat		2.298478
Prob(F-statistic)	0.000895			

Source: Researcher's Computation using E-views

The multiple regression analysis indicates that 44.17% of the variations in ROA is determined by the variations in the explanatory variables, given the adjusted R^2 of 0.441715. The F-statistic of 5.905, which has a probability value of 0.0009 also indicate that the model has a good fit. On the other hand, the t-statistics indicate that the current ratio has a positive significant influence on the ROA, at 5% level of significance. Lastly, the Durbin Watson statistic of 2.298 suggests absence of serial correlation in the model estimate.

Table 4.3.2: Multiple Regression Test

Dependent Variable: ROE

Method: Panel EGLS (Cross-section weights)

Date: 09/03/24 Time: 16:07

Sample: 2016 2023

Periods included: 8

Cross-sections included: 4

Total panel (balanced) observations: 32

Linear estimation after one-step weighting matrix

White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	0.297362	0.120704	2.463567	0.0207

C	-0.160973	0.112098	-1.436009	0.1629
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R-squared	0.307332	Mean dependent var	0.142024
Adjusted R-squared	0.174127	S.D. dependent var	0.318746
S.E. of regression	0.290306	Sum squared resid	2.191215
F-statistic	2.307207	Durbin-Watson stat	1.756930
Prob(F-statistic)	0.073286		

Source: Researcher's Computation using E -views

The multiple regression analysis indicates that 17.41% of the variations in ROE is determined by the variations in the explanatory variables, given the adjusted R^2 of 0.174127. The F-statistic of 2.307, which has a probability value of 0.0733 also indicate that the model has a weak fit. On the other hand, the t-statistics indicate that the current ratio has a positive significant influence on the ROE, at 5% level of significance. Lastly, the Durbin Watson statistic of 1.757 suggests absence of serial correlation in the model estimate.

4.2 Discussion of Findings

The analysis reveals a significant positive relationship between the Current Ratio and Return on Assets (ROA), indicating that firms with higher liquidity effectively utilize their assets to enhance profitability, showcasing the importance of maintaining adequate liquidity. Similarly, the Current Ratio also has significant positive influence on the Return on Equity (ROE), suggesting that sufficient liquidity not only improves operational efficiency but also leads to better returns for shareholders, reinforcing the critical role of liquidity management in financial performance. They results above agrees with the findings of Duru and Nyseboame (2022). The result however was at variance with the study findings of Almakura, Shiaki, Gambo and Muhammad (2024).

5.0 FINDINGS AND RECOMMENDATIONS

The research examined the relationship between current ratio and profitability of consumer goods manufacturing firms listed on the Nigerian Exchange Group. Data was sourced from financial statements from 2016 to 2023 and analyzed using descriptive statistics, correlation and regression. The findings revealed a significant positive relationship between the Current Ratio and both Return on Assets (ROA) and Return on Equity (ROE). This indicates that firms with higher liquidity levels tend to perform better financially. In conclusion, the study underscores the importance of liquidity management, particularly the Current Ratio, in enhancing financial performance. Adequate liquidity is crucial for operational efficiency and profitability. Based on the findings, the following recommendations are proposed:

- i. Firms should prioritize maintaining a strong Current Ratio by implementing effective liquidity management strategies, ensuring that short-term obligations are met without compromising operational efficiency.
- ii. To enhance Return on Equity (ROE), management should focus on optimizing the Current Ratio while balancing it with investment opportunities that yield higher returns.

5.1 Limitations of the Study

The study was limited in a way. Its narrow focus on consumer goods manufacturing firms within a specific geographical context, limit the generalizability of the findings. Additionally, the reliance on secondary data from financial statements for a specific period (2013 to 2023) and for a sample of four out of the entire population of consumer goods manufacturing firms introduced biases and forms a major limiting factor of the study. Consequently, it is suggested that future research could expand the scope to include firms from other sectors and even beyond the Nigerian jurisdiction to enhance the generalizability of the findings.

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