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Effect of Current Asset Structure on Financial Performance of Non-Financial Firms Listed at Nairobi Securities Exchange

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Abstract

The effect of current asset structure on the financial performance on organizations cannot be underrated. This study focused on non-financial firms listed at the Nairobi Securities Exchange in Kenya. The study used a census survey which involved the consideration of the entire population of the study. The research study was anchored on trade-off theory, agency theory and pecking order theory. The research study generally followed a longitudinal research design. The positivism research philosophy was adopted in the study. The unit of analysis comprised the non-financial firms listed at the Kenyan NSE between years 2011 to 2020 with a focus on 30 non-financial listed companies. The study applied both descriptive statistics and multiple regression methods in analysing the data collected. The study established that current asset structure was significantly influencing the financial performance of listed nonfinancial firms in Kenya.

Keywords: Current Asset Structure, Non-Financial Firms, Nairobi Securities Exchange, Performance

Introduction

The asset structure of firms plays a critical role in adding value, making it a vital aspect of corporate governance, as it significantly influences firm performance (Khan, Muttakin & Siddiqui, 2013). Locally, scholars have articulated that asset structure influences firms' performances and that it is essential in every manager of an enterprise, owner, organizational management, scholars and policymakers (Haat, Zulkafi & Mat Zabi, 2010; Wamiori, Sakwa & Namusonge, 2016). Tanui, Omare and Omondi (2021) indicated that current asset and non-current structure asset structure have a strong positive impact on financial performance while the aspect of capital structure seemed to influence performance of firms negatively. A study by Okwo et al. (2012) revealed that fixed assets does not affect net profit significantly. Olatunji, et. al., (2014) found out that investment in fixed asset had strong and positive significant impact on profitability of a firm. Mawih (2014) realized that it was only petroleum sector where asset structure had impact on ROE while another firm did not have. Omwagwa and Mwaniki (2017) argued that financial performance of Kenyan commercial banks was significantly being influenced by long-term investments and tangible assets.

Literature Review

Listed firms in Kenya play a significant role in the country's economy, but poor financing decisions have led to the failure of many firms, creating challenges for researchers, business managers, and investors (Chisti, Ali & Sangmi, 2013). Since 2007, numerous manufacturing companies, supermarkets, and non-financial companies have faced financial distress, with several being suspended or delisted from the stock market due to their inability to meet financial obligations (Banafa, Muturi & Ngugi, 2015; CMA, 2019). Asset structure has been identified as a major contributing factor to this financial crisis, underscoring the importance of strategic asset management in maintaining financial stability (Gichana & Barako, 2021).

Research has shown that investment decisions, particularly in non-current assets, significantly impact firm performance, with varying effects depending on the industry and region (Berger & Smith, 2019; Smith & Kim, 2022; Saleh, Priyawan & Reftyawati, 2015). For instance, European and Middle Eastern firms emphasize asset composition as a key factor in financial strategy, while Pakistani firms prioritize asset structure to optimize production (Riyanto, 2013). Previous research has demonstrated that investing in non-current assets can significantly influence a company's profit margin. Lubyanayaa, Izmailova, Nikulinaa, and Shaposhnikov (2016) investigated the viability and asset management potential of non-current assets in Nigeria. They employed a deductive approach by sourcing information from electronically published articles, books, scientific communications, and periodicals, while the quantitative analysis approach was used to analyze the data. The results revealed weaknesses in accounting assessments that directly affect financial efficiency. Ubesie and Ogbonna (2013) conducted a study on the impact of non-current assets on profitability within Nigeria's cement manufacturing industry.

Research Method

This study applied longitudinal research design. It considered the adoption of positivism research philosophy. The study's unit of analysis was the non-financial firms listed on the Kenyan NSE. The study focused on 30 non-financial listed companies Given that this study comprised of a small population, the study employed use of census approach and relied on a duration of ten years ranging from 2011 to the year 2020. Data used was quantitative in nature which was obtained through use of a data collection form. Both descriptive statistics and multiple regression methods were applied in analysing the secondary data collected.

The research utilized secondary data from 2004 to 2013 and applied multiple regression to validate the hypotheses. The findings indicated that non-current assets had no substantial impact on asset profitability in Nigeria, although the independent variable, plant and machinery, did affect profitability, but not significantly. While this research focused on Nigeria's cement manufacturing sector, the current study examines all non-financial companies listed on Kenya's Nairobi Securities Exchange. Khalid (2012) explored the relationship between asset quality control proxies and profitability in Pakistan. The study, which covered the period from 2006 to 2011, used return on assets and profitability ratios as proxies for bank returns. The operating performance of the companies studied exhibited favorable financial ratios. A multiple regression model was employed to determine if there was a relationship between bank asset quality and operating performance. After controlling for the effects of operating scale and idle fund ratio, the findings revealed that a poor asset ratio negatively impacted banking operations.

Despite the extensive research on asset structure's impact on firm performance, the results remain mixed, especially in emerging markets (World Bank, 2014). Most previous studies relied on cross-sectional data from developed countries, highlighting the need for further investigation into the impact of asset structure on the financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE). This gap is what the current research seeks to address.

Research Objective

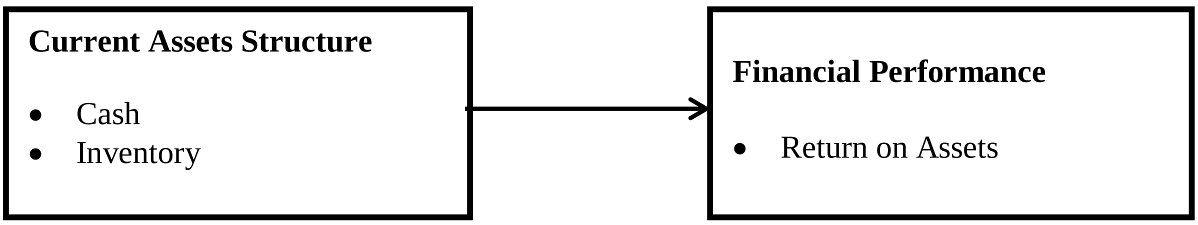
To evaluate the effect of current asset structure on the financial performance of non-financial firms listed at the NSE in Kenya.

Research Hypothesis

Ho$_1$: Current asset structure has no significant effect on the financial performance of non-financial firms listed at the NSE, Kenya.

Conceptual Framework

The framework has assumption that the relationship between current asset structure and financial performance is significant. Current assets like cash at bank or inventory held can impact a company's operational capacity and efficiency, thereby influencing its profitability. The study's independent variable was current asset structure whose measures focused on cash and inventory. In addition, the dependent variable is financial performance was measured through use of return on assets; shown as follows.



Results

The study present the results and for test of hypotheses and thereafter discussion of the findings.

Table 1: Current Asset Structure and Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.688[a]	.473	.471	.674256

a. Predictors: (Constant), Current Asset Structure

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	116.366	1	116.366	255.961	.000[b]
	Residual	129.567	285	.455		
	Total	245.933	286			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Current Asset Structure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.321	.236		14.057	.000	2.856	3.786
	Current Asset Structure	.695	.037	.698	15.999	.000	.504	.646

a. Dependent Variable: Return on Assets

The findings in Table 1 indicate a significant positive relationship between non-current asset structure and the financial performance of non-financial firms listed on the NSE, as measured by Return on Assets (ROA). This aligns with contemporary studies emphasizing the importance of tangible assets in driving firm performance. For instance, Lee and Park (2020) found that firms with higher investments in non-current assets, such as manufacturing equipment and real estate, achieve better operational efficiency and profitability. Similarly, Athar and Madhul (2013) reported a positive and significant link between non-current assets and firms' profitability.

Discussion

A study by Bozovic, Jaksic, and Vukotic (2021) also supports the notion that non-current assets are critical for achieving economies of scale, which enhances financial performance. Additionally, Chen, Yu, and Li (2020) demonstrated that non-current assets contribute to long-term value creation by improving production capabilities and reducing operational costs. Nguyen and Nguyen (2022) further highlighted that strategic investments in non-current assets are crucial for sustaining competitive advantages in rapidly evolving markets.

Conclusion

The study concluded that non-current assets significantly influence the financial performance of listed firms in the Nairobi Securities Exchange in Kenya, supporting existing literature on their strong effect on financial outcomes. The findings from the study highlight a significant positive relationship between well-managed non-current assets and the financial performance of non-financial listed firms in Nairobi Securities Exchange. Proper investment in and management of PPE and lands and buildings are pivotal for sustained organizational financial success.

Recommendation

It can therefore be recommended that firms to put more emphasis on the importance of effective management of current assets. Given the significant influence of current asset structure on financial performance, non-financial firms listed on the Nairobi Securities Exchange should focus on effectively managing their short-term resources, such as inventory and cash. This includes optimizing liquidity levels to meet immediate obligations while striving to maximize returns.

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