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**Liquidity and Financial Performance of Construction and Allied Firms Listed at the  
Nairobi Securities Exchange in Kenya**

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### Liquidity and Financial Performance of Construction and Allied Firms Listed at the Nairobi Securities Exchange in Kenya



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#### Abstract

**Purpose:** A company's financial performance reflects its efficient combination of policies, operations, and characteristics to achieve a competitive advantage, and also shows how much of a company's income it pays out to investors. The general objective was to examine the effect of liquidity on the financial performance of construction and allied firms listed at the NSE, Kenya. The study was anchored on liquidity preference theory.

**Methodology:** The population of the study was the 5 construction and allied firms listed at the NSE in Kenya as of December 2025, and the study was conducted through a census. Secondary data for a year between 2016 and 2025 was utilized to collect financial information from the firm's annual reports and financial statements for analysis with the aid of a secondary data collection sheet. Data were obtained from financial and statistical reports released by the NSE and the CMA. Data was analysed using descriptive and inferential statistics. The descriptive statistical tools included frequencies, percentages, means, variances, and standard deviations. Inferential statistical tools included Pearson's product-moment correlation and regression analysis.

**Findings:** The findings revealed that liquidity had a positive and significant effect ( $\beta = 0.1824$ ,  $p = 0.002$ ) on construction and allied firms listed at the NSE, Kenya. Based on these findings, the study concluded that liquidity accounts for 54.8% of the variation in financial performance and thus plays a significant role in influencing the financial performance of construction and allied firms listed at the NSE, Kenya.

**Unique Contribution to Theory, Practice and Policy:** The study recommends that firms should strengthen liquidity management practices, adopt prudent debt management strategies, pursue sustainable growth strategies, and maintain adequate capital reserves to enhance financial performance.

**Keywords:** *Liquidity, Financial Performance, Construction and Allied Firms, Nairobi Securities Exchange, Kenya*

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## INTRODUCTION

The financial performance of construction and allied firms is an important parameter of economic viability and long-term sustainability, especially within developing economies like Kenya (Muli, 2023). Return on assets (ROA) indicates how efficiently firms convert their total assets into profits. If these firms are going to have a sense of their financial performance on a larger scope, it reveals what earnings are generated from invested capital. A higher return on assets (ROA) means a company is more efficient and productive at managing its balance sheet to generate profits. It is important to explore ROA to have a multi-angled understanding of how well the firms will manage challenges and be profitable in the long run (Mwangi & Murigu, 2015).

Liquidity plays a critical role in ensuring that a firm can meet its short-term obligations in a secondary market, usually measured by liquidity ratios (Kontuš and Mihanović, 2019). Liquid investments can be sold readily and without paying a hefty fee to get money when it is needed. Consequently, the availability of cash to make such conversions is the biggest influence on whether a market can move efficiently. In construction, liquidity is important because once contracts are signed, firms typically do not receive any payment until after certain project milestones are completed. This can create a strain on funding for ongoing expenses, including materials and labour costs.

### Statement of the Problem

The financial performance of the construction sector, particularly construction firms listed at the NSE, plays a vital role in driving economic growth, supporting infrastructure development, and contributing to the GDP (KNBS, 2023). Despite its crucial role, listed construction and allied firms continue to face persistent financial challenges, including financial performance volatilities. Reports by NSE (2015- 2025), CMA (2016 -2025), and individual construction firms' websites have indicated a worrying financial performance, as indicated by ROA. For instance, NSE 2015 reported an average ROA of 10%, up from 9% in 2014. In 2016 and 2017, ROA rose to 10.3% and 11%, respectively, only to fall to 9%, 8.4%, and 7% in 2018, 2019, and 2020, respectively (CMA 2021). In 2021 and 2022, the figures rose to 9.3% and 9.9% respectively, to slump again to 8.3% and 7.6% in 2023 and 2024 respectively (NSE 2024; CMA 2025). A review of individual firms shows a general decline in financial performance. Bamburi Cement's ROA fell from 2.19% in 2019 to -0.98% in 2024, while Crown Paints dropped from 5.87% in 2018 to -0.31% in 2022. East African Cables declined from 4.66% in 2017 to -0.24% in 2024, and East Africa Portland Cement decreased from 0.04% in 2020 to -0.08% in 2023. Notably, ARM Cement Ltd collapsed in 2018 due to heavy indebtedness, negative equity, persistent losses, and failed restructuring, leading to its liquidation and eventual delisting in 2021. Existing reports reveal a notable performance gap among construction and allied firms, with uncertainty over whether firm-specific characteristics directly influence their financial performance or support their ability to meet industry benchmarks. Divergent scholarly findings further expose conceptual, contextual, and methodological gaps. Since most prior studies focus on other sectors or different geographical contexts, their conclusions cannot be generalized, given the sectoral variations evident in annual financial reports. For example, Irungu, Muturi, Nasieku, and Ngumi (2018) and Chirchir (2024) reported a positive relationship, Ifoastri (2020) and Vulley (2022) established no significant effect, while Gweyi, Olweny, and Oloko (2018) and Mwangi (2020) documented a negative influence. Additionally, a number of studies have been conducted in international contexts, such as Khan (2022) in Saudi Arabia, Nguyen (2020)

in Vietnam, Ogieriakli and Ajao (2018) in Nigeria, and Ifoastri (2020) in Indonesia. Within Kenya, available studies have mainly concentrated on other industries rather than the listed construction and allied firms. For instance, Irungu, Muturi, Nasieku, and Ngumi (2018) studied NSE-listed firms, Chirchir (2024) on investment schemes, Gweyi, Olweny, and Oloko (2018), DT SACCOs, while Nyakieni (2022) investigated commercial banks. From the mentioned fluctuating statistical results and the conflicting empirical studies, this study aimed to address the conceptual, contextual, and methodological gaps that exist in this topical area and establish the real effect of liquidity on the financial performance of construction and allied firms listed at the NSE, Kenya.

### **Objective of the Study**

To establish the effect of liquidity on the financial performance of construction and allied companies listed on the Nairobi Securities Exchange.

### **Theoretical Review**

This section critically examined the pertinent literature and addressed and reviewed earlier research on the topic.

### **Liquidity Preference Theory**

Liquidity Preference Theory was developed by Keynes in 1936. Keynes (1936) introduced the liquidity preference theory to explain the determination of interest rates in terms of the demand and supply for money. The theory's central premise is that individuals prefer to hold their wealth in liquid form and that interest serves as a reward for parting with liquidity. Keynes (1936) proposed that people hold money for three main motives: transaction, precautionary, and speculative. The transaction motive relates to day-to-day spending needs, while the precautionary motive involves holding money for unforeseen emergencies. The speculative motive, however, is unique to Keynesian thought; it suggests individuals may prefer to hold money when they anticipate that interest rates will rise, allowing them to invest at a later date when returns are more favourable.

The theory rests on several assumptions. Bates et al. (2009) bring about the presumption of perfectly liquid money. According to the theory, people would rather store cash than less liquid assets like bonds, particularly during periods of low interest rates. Second, liquidity theory makes the assumption that rational actors balance liquidity and returns to maximize their utility (Laidler, 2021). Thirdly, the theory asserts that monetary authorities exogenously determine the money supply. Finally, the theory makes the assumption that agents engage in speculative behavior, delaying investments if they expect future interest rates to be more favorable (Mishkin, 2021). While influential, the liquidity preference theory has not gone without criticism. According to economist Laidler (2021), the theory ignores income effects and the full significance of wealth, oversimplifying the reasons behind money demand.

Others have pointed out that the theory does not adequately account for long-term interest rate dynamics and might not hold in economies that are in a liquidity trap, which occurs when interest rates are close to zero, and monetary policy is ineffective because people hoard money regardless of interest incentives (Hicks, 1946; Mankiw, 2021). Moreover, the traditional concept of "liquidity" has become more complicated due to the introduction of money substitutes via financial innovation, such as credit cards, e-wallets, and mobile money (Cecchetti & Schoenholtz, 2022). Besides, the idea that money is particularly liquid is no longer

valid in these situations. Furthermore, empirical data in several developing economies have demonstrated that because of their undeveloped capital markets, speculative reasons are frequently absent or weak (Mishkin, 2021).

Despite its critiques, the liquidity preference theory has remained relevant in both theory and practice. In corporate finance, the theory helps explain why firms maintain large cash reserves, particularly in uncertain macroeconomic environments (Bates, Kahle, & Stulz, 2009). Several empirical studies have linked firm-specific liquidity behavior to liquidity preference theory. Duchin et al. (2010) showed that firms with high cash reserves before the 2008 crisis were more resilient, supporting the precautionary motive outlined in Keynesian theory. Ngunjiri, Matanda, and Waga (2025), in a Kenyan context, noted that firms' demand for liquidity rose in uncertain economic periods, reflecting Keynesian liquidity preference principles. Al-Najjar and Belghitar (2011) found that smaller firms and those with limited access to capital markets preferred holding more liquidity, consistent with speculative and precautionary motives.

Thus, firm-level liquidity is not just a metric of solvency but also a behavioral indicator of risk perception and strategic financial planning rooted in Keynesian logic. Liquidity Preference Theory, while rooted in macroeconomics, offers a powerful lens through which to view firm-level liquidity behaviour. Firms, like individuals, exhibit preferences for liquidity based on transaction needs, precautionary concerns, and speculative opportunities. The resulting firm-specific liquidity profiles are not just reflections of financial position but also strategic outcomes driven by risk aversion and uncertainty, core elements of Keynes's liquidity preference hypothesis. Keynesian theory will be relevant to the current study in establishing the effect of liquidity and financial performance of construction and allied companies listed at the NSE, Kenya.

### **Empirical Review**

Yameen et al., (2019) analysed the influence of liquidity on the profitability of pharmaceutical companies listed on the Bombay Stock Exchange (BSE). The study was carried out utilizing balanced panel data, which comprised 20 selected pharmaceutical firms over five years from 2013 to 2017. The data was gathered via secondary data from annual financial reports released by the BSE and individual companies. The study used a descriptive-analytical and quantitative methodology. For inferential statistics, the study used multiple regression analysis and correlation. The study's findings show that pharmaceutical businesses' profitability, as measured by ROA, has a substantial beneficial effect on both the quick ratio and the current liquidity ratio.

Gweyi, Olweny, and Oloko (2018) determined the influence of liquidity on the financial performance of deposit-taking SACCOs in Kenya. Using a descriptive research design, the study focused on 164 deposit-taking SACCOs that were authorized to conduct deposit-taking SACCO operations in Kenya. The census survey was completed, and secondary data were gathered from the audited financial accounts of 135 deposit-taking SACCOs. Both descriptive and inferential statistics were used to analyze the data. The study's findings showed that liquidity risk significantly and negatively impacted financial performance. The study suggested that deposit-taking SACCOs should strengthen their resources to mitigate liquidity resources because depositors may withdraw their funds at any time and for unforeseen reasons in order to look for higher-yielding investments elsewhere.



### Data Processing and Analysis

Upon coding, the data were imported and analysed using STATA 18. The data was recorded on the data collection sheets, and the software was used to create tables, graphs, regression, statistical analysis, and other statistical parameters. Descriptive and inferential statistics were used to analyse the data. The mean, minimum, maximum, standard deviations, skewness, and kurtosis were among the descriptive statistics. Panel regression analysis and Pearson's correlation analysis were examples of inferential statistical methods. The overall significance of the model was evaluated using the analysis of variance using the F-statistic at the 95% confidence level. To show how independent variables affect dependent variables, the coefficient of determination (R-squared) was employed.

The regression equation that was applied is shown below.

$$Y_{it} = \beta_0 + \beta_1 L_{it} + \epsilon_{it} \dots \dots \dots \text{Equation 1}$$

### FINDINGS AND DISCUSSIONS

This section focused on the descriptive statistics, trend analysis, diagnostic tests, correlation analysis, and regression analysis test results as set out in the research objectives.

#### Descriptive Statistics Results

Descriptive statistics were used to measure both the central tendency and dispersion, thereby summarizing, organizing, and describing the distribution of the data objectively. Specifically, the analysis employed the minimum, maximum values, mean, standard deviation, skewness, and kurtosis.

**Table 1: Descriptive Statistics Results**

Statistics	N	Min	Max	Mean	SD	Skewness	Kurtosis
ROA	50	-2.450	14.820	6.374	4.264	0.430	0.870
Liquidity	50	0.530	3.220	1.410	0.785	0.680	0.440

The financial performance (ROA) recorded a minimum of -2.450% and a maximum of 14.820%, indicating that while some firms experienced losses in certain years, others achieved relatively strong earnings. However, even the highest return remained below a quarter of total assets, implying that overall profitability across the sector was moderate. The mean ROA of 6.374% signifies moderate asset utilization efficiency, suggesting that firms earned approximately KES 0.0637 for every KES 1 invested in assets. This reflects stable but cautious financial performance, consistent with the capital-intensive and project-based nature of the construction sector. The standard deviation of 4.264 indicates moderate variability in profitability across firms and over time. Furthermore, the positive skewness (0.430) and kurtosis (0.870) values confirm that ROA was approximately normally distributed, suggesting relatively stable performance with limited extreme values. These findings are consistent with empirical evidence by Omondi and Muturi (2019) and Were and Wambua (2021), who observed that high operational and capital costs constrain profitability among construction firms, while Githinji and Kimani (2020) and Mwangi and Muriithi (2022) similarly reported moderate returns and cautious asset utilization within the sector.

Regarding liquidity, measured by the Operating Cash Flow Ratio, the results revealed a minimum of 0.530 and a maximum of 3.220, implying wide disparities in firms' ability to cover current liabilities using cash generated from operations. While some firms generated

insufficient operating cash flows to meet short-term obligations, others produced more than three times the required amount. The mean liquidity ratio of 1.410 indicates moderate operational efficiency, which is essential for managing the cash-intensive nature of construction projects characterized by long payment cycles. The standard deviation of 0.785 suggests moderate variation in liquidity management practices across firms. Additionally, the positive skewness (0.680) and kurtosis (0.440) imply that most firms maintained liquidity levels below the mean, with only a few firms holding excess liquidity. These findings align with the Liquidity Preference Theory (Keynes, 1936), and are supported by empirical studies such as Omondi and Muturi (2019) and Wanjiru and Muturi (2021), which documented persistent liquidity challenges among construction firms, as well as Mwaniki and Waweru (2020), who emphasized the importance of operating cash flows in sustaining construction activities.

### Trend Analysis

Trend analysis was conducted to examine the patterns and direction of change in financial performance and firm-specific characteristics of Construction and Allied firms listed at the NSE over the 10-year period.

### Trend Analysis for Liquidity

The study conducted the trend analysis for liquidity to establish the pattern and direction of changes in the ability of listed Construction and Allied firms at the Nairobi Securities Exchange NSE over the period 2015–2024. Figure 2 portrays the results

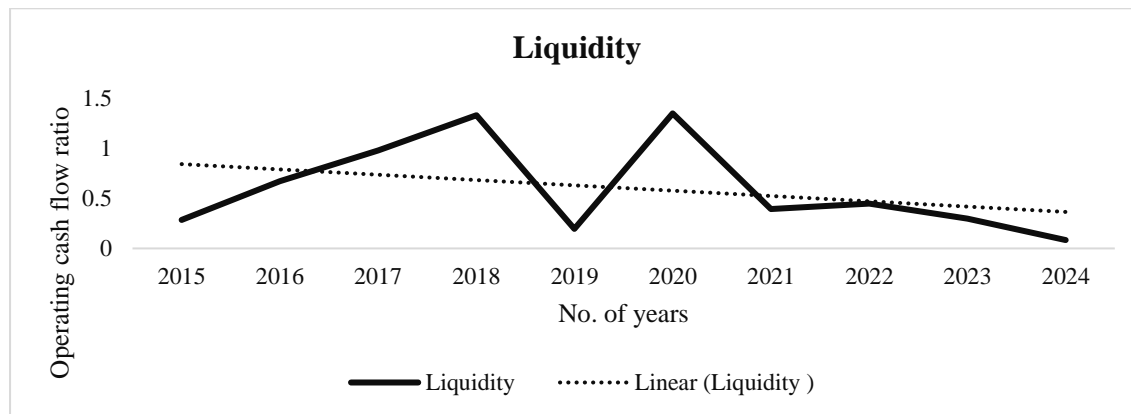


Figure 2: Trend Analysis for Liquidity

In 2015, liquidity was relatively low at approximately 0.30, indicating that firms generated insufficient operating cash flows to fully cover their current liabilities. This suggests reliance on external financing or delayed payments to suppliers, a common feature in the construction sector characterized by long receivable cycles (Omondi & Muturi, 2019). It improved steadily between 2016 and 2018, rising from about 0.70 in 2016 to a peak of approximately 1.35 in 2018. According to Wanjiru and Muturi (2021), such improvements often result from better working capital management and timely completion of projects. However, in 2019, liquidity declined sharply to around 0.20, marking the lowest point during the study period. This significant deterioration suggests severe cash flow constraints, likely arising from delayed contract payments, increased operating costs, or inefficient cash conversion cycles (Mwangi & Muriithi, 2022).

A strong rebound was observed in 2020, with liquidity increasing to approximately 1.35, indicating a substantial recovery in operating cash flows. From 2021 onwards, liquidity exhibited a declining trend. In 2021, the ratio dropped to about 0.40, followed by a slight increase to 0.45 in 2022, before declining further to 0.30 in 2023 and 0.10 in 2024. This sustained decline suggests increasing difficulty in generating sufficient operating cash to meet short-term obligations, possibly due to rising input costs, delayed payments, and increased financial strain within the sector (Omondi & Muturi, 2019; Wanjiru & Muturi, 2021). The downward-sloping linear trend line indicates a general decline in liquidity over the study period, despite intermittent recoveries. The findings align with the Liquidity Preference Theory (Keynes, 1936), which emphasizes the importance of holding adequate liquid resources to safeguard firms against uncertainty and operational disruptions, particularly in cash-intensive industries such as construction.

### Trend Analysis for Financial Performance

The study conducted a trend analysis for financial performance to examine the pattern and direction of profitability among listed Construction and Allied firms at the NSE over the period 2015–2024. Financial performance was measured using the ROA. The results are presented in Figure 3

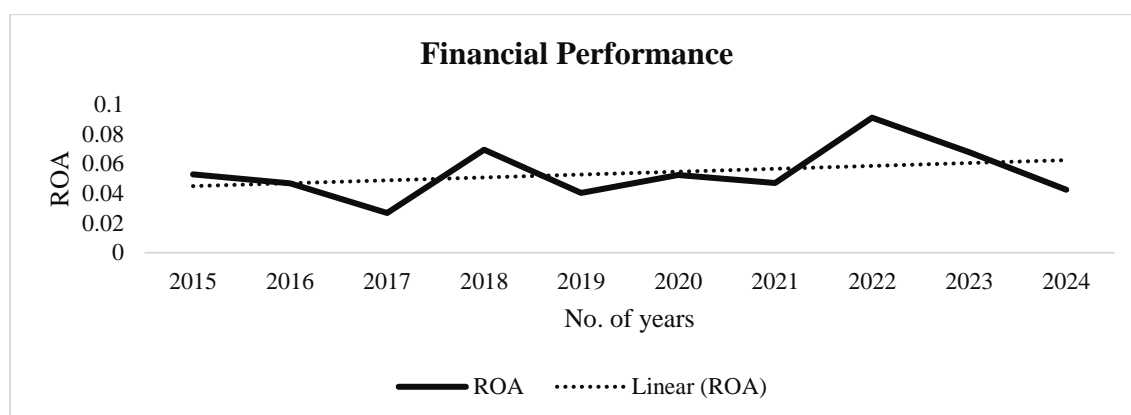


Figure 3: Trend Analysis for Financial Performance

The trend results for financial performance show that in the years 2015 and 2016, the ROA slightly declined from 0.052 to 0.048, indicating a marginal decrease in profitability. This suggests that although firms generated income, rising input costs and project financing constraints likely reduced overall returns. In 2017, the ROA dropped further to 0.028, marking the lowest point in the decade. 2018 profitability improved sharply to 0.071, suggesting enhanced operational performance and efficient asset utilization. In 2019, ROA declined again to 0.041, implying weakened performance possibly caused by rising operational costs and slower project approvals. In 2020, despite the effects of the COVID-19 pandemic, there was a modest recovery with ROA increasing to 0.052. IN 2021, it slumped again to 0.047, suggesting subdued profitability as firms continued adjusting to post-pandemic conditions and supply chain disruptions.

In 2022, profitability peaked at 0.091, indicating a strong recovery and improved financial performance, while in 2023 and 2024, the ROA declined again to 0.063 and 0.042, respectively, signaling mild profitability contraction. Overall, the financial performance of listed Construction and Allied firms at the NSE exhibited fluctuating but generally positive

growth trends over the ten years. Despite intermittent declines, the upward-sloping linear trend line indicates gradual improvement in profitability, suggesting that firms have become more efficient in managing assets and adapting to economic shocks. The findings are consistent with the Trade-Off Theory (Kraus & Litzenberger, 1973), which suggests that optimal capital structure decisions and cost efficiency can enhance long-term profitability even in volatile sectors like construction.

### Inferential Analysis

Inferential analysis was conducted to determine the statistical relationship between liquidity and financial performance measured by ROA.

### Correlation Analysis Results

Correlation analysis was conducted to examine the strength and direction of the linear relationships between the dependent variable and the independent variable. The results are shown in Table 2

**Table 2: Correlations Matrix**

Correlation	ROA	Liquidity
ROA	1.000	
Liquidity	0.462***	
Sig. (2-tailed)	0.000	1.000
N	-50	50

Notes: Values in parentheses represent p-values \*Significant at 1% level ( $p < 0.01$ ), Significant at 5% level ( $p < 0.05$ )

According to Table 2, the correlation results indicate that liquidity has a positive and statistically significant relationship with financial performance (ROA) ( $r = 0.462$ ,  $p < 0.01$ ). This suggests that firms with stronger liquidity positions tend to generate higher ROA. This finding is consistent with Sila and Nasieku (2016) and Mwaniki and Waweru (2020), who reported that effective liquidity management enhances financial performance among firms in capital-intensive sectors.

### Model Summary

The model summary presents the overall explanatory power of the regression model used to examine the effect of liquidity on the financial performance (ROA) of Construction and Allied firms listed at the Nairobi Securities Exchange (NSE). The results are presented in Table 3.

**Table 3: Model Summary**

Model	Multiple R	R Squared	Adjusted R Square	S.E. Regression	Obs
1	0.740	0.548	0.531	0.029	50

The results in Table 3 show that the regression model produced a correlation coefficient (R) of 0.740, indicating a strong positive relationship between liquidity and the financial performance (ROA) of the listed Construction and Allied firms. The coefficient of determination ( $R^2$ ) of 0.548 implies that approximately 54.8% of the variation in financial performance among the firms can be explained by liquidity. This suggests that liquidity play a significant role in influencing profitability within the construction sector. The remaining 45.2% of the variation

in ROA is explained by other factors not included in the model, such as macroeconomic conditions, managerial efficiency, project execution performance, and market competition.

The adjusted R<sup>2</sup> value of 0.531 further confirms the robustness of the model after adjusting for the number of predictors used in the regression. Adjusted R<sup>2</sup> provides a more reliable estimate of explanatory power since it accounts for possible inflation of the R<sup>2</sup> value when additional variables are included in the model (Gujarati & Porter, 2010). Additionally, the standard error of the estimate (0.029) indicates a relatively small difference between the observed and predicted values of ROA, suggesting that the regression model provides reasonably accurate predictions of financial performance. Overall, these results indicate that the model has moderate to strong explanatory power, implying that liquidity significantly influence the financial performance of Construction and Allied firms listed at the NSE. Similar findings were reported by Omondi and Muturi (2019) and Mwangi and Muriithi (2022), who found that firm-level financial characteristics explain a substantial proportion of variations in firm profitability.

#### Analysis of Variance (ANOVA) Results

The Analysis of Variance (ANOVA) test was conducted to determine the overall statistical significance and fitness of the regression model. The results are presented in Table 4.

**Table 4: ANOVA Results**

Model	Sum of Squares	df	Mean Square	F	Sig	Obs
Regression	0.548	4	0.137	13.640	0.000	50
Residual	0.452	45	0.010			
<b>Total</b>	<b>1.000</b>	<b>49</b>				

The ANOVA results indicate that the regression model is statistically significant. The model produced an F-statistic of 13.640 with a p-value of 0.000, which is less than the 0.05 significance level. This implies that liquidity have a statistically significant effect on the financial performance of Construction and Allied firms listed at the NSE, Kenya. Therefore, the null hypothesis that the independent variable do not influence financial performance is rejected.

#### Regression Coefficient Results

Panel regression analysis between the dependent and independent variables was conducted. Statistical significance was evaluated at the 5% significance level ( $p < 0.05$ ), and 95% confidence intervals were used to assess the precision of the estimated coefficients. The results are presented in Table 5.

**Table 5: Regression Coefficients Results**

	Coefficient		t	Sig	95% Conf. Interval	
	B	Std Error				
(Constant)	-0.1125	0.0512	-2.197	0.033	-0.2143	-0.0107
Liquidity	0.1824	0.0563	3.240	0.002	0.0706	0.2942

The panel regression equation based on the fixed effect regression coefficients is presented as;

$$Y = -0.1125 + 0.1824X_{lit}$$

## **Hypotheses Test Results**

The first objective of this study was to establish the effect of liquidity on the financial performance of construction and allied firms listed at the NSE, Kenya. The null ( $H_{01}$ ) hypothesis stated that liquidity has no significant effect on the financial performance of these firms. The findings indicate that liquidity had a coefficient value of  $\beta = 0.1824$  and  $p = 0.002$ . The results imply that holding other factors constant and liquidity is controlled, a unit increase in liquidity will increase the financial performance of construction and allied firms by 0.1824. The increase will be significant given the p-values of 0.002 ( $P > 0.05$ ). Therefore, the null hypothesis ( $H_{01}$ ) is rejected. This finding implies that an improvement in liquidity significantly enhances financial performance among construction and allied firms listed at the NSE, Kenya. Specifically, firms that generate stronger operating cash flows relative to their short-term obligations tend to achieve higher returns on assets.

The finding is consistent with liquidity preference theory, which posits that firms maintain adequate liquid resources to safeguard against uncertainty and maintain financial flexibility. The findings are supported by similar findings of Waswa, Mukras, and Oima (2018), Musili (2025), Khoza (2025), and Gweyi, Olweny, and Oloko (2018), all of whom found that liquidity significantly improves financial performance among firms in different sectors by enhancing operational stability and reducing financial distress risk.

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This section presents the summary of the study findings, conclusions drawn from the findings, and recommendations arising from the study.

### **Summary**

The study established that liquidity has a positive and significant influence on the financial performance of construction and allied firms listed at the Nairobi Securities Exchange. Firms that maintained stronger operating cash flows relative to their short-term obligations consistently demonstrated improved financial performance. This indicates that liquidity plays a critical role in ensuring operational efficiency and financial stability within the construction sector. The findings further suggest that effective liquidity management enhances a firm's ability to finance day-to-day operations, settle short-term liabilities in a timely manner, and sustain project execution without disruptions. Given the cash-intensive nature of construction activities, firms with adequate liquidity are better positioned to manage uncertainties such as delayed payments and fluctuating project timelines. Consequently, strong liquidity positions reduce dependence on external financing and associated costs, thereby improving profitability and overall financial health.

### **Conclusion**

The study concludes that liquidity plays a fundamental role in enhancing the financial performance of construction and allied firms. Firms that maintain adequate liquidity are better positioned to effectively manage their operational cash flows, meet short-term financial obligations, and sustain project implementation without disruptions. As a result, firms with strong liquidity positions are able to minimize reliance on costly external financing and maintain operational continuity. Therefore, effective liquidity management emerges as a key determinant of profitability, operational efficiency, and financial resilience within the construction sector.

## **Recommendations**

Construction firms should strengthen their cash flow management systems by implementing structured working capital management policies that prioritize the timely collection of receivables and efficient management of project-related payments. Firms should also adopt integrated financial monitoring systems that enable real-time tracking of operating cash flows and liquidity positions. At the policy level, regulators and government agencies responsible for infrastructure and construction procurement should ensure the timely settlement of contractual payments to contractors. Delayed payments from clients often disrupt cash flows and weaken liquidity positions. Establishing clear payment timelines within public procurement frameworks would significantly improve liquidity stability among construction firms.

## **Recommendations for Future Study**

First, the study established that liquidity accounted for a substantial proportion of the variation in financial performance, as indicated by the coefficient of determination ( $R^2$ ) (54.8%). However, the model indicates that a portion of the variation in financial performance remains unexplained (45.2%). Future studies should therefore investigate additional determinants such as corporate governance practices, project management efficiency, innovation capability, and macroeconomic conditions to provide a more comprehensive understanding of firm performance.

Second, the study focused exclusively on construction and allied firms listed at the Nairobi Securities Exchange. Future research could expand the scope by including unlisted construction firms or firms operating in the broader infrastructure sector to determine whether the relationships identified in this study are consistent across different categories of firms. Third, the present study relied primarily on financial indicators to measure firm performance. Future studies may incorporate additional performance measures such as market-based indicators, operational efficiency indicators, or sustainability performance measures in order to provide a broader evaluation of firm success.

Finally, future research may apply alternative methodological approaches, including advanced panel data techniques or mixed-method research designs that combine quantitative and qualitative data, in order to gain deeper insights into the determinants of financial performance in the construction sector. Overall, the study provides useful insights for managers, investors, and policymakers seeking to enhance the financial performance and sustainability of construction and allied firms operating within the Kenyan capital market.

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