

CURRENT ASSET STRUCTURE AND FINANCIAL PERFORMANCE OF MANUFACTURING AND ALLIED FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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ABSTRACT

Financial performance reflects the extent to which a firm generates value for its stakeholders by efficiently utilizing resources to achieve long-term profitability and sustainability. Within the manufacturing and allied sector at the Nairobi Securities Exchange (NSE), financial performance has become increasingly important due to declining profitability, firm suspensions, and persistent financial instability. This study sought to establish the influence of trade and other receivables and inventory on the financial performance of manufacturing and allied firms listed at the NSE. The study was anchored on the Resource-Based View Theory and Operating Cycle Theory. A descriptive research design was adopted, covering all eight manufacturing and allied firms listed on the NSE as of December 2024. A census approach was employed due to the manageable population size. Secondary data were obtained from audited and published financial reports sourced from the NSE and Capital Markets Authority (CMA) websites for the period 2015–2024. Data were analyzed using descriptive statistics and fixed-effects panel regression analysis at a 95% confidence level. The findings revealed that trade and other receivables had a positive and statistically significant effect on financial performance ($\beta = 0.53982$, $p = 0.0005$), indicating that effective receivables management enhances firm performance. Similarly, inventory exhibited a positive and statistically significant influence on financial performance ($\beta = 0.47746$, $p = 0.0078$), suggesting that maintaining optimal inventory levels contributes to improved operational efficiency and profitability. The study concludes that both trade and other receivables and inventory are important determinants of financial performance among manufacturing and allied firms listed on the NSE. The findings provide useful insights to managers in developing effective credit management and inventory control strategies aimed at improving profitability, liquidity, and overall firm performance.

Key Words: Trade and Other Receivables, Inventory, Financial Performance, Current Asset Structure, Manufacturing Firms, Nairobi Securities Exchange, Resource-Based View Theory, Operating Cycle Theory.

INTRODUCTION

Profit-driven enterprises aim to fulfil their vision and mission by pursuing strategic goals that prioritize long-term profitability and sustainability (Pearce & Robinson, 2013). Nevertheless, external factors such as economic volatility, regulatory changes, and heightened market competition frequently force firms to adapt by implementing various strategic measures. These adaptations are essential for maintaining and expanding market share

in an increasingly dynamic and unpredictable business environment. Within this context, financial performance becomes a vital indicator of how effectively management is steering the organization toward its objectives. As noted by Santos and Brito (2012), financial performance is frequently used as a benchmark for assessing a firm's ability to transform assets into profitable returns. It demonstrates how efficiently a firm deploys its resources to generate earnings, thus attracting the interest of major stakeholders.

The evaluation of financial performance requires the analysis of specific metrics that indicate the effectiveness of asset utilization and liability management within a firm. Commonly employed measures include return on assets (ROA), return on equity (ROE), and net profit margin, all of which provide insights into profitability and overall efficiency (Ross, Westerfield, & Jordan, 2019). For manufacturing and allied firms listed on the Nairobi Securities Exchange (NSE), achieving superior financial performance is not only key for investor confidence but also vital for maintaining competitiveness in an ever evolving economic environment. A firm's asset structure plays a pivotal role in value creation and risk mitigation (Xu & Xu, 2013). Nonetheless, according to KAM (2025), the Kenya manufacturing sector has faced persistent financial instability, pointing to the need for closer evaluation of internal drivers of performance.

A firm that maintains a responsive and efficient current asset structure is more likely to experience stronger returns, as it avoids the dual pitfalls of liquidity shortfalls and capital underutilization. Conversely, firms that neglect the strategic management of short-term assets often find themselves financially rigid, limiting their ability to exploit emerging opportunities or withstand economic shocks (Oluoch, 2014). Mathuva (2009) emphasizes that firms with effective current asset strategies often experience improved cash flow stability, which reduces their reliance on external borrowing and strengthens overall financial resilience. Clausen and Flor (2015) further caution that an imbalanced current asset structure can expose firms to risks like stock obsolescence, bad debts, and tied-up capital, all of which adversely impact ROA. Striking the right balance calls for an examination of any direct and dynamic link between how firms structure their current assets and their resulting financial performance.

Trade and other receivables represent money owed to a firm by customers or business partners, typically arising from credit sales. While receivables contribute to revenue recognition, their poor management can delay cash inflows and increase the risk of bad debts. In sectors like manufacturing, where large transactions are often conducted on credit, prolonged collection periods can strain liquidity and hinder reinvestment in productive activities (Pandey, 2015). Efficient receivables management enhances the cash conversion cycle and improves a firm's ability to meet its short-term obligations without resorting to expensive external financing. Firms that implement robust credit policies and actively monitor receivables are more likely to maintain stable cash flows and thus stronger financial performance (Atrill & McLaney, 2019). Therefore, the management of receivables is crucial in sustaining strong financial performance.

Inventory, typically the largest current asset in manufacturing firms, comprises raw materials, work-in-progress, and finished goods. Its management directly affects both production efficiency and cost control. Holding excessive inventory can tie up capital, increase holding costs, and lead to obsolescence, while inadequate inventory can cause production delays and stockouts, lost sales, all of which can deteriorate a firm's profitability (Mwaniki & Omagwa, 2017). Efficient inventory management practices, such as just-in-time systems or inventory

optimization models, enable firms to reduce waste, increase efficiency and be able to strike a balance between availability and cost. This help to improve the overall productivity of the firm by aligning production schedules with actual demand (Mukwakungu, Mabasa, Mankazana, & Burakeye, 2019). Given the scale and complexity of inventories in manufacturing operations, they play a pivotal role in shaping financial outcomes, making it a critical area of focus.

Statement of the Problem

Financial performance reflects a firm's ability to generate value for its shareholders. Ideally, manufacturing and allied firms listed on the NSE are expected to maintain strong financial health by efficiently managing resources to achieve consistent profitability, enhance shareholder wealth, and sustain operational competitiveness. However, a significant proportion of manufacturing firms continue to struggle with average or loss-making results, with only a few consistently delivering strong performance (KAM, 2025). For instance, Mumias Sugar Company's profit after tax declined from Ksh. 13.04 million in 2016 to Ksh. 12.16 million in 2019, with its ROA plummeting from 2.5% in 2014 to just 0.02% in 2015, eventually leading to its suspension from the NSE in 2019 (Business Today, 2019). Similarly, Kenya Orchards Limited recorded an 8.1% drop in profit after tax in 2023 before being acquired by Africa Mega Agriculture Centre (AMAC) in 2024, highlighting the consequences of prolonged financial strain (AMAC, 2024). Recent financial data further reveal a downward trend in profitability across the sector: East African Breweries Limited's profit after tax fell by 12% from Ksh. 12.3 billion in FY2023 to Ksh. 10.9 billion in FY2024, down from Ksh. 15.5 billion in FY2022; British American Tobacco Kenya Limited reported a 19% decline in profit from Ksh. 5.6 billion in FY2023 to Ksh. 4.5 billion in FY2024 (NSE, 2025). Unga Group Limited and Eveready East Africa Limited posted consecutive net losses over the three-year period from 2022 to 2024, while Flame Tree Group only returned to profitability in FY2024 after two years of losses (NSE, 2025). These trends point to a possible internal imbalance, particularly in how current assets are structured and managed warranting a focused study on their effect on financial performance. Xu and Xu (2013) posit that inefficient current asset structure can severely impair liquidity, hinder operational efficiency, and erode profitability. If not addressed, such inefficiencies may increase dependency on expensive external financing, reduce firm value, and risk long-term sustainability. Existing literature has not sufficiently explored how specific configurations of current assets impact firm performance within this sector (Ikayo, 2022). Moreover, researchers such as Mwaniki and Omagwa (2017) have highlighted the importance of conducting further investigations to strengthen insights into this relationship. In light of this call, the present study seeks to analyze how current asset structure influences the financial performance of manufacturing and allied firms listed on the NSE.

Objectives of the Study

The general objective of the study was be to establish the influence of current asset structure on financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange

Specific Objectives

- i. To evaluate the influence of trade and other receivables on the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange
- ii. To assess the influence of inventory levels on the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange

Hypotheses of the Study

H₀₂: Trade and other receivables have no statistically significant influence on the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange

H₀₃: Inventory levels have no statistically significant influence on the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange

LITERATURE REVIEW

Theoretical Review

Resource-Based View Theory

The resource-based view (RBV) theory originated with Wernerfelt in 1984 and was subsequently extended by Barney in 1991. According to this perspective, sustainable competitive advantage arises from resources characterized as valuable, rare, inimitable, and non-substitutable (VRIN). The theory argues that internal resources, if strategically managed, can be more influential in achieving superior performance than external market positioning. It assumes that not all firms possess the same bundle of resources and that some firms can better deploy these assets to achieve long-term financial success. In the RBV framework, resources are categorized into tangible (such as receivables, inventory, and physical infrastructure) and intangible (such as managerial competencies and firm-specific routines). This perspective redefines trade receivables from being merely a working capital item to a strategic asset capable of enhancing a firm's competitive positioning when leveraged effectively.

Applying RBV to trade receivables, particularly among manufacturing and allied firms listed on NSE, offers a new lens through which receivables management is viewed. Efficient credit policies, strong receivables collection systems, and customer relationship practices are internal capabilities that can reduce cash flow volatility and improve liquidity. Firms that develop superior systems for managing receivables - such as through predictive analytics, automated invoicing, and credit risk assessment - transform a basic operational function into a strategic resource. These internal systems, if difficult to replicate, provide competitive advantages that may result in sustained financial performance (Barney, 1991). Therefore, trade receivables management becomes an indicator of firm strength, reflecting both financial discipline and customer-centric agility, aligning closely with the RBV's emphasis on leveraging internal resources.

RBV has been critiqued for placing too much emphasis on internal capabilities while underestimating the role of external factors such as market volatility, credit risk trends, and regulatory environments (Putra, Wiagustini, Ramantha, & Sedana, 2021). In the case of receivables, even firms with strong internal systems may face delayed payments due to macroeconomic disruptions or client insolvency, limiting the effectiveness of internal strategies alone. Furthermore, while receivables systems may be internally developed, the rapid diffusion of technology in financial management could reduce their rarity and inimitability over time. The theory also assumes stable internal conditions for deploying resources, which may not hold in industries marked by high employee turnover or changing client bases. Thus, while RBV provides a compelling framework for viewing receivables as a strategic asset, it must be complemented with external market analysis for a more holistic financial strategy.

Operating Cycle Theory

Operating cycle theory was originally developed by Weston and Brigham in 1979. It centers on the concept of liquidity as driven by the firm's operational processes. The theory argues that a company's ability to convert its inventory into cash depends on the efficiency of its operating cycle, particularly the time taken to turn inventory into receivables and ultimately into cash. It recommends expanding the traditional liquidity framework to include indicators that capture the timing and stability of a firm's internal operations, rather than relying solely on current or solvency ratios. By incorporating inventory turnover and accounts receivable turnover into liquidity assessment, this theory provides a more comprehensive view of a firm's short-term financial health and operational efficiency.

The operating cycle is calculated by summing the number of days inventory remains in stock with the days sales remain outstanding. Effective inventory management plays a critical role in this cycle because prolonged inventory holding periods extend the operating cycle, thereby tying up cash and reducing liquidity. Changes in credit and collection policies also directly

influence the accounts receivable balance, affecting both the receivables turnover and the operating cycle length. As Richards and Laughlin (1980) argue, an increase in credit sales can result in a buildup of receivables, which extends the receivable collection period and thus reduces liquidity. Efficient inventory turnover shortens the cycle, enabling quicker cash conversion, which is vital for sustaining financial performance.

Despite its utility, operating cycle theory faces criticism for underemphasizing the immediate liquidity demands that come from current liabilities. Richards and Laughlin (1980) contend that the theory does not fully address how short-term obligations may constrain a firm's liquidity, even when operational processes are running smoothly. Nevertheless, its relevance to this study lies in its argument that streamlined inventory management contributes to a shorter, more efficient operating cycle. For manufacturing firms where inventory constitutes a large portion of current assets, managing the duration and cost of stockholding is essential. Therefore, applying this theory helps to explain the role of inventory within the current asset structure and its impact on a firm's financial performance.

Empirical Review

Trade and Other Receivables and Financial Performance

Muthoni, Kiprotich, and Kipyego (2020) studied the influence of accounts receivable management on financial performance among manufacturing firms listed on the NSE in Kenya. The study adopted a descriptive design, collecting data from 147 finance and accounts staff using questionnaires over a six-month period in 2016. Regression analysis revealed a strong positive relationship between credit extension policies, receivables financing, and collection periods with firm performance, with $R^2 = 0.889$ ($p = 0.01$), indicating that 88.9% of performance variation was explained by receivables management. The findings emphasized the need for formal credit policies and effective receivable collection strategies to enhance profitability and liquidity. However, the study's reliance on self-reported data and a short data collection window may limit generalizability and accuracy, making its conclusions less robust compared to studies based on audited financial records.

Adeboboye, Solanke, Olaniyan, and Olaniyi (2022) examined the effects of account receivables management on the financial performance of publicly listed manufacturing firms in Nigeria. The study employed a comparative quantitative research design, utilizing secondary data from twenty industrial and consumer goods firms listed on the Nigerian Stock Exchange between 2012 and 2021. Through descriptive and inferential statistical techniques, which examined the relationship between average collection periods and performance indicators such as return on capital employed (ROCE) and earnings per share (EPS), the findings indicated a minimal negative influence of average collection periods on EPS and a negligible positive effect on ROCE in industrial firms, while a slight negative impact was observed in consumer goods firms. A key limitation of the study lies in its failure to control for other critical components of working capital, such as payables and inventory, whose potential confounding effects may have masked the true isolated impact of receivables on financial performance.

Lazarus, Kwame, Rakibu, Prince and Paul (2023) explored the impact of account receivables and inventory conversion cycle on the profitability of manufacturing firms listed on the Ghana Stock Exchange in Ghana. The study employed a cross-sectional design with a quantitative approach, analyzing panel data from six listed manufacturing firms between 2011 and 2020. Using OLS regression and correlation analysis, the results revealed a statistically significant negative relationship between the accounts receivables period and ROA ($\beta = -0.201$, $p = 0.000$). The findings indicate that longer receivables periods diminish profitability, likely due to delayed cash inflows and increased risk of default. While the methodology was rigorous and the results clear, the study's sample was limited to six firms, potentially constraining generalizability across other sectors or economies with different credit and liquidity environments.

Adegbite (2024) analyzed the effect of receivables on profitability of manufacturing firms in Nigeria. Using panel data obtained from the firms' annual reports, the study employed multiple regression approaches, including random effects, fixed effects, and pooled OLS models, to evaluate the relationship between receivables and profitability indicators. The study focused on day's sales outstanding (DSO) and credit policy as key receivables metrics and found both exerted a significant positive effect on profitability. The findings suggest that efficient receivables management enhances financial performance, while control variables like firm size and economic environment negatively affect profitability. The study recommended shortening DSO and improving credit policies to boost customer engagement and profits. However, its limitation lies in its country-specific scope and lack of exploration into non-linear effects or mediating variables, which restricts its broader applicability.

Inventory and Financial Performance

Mburugu (2020) investigated the effect of inventory management on financial performance of commercial and service firms listed on the NSE in Kenya. The study employed a descriptive cross-sectional design, utilizing secondary data from all 11 listed firms covering the period 2015 to 2019. Inventory management was assessed using the cost of goods sold to average inventory ratio, while financial performance was measured through ROA, with liquidity, firm size, and management efficiency included as control variables. The results indicated that inventory management had a positive and statistically significant effect on financial performance, contributing to 28.4% of performance variations ($R^2 = 0.284$) and demonstrating a moderate correlation ($R = 0.533$). The study reinforces that effective inventory management enhances operational alignment, improves cash flows, and strengthens the financial standing of firms. Furthermore, its insights remain applicable to manufacturing firms, where inventory forms a substantial component of the current asset structure and directly affects profitability.

Srouf and Azmy (2021) conducted a study on inventory management and its impact on firm performance of firms listed on the Egyptian Stock Exchange in Egypt. The study employed a quantitative approach, collecting panel data and analyzing it using descriptive statistics and multiple regression techniques using (EViews 12) software. Financial performance was measured using ROA and ROE, while inventory turnover served as the proxy for inventory management. The study found a strong positive relationship between inventory turnover and both ROA ($R^2 = 0.7693$) and ROE ($R^2 = 0.6696$), suggesting that firms that manage inventory more efficiently tend to perform better financially. However, while the study highlights inventory's significance as a component of current assets, it focuses more on turnover rather than the structural composition of current assets.

Yankah, Osei, Owusu-Mensah, and Agyapong (2022) conducted a study on inventory management and the performance of listed manufacturing firms in Ghana. The study employed both descriptive and explanatory research designs; targeting 62 manufacturing firms located in the Kumasi Metropolis, with a final sample size of 54 determined using the Yamane formula. The study revealed that a one-unit improvement in inventory management resulted to a 31.9% increase in financial performance, alongside gains in market efficiency (20.3%) and customer satisfaction (21%). Nonetheless, the study's geographic limitation to a single metropolis restricts the applicability of its results to a wider range of manufacturing firms across diverse regions or national settings.

Similarly, Ikechi, Chidi, Kelechi and Mannaseh (2023) explored the effect of inventory management on the financial performance of manufacturing firms in Nigeria. The study employed an ex-post facto research design and focused on 56 manufacturing firms listed on the Nigerian Stock Exchange, from which 11 firms were purposively selected for analysis. Utilizing panel regression analysis under the OLS framework, the study tested hypotheses related to the CCC - which includes inventory holding time - as it relates to ROA. The findings indicated that the CCC had a negative and significant impact on ROA. While the study provides valuable insights, it presents a notable limitation of relying on a small purposive sample of 11

firms, which may not adequately capture the diversity of inventory practices across the entire manufacturing sector.

Conceptual Framework

The conceptual framework shows the interaction of variables under consideration visually. It illustrates how the components of current asset structure interact to influence financial performance, as depicted in Figure 2.1. As outlined in the framework, the study is structured around two classes of constructs: independent and dependent variables. The independent variables comprise trade and other receivables and inventory, representing key components of current assets. Financial performance serves as the dependent variable. The study hypothesizes that these current asset components significantly influence the financial performance of listed manufacturing and allied firms.

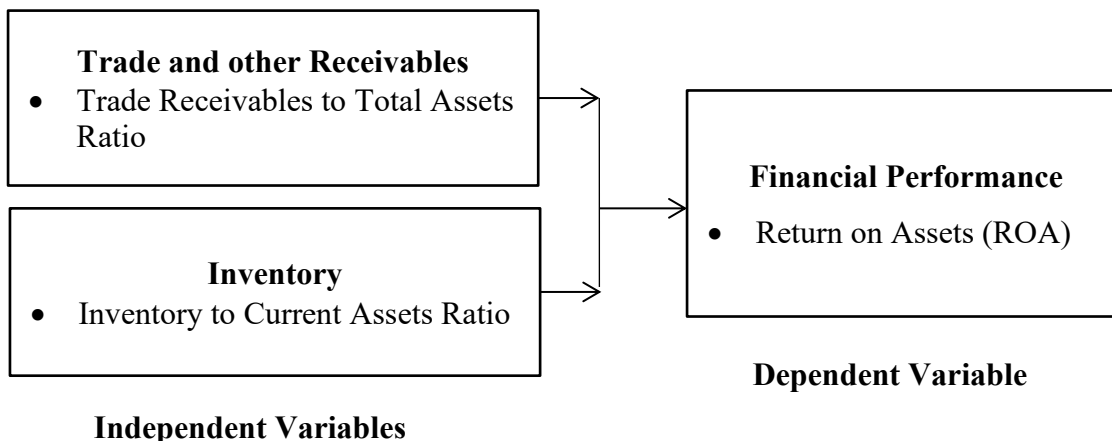


Figure 2. 1: Conceptual Framework

RESEARCH METHODOLOGY

The study adopted a descriptive research design to examine the relationship between current asset components and financial performance among manufacturing and allied firms listed on the Nairobi Securities Exchange (NSE). According to Kothari (2011), a research design provides the framework for collecting, measuring, and analyzing data. The descriptive design was considered appropriate because it enabled the systematic examination of relationships among variables without manipulating them. In addition, the use of panel data combining cross-sectional and time-series dimensions facilitated the analysis of firm performance trends over a ten-year period while controlling for unobserved heterogeneity.

The target population comprised all the eight manufacturing and allied firms listed on the NSE as of December 2024. Mugenda and Mugenda (2013) define a target population as the complete set of individuals, events, or objects to which a researcher intends to generalize findings, while Kothari (2011) describes it as a collection of units sharing common characteristics relevant to the study. The sampling frame consisted of the same eight firms identified from official NSE listings. Due to the relatively small and manageable population size, a census approach was adopted, allowing the inclusion of all firms in the study and minimizing the possibility of sampling bias (Saunders, Lewis & Thornhill, 2016; Mugenda & Mugenda, 2013).

The study relied exclusively on secondary data collected using a secondary data collection sheet. Data were extracted from audited annual reports published on the NSE, Capital Markets Authority (CMA), and company websites covering the period from 2015 to 2024. The information collected included trade and other receivables, inventory, total assets, and net income. The data were subsequently organized, cleaned, verified, and recorded in Microsoft Excel to facilitate statistical analysis.

Data analysis involved both descriptive and inferential statistical techniques. Bailey (2007) notes that data analysis entails coding, organizing, and structuring information to facilitate effective communication of findings. Descriptive statistics included measures such as means, standard deviations, coefficients of variation, skewness, kurtosis, and minimum and maximum values, while inferential analysis employed correlation and panel regression techniques to establish relationships between the study variables. All statistical tests were conducted at a 95 percent confidence level ($\alpha = 0.05$). Financial performance was modeled as a function of trade and other receivables, and inventory levels.

To ensure the validity and reliability of the regression results, several diagnostic tests were conducted in line with the assumptions of the Best Linear Unbiased Estimator (BLUE) model as recommended by Hair, Black, Babin, and Anderson (2022). Linearity was assessed using component-plus-residual plots, while normality was evaluated through normal quantile-quantile plots. Multicollinearity was examined using Variance Inflation Factor (VIF) and tolerance values following the guidelines of Gujarati (2011). Homoscedasticity was tested using the Breusch-Pagan test, and independence of residuals was assessed through the Durbin-Watson statistic. Furthermore, the Augmented Dickey-Fuller (ADF) test was used to establish stationarity of the panel data series, while the Hausman test was employed to determine the suitability of either the fixed effects or random effects model for panel regression analysis.

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics for Return on Assets

Financial performance, the dependent variable, was proxied by return on assets (ROA), measured as net income divided by average total assets. Table 4.1 presents the descriptive statistics for return on assets based on 78 firm-year observations. The number of observations is slightly lower than the expected 80 due to missing financial data for two firms in the final year of the study period.

Table 1: Descriptive Statistics for Return on Assets

Mean	0.05125637
Standard Deviation	0.1786081
Coefficient of Variation	3.484602987
Kurtosis	0.1061946
Skewness	-0.02165572
Minimum	-0.7382858
Maximum	0.4485362
Count	78

Table 1 shows a mean ROA of 5.13% which indicates modest average profitability among manufacturing and allied firms listed at the Nairobi Securities Exchange; however, this average conceals substantial variability in performance. The standard deviation of 17.86% and a coefficient of variation (CV) of 3.48 suggest considerable dispersion relative to the mean, indicating that firm-level profitability varied widely over the study period. The range further underscores this instability, with returns spanning from a loss of 73.83% (the minimum) to a profit of 44.85% (the maximum), reflecting significant differences between the weakest and strongest performers. The skewness coefficient -0.022 indicates an approximately symmetrical distribution, while the kurtosis value 0.106 suggests a distribution close to normal with no excessive concentration of extreme outliers. Overall, the results reveal that although the sector recorded a positive average return, profitability was highly volatile and unevenly distributed across firms and years.

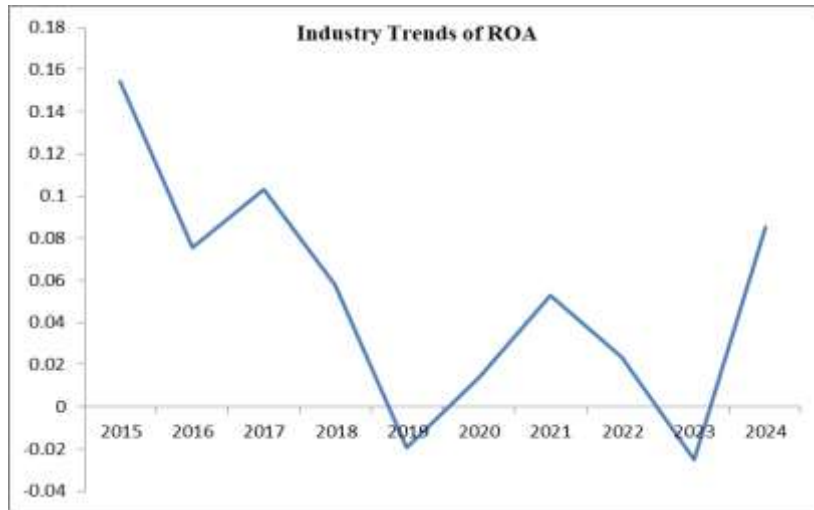


Figure 1: Industry Trends of Return on Assets

Figure 1 shows the industry-wide average ROA trend which reveals pronounced volatility over the period 2015 to 2024, accompanied by a general weakening in financial performance. The sector recorded a relatively strong average ROA of approximately 15.4% in 2015, after which performance exhibited a fluctuating but predominantly downward trajectory. The decline culminated in negative returns in 2019 and further deteriorated to a decade-low of about -2.5% in 2023, indicating periods of value erosion rather than value creation.

Although intermittent recoveries were observed in 2017 and 2021, these upturns were short-lived and insufficient to reverse the broader downward pattern, suggesting underlying structural or macroeconomic pressures affecting the sector. The marked improvement to roughly 8.5% in 2024 signals a possible recovery; however, the level remains substantially below the peak recorded at the beginning of the study period. Overall, the trend reflects sustained instability and weakened profitability across much of the decade, reinforcing concerns regarding the sector’s financial performance.

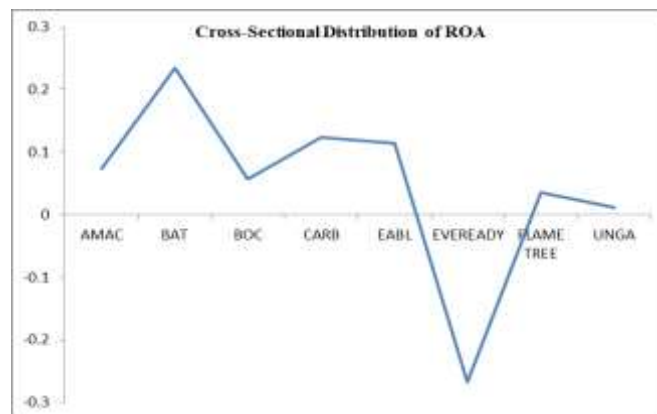


Figure 2: Cross-Sectional Distribution of Return on Assets

While the industry trend graph showed the industry mean plunging into negative territory in 2019 and 2023, Figure 2 reveals that these troughs were likely driven by severe underperformance from specific entities like Eveready, which maintains a deeply negative mean ROA of approximately -27%. In contrast, the peaks observed in the trend analysis were bolstered by high-performing outliers like British American Tobacco (BAT) Kenya limited, which boasts the highest mean ROA at over 23%. Overall, the positive industry average of 5.13% is explained by the firms which cluster between 5% to 12% range despite the heavy losses of a few.

Descriptive Statistics for Trade and other Receivables

Trade and other receivables were measured using the trade and other receivables (TOR) to total assets ratio (TAR), which represents the proportion of a firm's total assets that are tied up in receivables. This ratio provides an indication of the extent to which firms allocate their resources to credit extended to customers and other receivable balances.

Table 2: Descriptive Statistics for Trade and other Receivables

Mean	0.5283621
Standard Deviation	0.174167
Coefficient of Variation	0.32963568
Kurtosis	0.0290474
Skewness	0.00273176
Minimum	0.1693904
Maximum	0.9964289
Count	78

Table 2 shows that on average, the firms hold nearly 53% of their total assets in the form of trade and other receivables, indicating a high reliance on credit sales. The CV of 0.33 suggests that this reliance is relatively uniform across the firms. Skewness of 0.0027 and kurtosis of 0.029 indicate that the distribution of trade and other receivables across the 78 observations is almost perfectly normal. While there is a wide range between the minimum 0.169 and maximum 0.996, the data suggests that for most firms in this industry, managing credit risk and the collection of receivables is the dominant factor in their asset management strategy.



Figure 3: Industry Trends of Trade and other Receivables

Figure 3 shows the industry trends of trade and other receivables that can be used to corroborate the findings in Table 4.3. For the majority of the study period, the industry saw a gradual climb in trade and other receivables. After an initial dip to approximately 49% in 2016, the ratio embarked on a sustained upward trajectory. By 2023, the industry reached its decade peak of approximately 57%. However, there was a sharp decline in 2024 where the ratio plummeted to approximately 48%, the lowest of the decade. This sudden drop suggests a likely tightening of credit policies or a significant write-off of bad debts.

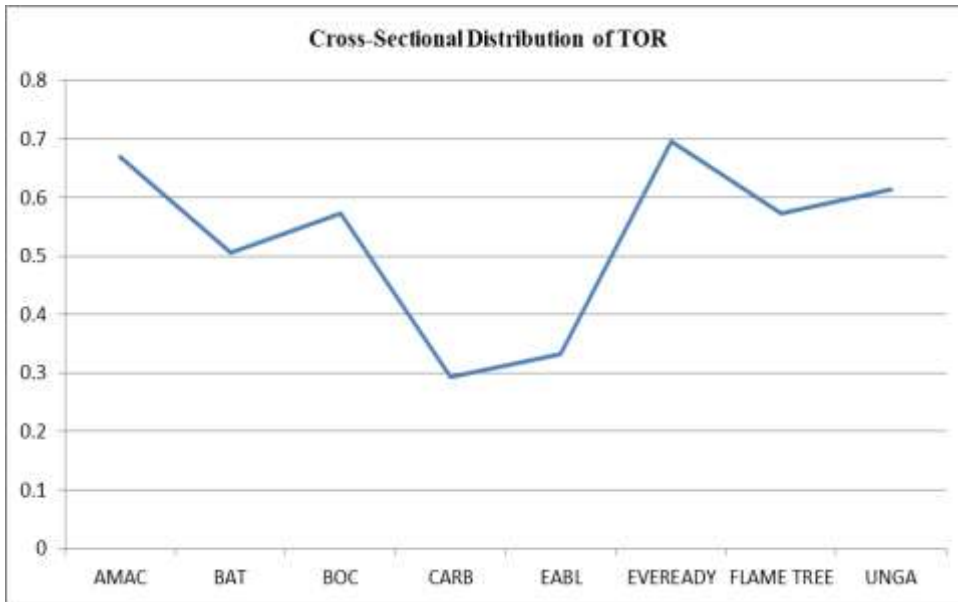


Figure 4: Cross-Sectional Distribution of Trade and other Receivables

Figure 4 shows that Eveready maintains the highest mean ratio at approximately 70%, followed closely by AMAC at roughly 67%. For these firms, trade and other receivables constitute the vast majority of their asset structure. A cluster of firms maintain ratios in the 57% to 62% range, aligning closely with the industry's peak trend years, while Carbacid investments limited (CARB) represents the industry minimum with a mean ratio of approximately 29%.

Descriptive Statistics for Inventory

Inventory was measured using the inventory (INV) to current assets ratio (CAR), which reflects the proportion of current assets held in the form of inventory. To minimize potential multicollinearity among the explanatory variables, inventory was expressed relative to current assets rather than total assets. The descriptive statistics for the inventory to current assets ratio across the panel data observations are presented in Table 4.4.

Table 3: Descriptive Statistics for Inventory

Mean	0.2921301
Standard Deviation	0.1790282
Coefficient of Variation	0.612837226
Kurtosis	0.02446769
Skewness	0.00352751
Minimum	0.02413331
Maximum	0.7260179
Count	78

Table 3 findings reveal that the mean of 0.292 indicates that, on average, the firms hold approximately 29.2% of their current assets in the form of inventory. The standard deviation of 0.179 and the CV of 0.613 suggest a noticeable lack of uniformity in inventory management strategies within the industry. Some firms operate with a lean inventory model, holding only 2.4% of current assets in inventory; conversely, at least one firm is highly inventory-heavy, with 72.6% (the maximum) of its current assets tied up in physical goods. Skewness of 0.0035 and kurtosis of 0.024 are remarkably close to zero, suggesting that the distribution of inventory ratios across the firms is almost perfectly symmetrical and follows a normal bell-shaped curve.

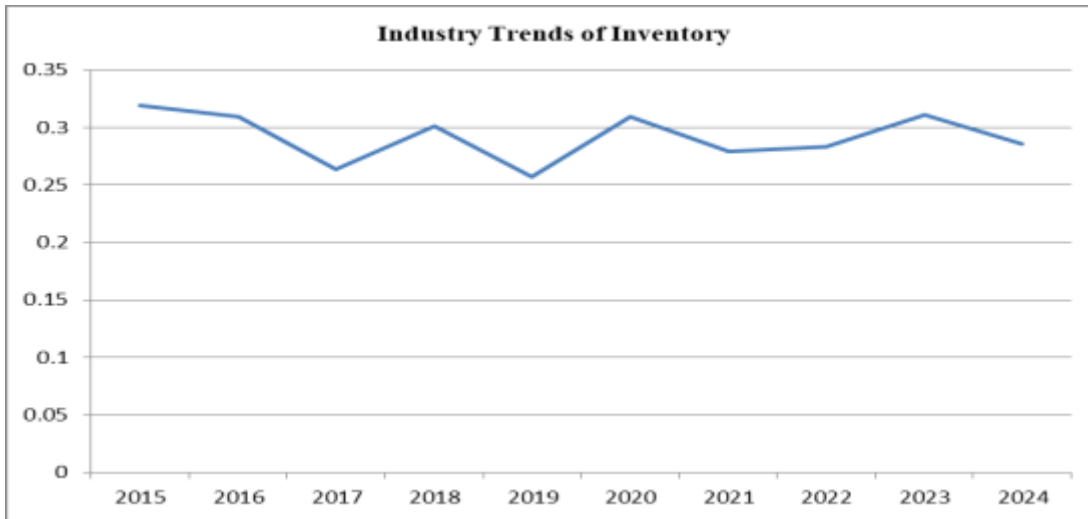


Figure 4: Industry Trends of Inventory

Figure 4 illustrates a relatively stable but fluctuating commitment to inventory holdings, with no single clear direction over the ten-year period. The highest recorded mean was at approximately 32% at the beginning of the period in 2015, and the lowest recorded 25% in 2019. It can also be reflected that after 2020, the industry reached a new normal in inventory management levels.

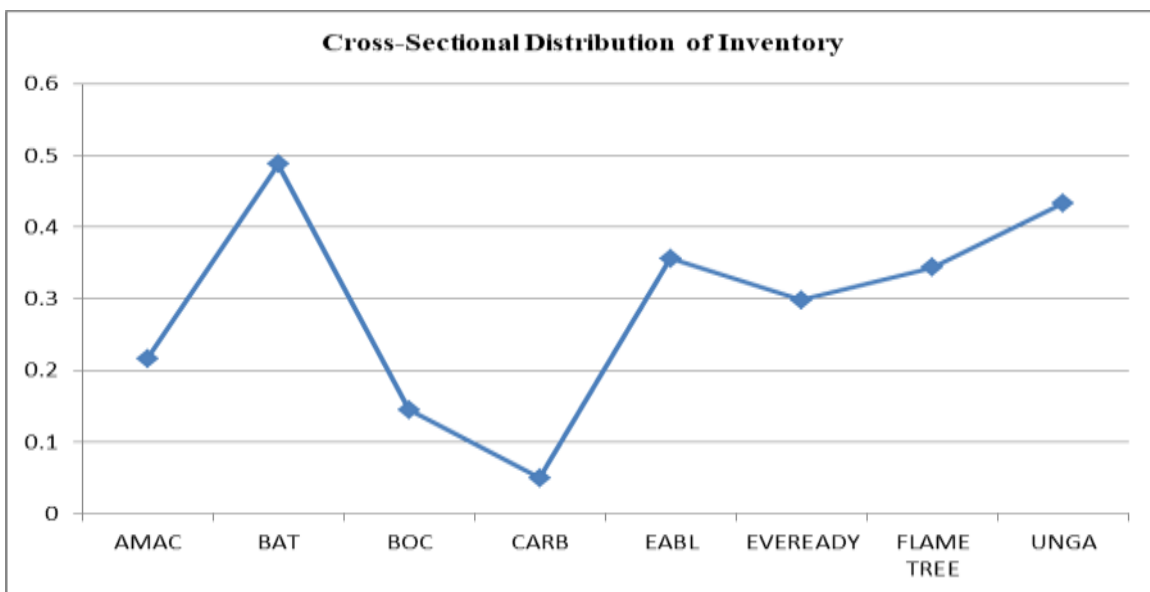


Figure 5: Cross-Sectional Distribution of Inventory

Figure 5 indicates that BAT maintains the highest mean inventory concentration, with approximately 49% of its current assets tied up in inventory. CARB represents the minimum with a mean ratio of approximately 5%. The contrast between BAT and CARB highlights that inventory management is highly firm-specific rather than industry-uniform. When compared to trade and other receivables, an interesting pattern emerges for firms like AMAC which has one of the highest receivables ratios 67% but maintains a relatively low inventory ratio of 22%.

Diagnostic Test Results

Prior to conducting regression analysis, diagnostic tests were performed to assess the suitability of the data and ensure compliance with the assumptions of panel regression analysis. The results indicated that the linearity assumption was satisfied, as the component-plus-residual plots showed no substantial curvature between the study variables and financial performance.

The normality assessment using the Q-Q plot revealed that the residuals were approximately normally distributed, with only minor deviations at the tails. Multicollinearity diagnostics showed that trade and other receivables and inventory had VIF values below the recommended threshold of 10, indicating the absence of multicollinearity concerns. The Breusch-Pagan test confirmed homoscedasticity, while the Durbin-Watson statistic indicated that the residuals were independent. In addition, the Augmented Dickey-Fuller test established stationarity after first differencing, and the Hausman test supported the use of the fixed-effects model. These findings confirmed the suitability of the data for regression analysis.

Regression Analysis Results

The study examined the influence of trade and other receivables and inventory on the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange using fixed-effects panel regression analysis.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.797	0.635	0.574	11.652

The model summary results indicate that the explanatory variables had a strong association with financial performance (R = 0.797). The coefficient of determination ($R^2 = 0.635$) shows that trade and other receivables and inventory jointly explained 63.52% of the variation in financial performance, while the remaining 36.48% was attributable to factors not included in the model.

Table 5: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.51304	4	0.12826	10.447	0.000
Residual	0.89609	73	0.01228		
Total	1.40913	77			

The ANOVA results indicate that the regression model was statistically significant (F = 10.447, $p < 0.001$). This implies that the explanatory variables jointly had a significant effect on financial performance and that the model was appropriate for predicting firm performance.

Table 6: Regression Coefficients

Variable	B	Std. Error	t	p-value
Constant	0.338	0.103	3.294	0.0016
Trade and Other Receivables	0.540	0.148	3.636	0.0005
Inventory	0.477	0.213	2.237	0.0078

The coefficient results reveal that trade and other receivables had a positive and statistically significant influence on financial performance ($\beta = 0.540$, $p = 0.0005$). This suggests that efficient receivables management enhances firm profitability through improved credit administration and timely collections. Inventory was also found to have a positive and significant effect on financial performance ($\beta = 0.477$, $p = 0.0078$), indicating that maintaining optimal inventory levels contributes to operational efficiency and improved financial outcomes. Since both variables recorded p-values below 0.05, the study concludes that trade and other receivables and inventory significantly influence the financial performance of manufacturing and allied firms listed on the Nairobi Securities Exchange.

Conclusions of the Study

Trade and other receivables emerged as the most influential factor, highlighting the importance of efficient credit management in enhancing profitability. Inventory also demonstrated a strong positive effect, emphasizing the role of operational efficiency and effective stock management in supporting firm performance.

Recommendations

The findings further revealed that trade and other receivables have a positive and statistically significant effect on financial performance, underscoring the critical role of receivables management in influencing firm profitability. Consequently, firms should strengthen their credit management policies. This includes implementing rigorous credit appraisal procedures, establishing clear credit terms, and enhancing receivables monitoring through aging analysis. Efficient collection strategies should be adopted to ensure timely cash inflows and sustain profitability.

With respect to inventory, the study found a positive and statistically significant relationship with financial performance, indicating that inventory levels exert a strong influence on profitability during the study period. Firms should focus on efficient inventory management practices to maintain optimal stock levels. Techniques such as Economic Order Quantity (EOQ), Just-in-Time (JIT) systems, and improved demand forecasting should be adopted to minimize holding costs while ensuring product availability.

Suggestions for Further Studies

While this study provides valuable insights into the relationship between current asset structure and financial performance of listed manufacturing and allied firms, several areas remain open for further investigation. The study focused on manufacturing and allied firms; therefore, future research could extend the analysis to other sectors such as construction and allied firms, wholesale and retail-oriented commercial enterprises, and additional manufacturing sub-sectors. These sectors are characterized by significant levels of inventory, trade receivables,

making them suitable for examination. Comparative studies across these sectors would provide a broader understanding of how current assets influence financial performance under varying operational dynamics. In addition, the study relied primarily on secondary data, which may not fully capture qualitative aspects such as managerial efficiency, internal control systems, or firm-specific policies influencing working capital management. Future studies could therefore incorporate primary data through surveys or interviews with finance managers to provide deeper insights into the practical challenges and decision-making processes underlying current asset management.

Furthermore, the study examined the effect of current asset components in isolation; however, financial performance may also be influenced by other firm-specific and macroeconomic factors such as firm size, leverage, inflation, and interest rates. Future research could incorporate these variables into more comprehensive models to better explain variations in financial performance and enhance the robustness of findings. Expanding the scope of analysis to include these additional determinants would not only improve explanatory power but also provide a more holistic understanding of the factors driving financial performance across firms.

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