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LIQUIDITY MANAGEMENT AND THE PERFORMANCE OF CONSTRUCTION COMPANIES IN NIGERIA

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ABSTRACT

This study examined the relationship between liquidity management and the financial performance of construction and real estate companies listed on the Nigerian Exchange. Adopting a correlational research design, the study focused on how liquidity management proxies working capital ratio, quick ratio, cash ratio, and operating cash flow ratio influence firm performance, measured by profit after tax. Secondary data were extracted from the published financial statements of five selected listed construction/real estate companies over the study period, yielding a total of 50 firm-year observations. Data were analyzed using descriptive statistics and multiple regression techniques with the aid of SPSS. Descriptive results showed that profit after tax (log-transformed) had a mean value of 6.31 with a standard deviation of 0.89, while the average working capital ratio and quick ratio were 2.25 and 2.12 respectively, indicating moderate liquidity levels among the firms. The regression results revealed that none of the individual liquidity proxies had a statistically significant effect on financial performance at the 5% level. Specifically, working capital ratio ($t = 1.257$, $p > 0.05$), quick ratio ($t = -1.365$, $p > 0.05$), cash ratio ($t = 1.810$, $p > 0.05$), and operating cash flow ratio showed insignificant relationships with profit after tax. However, the joint effect of the liquidity variables was statistically significant, as indicated by an F-statistic of

3.209 (p = 0.021). The model explained approximately 22% of the variation in financial performance (R^2 = 0.222). The findings suggest that while liquidity management practices jointly influence the performance of construction companies in Nigeria, individual liquidity indicators do not exert a significant standalone effect. The study concludes that effective liquidity management remains important but may not directly translate into improved profitability without complementary operational and strategic efficiencies. It recommends improved cash planning, budgetary control, and integrated financial management practices to enhance the performance of construction and real estate companies in Nigeria.

KEYWORDS: Liquidity Management, Financial Performance, Construction Companies, Profit After Tax, Working Capital Ratio, Nigerian Exchange.

SECTION ONE

INTRODUCTION

1.1 Background to the Study

The profitability and stability of enterprises in many industries depend on financial resource management, notably liquidity. Nigeria's building industry is vital to infrastructural development and economic growth. This study examines how liquidity management affects Nigerian construction firms.Nigeria's construction industry has struggled financially. The high capital requirements of building projects and the long delay between investing and being paid for work cause many of these challenges. This situation needs a heavy focus on liquidity, or the ability to meet short-term obligations (Ogundipe et al., 2012). Financial concerns have delayed project completion, bankrupted promising businesses, and slowed the economy (Adeyemi and Salami, 2010).Many academic studies have shown that liquidity management is crucial to a firm's solvency and profitability. Uremadu (2006) found that efficient liquidity management reduces financial hardship and improves organisational performance. Poor liquidity can delay projects, damage reputation, and even kill a company.Nigeria's National Bureau of Statistics reports that the construction sector contributes significantly to the country's GDP (NBS, 2021). The industry is important yet often has liquidity issues, making it a fascinating area for research. Liquidity management analysis in this scenario may inspire financial stability improvements.Liquidity management is how companies ensure they have enough cash or liquid assets to meet short-term obligations (Eljelly, 2004). These strategies tend to manage working capital and balance liquidity and profitability. This study examined working capital ratio, quick ratio, cash ratio,

and operating cash flow ratio, which are common financial indicators. The dependent variable, 'Performance of construction companies,' is commonly measured by financial outcomes like 'Profit after tax' (Atrill and McLaney, 2018).Brigham and Ehrhardt (2013) imply a complex but significant relationship between liquidity management and corporate performance. A corporation needs liquidity to meet current obligations and invest. This boosts firm profits and sustainability. Due to Nigeria's building industry's challenges, this relationship is enhanced. Deloof (2003) found a strong correlation between business profitability and liquidity management, supporting the premise that efficiently addressing these liquidity elements should improve corporate performance.This study examines how Nigerian construction companies can improve performance by managing liquidity using the working capital ratio, quick ratio, cash ratio, and operating cash flow ratio. The research intends to get insights into this link to help the industry's financial stability and national development.

1.2 Statement of the problem

It would be great if Nigerian construction companies could keep their finances in order and pay their bills on time. That way, they could keep their businesses running smoothly. These businesses would have sufficient liquid assets to run smoothly and finance projects efficiently, allowing for projects to be completed on time and contributing to economic growth.A lot of Nigerian construction companies have a hard time keeping track of their money coming in and going out. Delays in project completion, difficulties in meeting short-term obligations, and even insolvency might result from these concerns. Future business could be hindered by this liquidity issue, which could lead to cost overruns and reputational damage.Companies have used a variety of strategies to control their liquidity over the years. Operating cash flow, working capital, quick ratios, and cash are some of the financial management tools they use. They want to improve their capacity to pay short-term obligations with short-term assets, so they're making some changes to their finances.The issue continues with disastrous consequences, even though they try to fix it. Because of a lack of easily accessible capital, construction companies risk losing out on lucrative transactions if they are unable to control their liquidity. Their capacity to grow and contribute to the construction industry and economy could be hindered if they are unable to obtain bonds or finance for future ventures.It is evident that there is a lack of research connecting the operational performance of Nigerian construction firms with their liquidity management strategies. Although various financial criteria have been examined independently, no

thorough analysis has connected liquidity measurements to the actual performance of construction enterprises. How does liquidity management impact the performance of Nigerian construction firms? That is the key question this study seeks to answer.

1.3 Objectives of the Study

The general objective of the study is: to investigate the level at which liquidity management affects performance of construction companies in Nigeria. Specific objectives include:

1. To evaluate the influence of working capital ratio on the performance of construction companies in Nigeria.
2. To ascertain the influence of quick ratio on the performance of construction companies in Nigeria.
3. To ascertain the influence of cash ratio on the performance of construction companies in Nigeria.

1.4 Hypothesis of the Study

$H0_1$ There is no significant influence of the working capital ratio on the performance of construction companies in Nigeria.

$H0_2$ There is no significant influence of the quick ratio on the performance of construction companies in Nigeria.

$H0_3$ There is no significant influence of the cash ratio on the performance of construction companies in Nigeria.

1.5 Significance of the Study

The study on liquidity management and the success of construction firms was interesting to many in Nigeria's economic and construction sectors. Investors, analysts of financial markets, managers and owners of construction companies, lawmakers, and scholars could all benefit from the results.The results of the study were useful for managers and owners of construction companies. Their financial planning was optimised because they understood the impact of liquidity management on company performance, especially profitability. Meeting short-term obligations, minimising cost of capital, and boosting profitability can all be achieved through effective liquidity management. If these CEOs had more information, they could have made better judgements that would have ensured the survival of their companies.Both current and potential investors found the study intriguing. The study demonstrated that a construction company's financial health can be indicated by liquidity ratios such as quick, cash, working capital, and operating cash flow. Using this data, investors were able to weigh the potential

benefits and drawbacks of their businesses, which ultimately led to more informed investment decisions in the construction industry.More complex analytical frameworks and tools were able to be constructed with the aid of the study by financial analysts. Analysts were better able to assess the financial accounts of construction firms and provide consumers with advice after they learnt about the connection between liquidity management and company performance.Policymakers and regulators were able to use the study's findings to inform the development of measures meant to spur expansion in the building industry. By coordinating regulatory frameworks with the liquidity needs of the sector, these legislators could enhance the capacity of the construction industry to advance national development.Accounting and finance researchers now have real data to bolster their literature reviews. Research on liquidity management in Nigeria's building industry sheds new light on key performance metrics and corporate finance.

1.6 Scope and Limitations to the Study

This study studied how liquidity management affects Nigerian construction firms. This study investigated several Nigerian construction companies' financial and performance records.We analysed only the most recent full fiscal years to assure relevancy and data accuracy. The study focused on construction enterprises due to their liquidity concerns and economic importance to Nigeria.For liquidity management, working capital, quick, cash, and operating cash flow ratios were independent. Financial measures were used to examine if these organisations could satisfy short-term commitments without affecting operations. Construction companies' financial performance was measured by profit after tax.Limited to Nigeria, multinational construction businesses and those not obeying Nigerian business regulations were excluded. Beyond liquidity management, the study did not analyse long-term solvency, investment alternatives, market expansion, or business success. In conclusion, this study examined liquidity management and Nigerian construction companies' financial performance using the latest financial data.

2.0 Review of Related Literature

2.1 Conceptual Review

2.1.1 Importance of liquidity

The ability to quickly and easily turn assets into cash to satisfy short-term obligations is known as liquidity, and it is a crucial concept in finance. For businesses, liquidity is an important metric to have since it shows how well they can meet their short-term and long-

term financial commitments. Businesses rely on liquidity as a safety net, which is one of its key importance. When faced with unanticipated costs or abrupt market declines, companies with more cash on hand are better able to weather the storm. According to Brigham and Ehrhardt (2017), this financial flexibility is absolutely necessary to keep the business running smoothly.A healthy and stable financial situation also depends on liquidity. There is less financial risk and more stability at companies with increased liquidity. Companies with a high level of liquidity are seen as safer investment options by creditors and investors, which benefits the company as a whole (Ross, Westerfield and Jordan, 2016). The availability of external finance is another factor that affects a company's liquidity. Lending terms are more favourable for businesses that show they have plenty of cash on hand. The reason behind this is that lenders see these companies as having a lower risk because they can pay back their debts quickly (Brealey, Myers and Allen, 2017).In addition, both operational efficiency and strategic planning are greatly impacted by liquidity management. A company's ability to maximise returns through efficient resource allocation is dependent on its liquidity management. Pandey (2010) argues that operational inefficiencies and missed growth opportunities can result from low liquidity.

Lastly, liquidity is also essential for maintaining a positive reputation in the market. Companies that consistently meet their financial obligations, pay suppliers on time, and maintain transparent financial records are viewed more favourably by stakeholders. This positive reputation can lead to stronger business relationships and potentially better market positioning (Gitman and Zutter, 2015). In summary, liquidity is a pivotal financial metric that ensures a company's operational efficiency, financial stability, and overall market reputation. Efficient liquidity management can thus be seen as a cornerstone for sustainable business success.

2.1.2 Working Capital Ratio

The current ratio, also known as the working capital ratio, is a measure of a company's ability to cover its short-term obligations with its current assets. This ratio determines a company's operational efficiency and liquidity. There is an easy way to calculate the working capital ratio: The ratio of working capital to current liabilities is equal to current assets divided by current liabilities. I Acquiring Knowledge of Present Assets and Debts. Cash on hand, receivables from customers, inventory on hand, and any other assets having a cash conversion horizon of one year or less are considered current assets. Accounts payable, short-

term loans, and other obligations that the firm must pay within a year are all considered current liabilities (Atrill and McLaney, 2015). Functional Ratio of Working Capital.

A company has enough working capital if its short-term assets are greater than or equal to its short-term liabilities, which is typically between 1.2 and 2.0. If the ratio is less than 1, it means that the company is having trouble paying its bills, while a high ratio could mean that it is hoarding too much cash or goods (Brigham and Ehrhardt, 2014). Soundness of the finances and effectiveness of operations. A low working capital ratio indicates inefficient business operations. An efficient administration of current assets and liabilities, as suggested by a high ratio, may aid the organisation in resolving financial challenges and running smoothly. A low ratio, on the other hand, can mean that there is overleverage, liquidity issues, or insufficient management (Pandey, 2010). Financial Security and Risk.

A healthy working capital ratio indicates a financially stable and risk-free business. Companies run the risk of going bankrupt if they don't have enough working capital to pay their short-term bills. Working capital, on the other hand, mitigates this risk and guarantees the continuity of the business (Gitman and Zutter, 2015). A company's liquidity and efficiency can be measured by the working capital ratio. Stakeholders can see how effectively the company handles its assets and short-term obligations.

2.1.3 Quick ratio

The quick ratio, also known as the acid-test ratio, is a financial metric used to assess a company's ability to meet its short-term liabilities with its most liquid assets. This ratio is more stringent compared to the current ratio, as it excludes inventories from current assets. The quick ratio is calculated by dividing the sum of cash, cash equivalents, marketable securities, and accounts receivable by current liabilities (Bragg, 2018). The quick ratio is crucial in liquidity management as it provides insights into a company's short-term financial health and operational efficiency (Ross, Westerfield and Jaffe, 2013). A higher quick ratio indicates that a company has a larger buffer of liquid assets to cover its short-term obligations, which is often seen as a sign of financial stability. However, it is essential to consider industry norms because what might be a good quick ratio in one industry may be considered inadequate in another (Pandey, 2015).

2.1.4 Cash Ratio

The cash ratio is a critical measure in liquidity management, particularly focused on a company's ability to cover its short-term liabilities using its most liquid assets. Specifically,

the cash ratio evaluates the proportion of cash and cash equivalents a firm holds in relation to its current liabilities. The formula used to calculate the cash ratio is: Cash Ratio = Cash and Cash Equivalents / Current Liabilities Importance of the Cash Ratio. The cash ratio is advantageous because it provides a conservative measure of a company's liquidity. Unlike other ratios such as the current ratio and quick ratio, the cash ratio includes only the most liquid assets, excluding receivables and inventory. This strict exclusion criteria make it a reliable indicator of immediate liquidity (Brigham and Ehrhardt, 2013). Companies with a high cash ratio are generally seen as having strong financial stability because they can easily meet their short-term obligations without needing to liquidate other assets. This measure is particularly useful in periods of financial instability or economic downturns, where liquidity is paramount (Ross et al., 2008).

2.1.5 Operating Cash Flow Ratio

The operating cash flow ratio is a financial metric that evaluates a company's ability to cover its current liabilities with the cash flow generated from its core business operations. This ratio provides a snapshot of the actual cash a company generates from its operations, which is critical for understanding its liquidity and overall financial health. The operating cash flow ratio is calculated by dividing the operating cash flow by the current liabilities. The formula is as follows: Operating Cash Flow Ratio = Operating Cash Flow/Current Liabilities

A higher operating cash flow ratio indicates that the company is more capable of meeting its short-term liabilities, implying strong financial health. Conversely, a lower ratio suggests potential liquidity problems, as the company may struggle to meet its short-term obligations.

2.1.6 Measures of profitability

1. You can't evaluate a business's efficiency and performance in making a profit without looking at its profitability metrics. Financial health and the ability to produce earnings relative to expenditures and other costs spent during a certain period can be evaluated by investors, management, and other stakeholders with the use of these metrics. Some typical ways to evaluate profitability are as follows:
2. The gross profit margin is the proportion of sales that surpass the cost of goods sold (COGS). The formula is as follows: gross profit divided by net sales. A high gross profit margin is an indication of efficient production cost management in relation to revenue (Bragg, 2020).

3. Operating Profit Margin: This metric, which is similar to the operating margin, displays the proportion of revenue that is left over after subtracting operating expenses but before interest and taxes are deducted. To get it, take operational profit and divide it by net sales. The operational effectiveness of a corporation can be revealed by this margin (Helfert, 2001).
4. Net Profit Margin: This ratio reveals the proportion of income that stays as profit following the deduction of all expenses, such as operating expenses, interest, and taxes. Divide net profit by net sales to get it. A more lucrative business is one with a larger net profit margin (Brigham and Houston, 2018).
5. ROA: This metric shows how well a business puts its assets to work in making a profit. A simple division of net income by total assets yields this number. The return on assets (ROA) is a key profitability measure since it reveals the efficiency with which a business generates profits from its asset base (Ross, Westerfield and Jaffe, 2005).
6. This metric assesses the profitability in relation to the equity held by shareholders. Divide net income by shareholders' equity to get it. Return on equity (ROE) shows how well a company is reinvesting its earnings (Penman, 2013).
7. vi.EPS: This metric determines how much of a profit is allocated to every share of common stock that is currently outstanding. A simple division of net income by outstanding share capital yields the dividend yield. For investors, earnings per share (EPS) is a key metric since it shows how much money a business is producing off of every piece of stock (Deegan, 2013).
8. Return on Investment (ROI): This metric assesses the efficacy or profitability of an investment. Divide the investment's net profit by the investment's initial cost to get the ROI. Profitability of various investments can be compared using the use of return on investment (ROI) (Anthony, Hawkins and Merchant, 2010).
9. Investors, creditors, and other interested parties can learn a lot about a business's health and profitability by carefully studying these metrics.

2.2 Theoretical framework

Academic research relies heavily on theoretical frameworks, which provide a systematic perspective and help to organise and direct the research process. They lay the groundwork for testing hypotheses and lend credence to the study's empirical findings. The purpose of the research, titled "Liquidity Management and the Performance of Construction Companies in Nigeria," is to determine how different liquidity ratios affect the success of businesses. Three

theories are essential for investigating and comprehending these dynamics, and they are as follows: We have the Pecking Order Theory, the Resource-Based View Theory, and the Liquidity Preference Theory.

2.2.1 Liquidity Preference Theory

In 1936, John Maynard Keynes put forth his theory of liquidity preference. Interest preferences for liquid assets over illiquid investments are explained by the macroeconomic concepts put forward by Keynes, which form the basis of this theory. There are three types of human motivations—transaction, precaution, and speculation—that lead people to favour keeping their wealth in liquid forms, according to Keynes. According to the hypothesis, corporations and individuals would rather have their money readily available to pay for unforeseen expenses or invest in new chances.

Keynes suggested three main reasons for holding liquid assets:

1. The transaction motive, which underscores the need for liquidity to carry out day-to-day operations.
2. The precautionary motive which is about hedging against future uncertainties and unforeseen expenditures.
3. The speculative motive, which revolves around the preference for liquidity for taking advantage of future changes in interest rates or asset prices (Keynes, 1936).

Given the cyclical and frequently unpredictable nature of the construction sector, liquidity is of the utmost importance for Nigerian construction enterprises. Ensuring that organisations can pay their immediate operational expenses, take on new projects without delay, and weather economic downturns or unanticipated financial needs are all ways in which adequate liquidity management can effect their success. This study is in line with the idea that liquidity preference can affect business performance. It seeks to examine the effects of different liquidity metrics on the performance of construction enterprises, such as the Working Capital Ratio, Quick Ratio, Cash Ratio, and others.

2.2.2 Resource-Based View Theory

Birger Wernerfelt first proposed the Resource-Based View (RBV) Theory in 1984. Based on this principle, companies can stay ahead of the competition over the long haul if they masterfully control their own internal resources and competencies. Assets, both physical and immaterial, skills, and business procedures are the main types of resources, according to

Wernerfelt and others who built on his work.The core idea behind RBV is that a company's internal strengths are more important than outside forces when it comes to gaining a competitive edge. The main factors that determine a firm's performance, according to Wernerfelt (1984), are its distinctive resources and competencies. Resources can only provide a lasting competitive advantage if they meet the criteria of being precious, scarce, inimitable, and non-substitutable.Regarding the study, the RBV theory stresses that liquidity and other aspects of internal resource management are crucial in deciding how well a corporation does. One strategic resource that Nigerian construction businesses can use to their advantage is effective liquidity management. The best way for construction companies to take advantage of opportunities and protect themselves from hazards is to maximise their working capital, fast assets, and cash reserves. The study's goal of evaluating the impact of liquidity on business performance is well aligned with this.

2.2.3 Pecking Order Theory

With the help of Nicolas Majluf and Stewart C. Myers, the Pecking Order Theory was put forth in 1984. Companies should prioritise their funding sources in accordance with this theory's "least effort, least resistance" principle. The proposed order of priority ranks internal finance (retained earnings) highest, then debt, and equity last. Because of the information asymmetry that occurs when issuing fresh equity and the lower costs associated with internal financing, the theory states that corporations prefer internal financing.According to the hypothesis put forward by Myers and Majluf (1984), businesses that have a lot of cash on hand can fund their operations and investments using those resources. On the other hand, businesses that don't have as much cash on hand may have to issue debt or equity, which are both more expensive and carry more risk.

The pecking order hypothesis is essential for comprehending the impact of liquidity on financial decision-making and performance as a whole, and it provides a basic explanation of the financing hierarchy.To better understand how liquidity levels impact financial decision-making and performance, the Pecking Order Theory can be useful when applied to Nigerian construction enterprises. By avoiding costly financing choices, companies can reduce financial costs and risks through effective liquidity management. Theoretically, this supports the study's central claim that, by enabling construction firms to fund projects internally rather than seeking external, potentially more expensive sources of capital, good liquidity management can substantially affect the financial performance of these businesses.To review, the three theories offer a thorough and multi-dimensional theoretical framework to back the

investigation of liquidity management and its impact on the efficiency and effectiveness of Nigerian construction firms. Organisations should prioritise their financing alternatives according to Pecking Order Theory, RBV emphasises the strategic importance of internal resource management, and Liquidity Preference Theory explains why enterprises need to preserve liquidity. All things considered, these ideas provide strong backing for the study's aims and data analysis.

2.3 Empirical review

Uwaleke and Akinnagbe (2023) examined the effect of liquidity risk on the financial performance of listed deposit money banks in Nigeria. The main objective of their study was to investigate how liquidity risk, measured by loan-to-deposit-ratio, loan to assets ratio, and cash reserve ratio, affects the financial performance of these banks. The authors used an ex post facto research design and collected secondary data from the audited annual reports of the banks and the Central Bank of Nigeria, covering the years 2006 to 2021. They analyzed the data using panel data analysis techniques and the OLS method with the aid of STATA Version 15. Their findings revealed that loan to asset ratio and cash reserve ratio have a significant positive effect on the return on equity of listed deposit money banks in both the long and short run, whereas loan-to-deposit-ratio was not significant. The study concluded that maintaining optimal levels of cash reserve is crucial for gauging against unforeseen medium to long-term liquidity funding and maximizing profitability. The authors recommended that listed deposit money banks should identify and maintain these optimal levels to enhance their financial performance.

Lambe Isaac *et al.* (2022) conducted a study titled "Moderating Role of Managerial Ownership on the Effect of Cash Conversion Cycle and Receivable to Payable ratio on Firm Performance in Listed Industrial and Consumer Goods Companies in Nigeria." The main objective of the study was to investigate how managerial ownership influences the relationship between cash conversion cycle and receivable to payable ratio on the performance of listed firms in Nigeria. The research utilized an ex-post facto design and focused on a sample of 26 listed Nigerian industrial and consumer goods businesses from the Nigerian Exchange Group (NGX). The dataset covered the years from 2011 to 2021. The researchers employed correlation reviews and multiple regression models to analyze the variables and their interrelationships. The findings indicated that the beneficial effect of the receivables-to-payments ratio on financial performance is tempered by the degree of ownership concentration. Additionally, a slowed cash conversion cycle due to high

ownership concentration was found to have a favorable but negligible impact on financial outcomes. The study recommended that management of listed firms in Nigeria should cultivate long-term relationships with their suppliers to gain quicker trade finance and improve firm performance. Furthermore, implementing a robust credit policy to manage accounts receivables effectively will help avoid poor financial performance.

Umar and Isiaka (2021) investigated working capital management and financial performance of non-financial quoted companies in Nigeria. The main objective was to examine the effect of working capital management on the financial performance of these companies, particularly using earnings per share as a measure of financial performance. For this study, they utilized a panel research design and analyzed data from 2014 to 2018. The data were retrieved from the Nigerian Stock Exchange 2019 Factbook. The analysis employed Pooled Ordinary Least Squares, fixed effect, and random effect methods. They considered working capital management variables such as Accounts Receivable Period, Inventory Turnover Period, and Accounts Payable Period. Additionally, control variables like annual capital expenditure, age of the firm, GDP, firm size, growth of the company, and firm leverage were included to understand their effect on EPS. The findings indicated that Inventory Turnover Period and Accounts Receivable Period negatively influenced EPS, while Accounts Payable Period had a positive influence on EPS. Further, all control variables were significant, but only the age of the firm had a positive relation to EPS. The study recommended that non-financial companies should focus on reducing Inventory Turnover Period and Accounts Receivable Period while increasing their Accounts Payable Period to improve profitability.

Ighosewe, *et al.* (2022) examined the impact of working capital management on the corporate performance of quoted consumer goods sector firms in Nigeria. The main objective of the study was to investigate the relationship between working capital management proxies like cash conversion cycle, current ratio, quick ratio, asset turnover ratio, average payment period, average collection period, and inventory collection period and the return on assets of listed Nigerian consumer goods sector firms. The study utilized a panel data approach, covering the period from 2009 to 2018, and involved 120 cross-sectional units. Data sources included financial statements of the firms. The research design was ex-post facto, and data analysis procedures involved diagnostic tests like the Lagrange Multiplier Tests for Random Effects, Hausman test, and cross-sectional dependence test. Findings showed a mixed relationship between working capital management and return on assets, indicating that effective inventory management is crucial for high profitability. The study recommended that firms in the

Nigerian consumer goods sector should focus on managing their current ratio, quick ratio, and asset turnover ratio to achieve high returns and minimize risks.

Ogunsola and Gbadebo (2022) examined the impact of working capital management on the financial performance of firms in Nigeria's consumer goods sector. The main objective of the study was to determine how working capital management affects financial performance. An ex-post facto research design was employed, analyzing data from annual financial reports of nine consumer goods firms over a ten-year period (2011-2020). Descriptive statistics, correlation, and panel regression analysis were used for data analysis. The findings revealed that inventory turnover had a positive but insignificant effect on return on assets. In contrast, trade receivable collection period, trade payable payment period, and cash conversion cycle had negative and insignificant effects. The study concluded that working capital management does not significantly affect the financial performance of the selected firms. It was recommended that organizations pay closer attention to their working capital management practices to enhance financial performance.

Dada, *et al* (2021) assessed the impact of working capital management on corporate financial performance of the consumer goods sector in Nigeria. The main objective of the study was to determine how average collection period, cash conversion cycle, and average payment period affect the return on assets of consumer goods industries. An ex-post facto research design was used, drawing on panel data spanning five years (2013-2017) for five consumer goods firms in Nigeria. The data were analyzed using descriptive statistics, correlation, fixed effect model, random effect model, and various post estimation tests. The findings indicated that average collection period and cash conversion cycle both had a negative but insignificant impact on profitability, while average payment period had a significant negative impact. Based on these results, it was recommended that management of manufacturing firms should adopt effective cost reduction strategies, control labour costs, ensure adequate supervision of workers, monitor firm’s assets, and provide employee training.

2.4 Gap in the study

The current body of empirical research on the topic has mostly ignored the construction industry in favour of studying the correlation between poor liquidity management and poor financial performance in other Nigerian sectors, such as those dealing with industrial and consumer goods, pharmaceuticals, agriculture, and hospitality. In addition, much of the prior research relied on indicators for cash flow management, inventory turnover, debt equity ratio, and loan-to-deposit ratio. While prior research mostly focused on working capital ratios and

quick ratios, this study uses cash ratios, operating cash flow ratios, and working capital as proxies for liquidity management. The study also stands out from the rest by using "profit after tax" as its primary financial performance statistic for construction companies, as opposed to ROE, ROA, or earnings per share, which were the primary metrics used in earlier studies.Therefore, this study aims to fill a gap by studying how liquidity management affects the performance of Nigerian construction companies. It will do this by applying specific liquidity proxies, such as the working capital ratio, quick ratio, cash ratio, and operating cash flow ratio, and by measuring performance explicitly by 'profit after tax.' There is a lack of sufficient attention to this aspect in the current literature.

3.0 METHODOLOGY

3.1 Research Design

For this study, researchers opted for a correlational approach. In order to characterise and quantify the level of connection (or relationship) between multiple variables, researchers often employ a correlational research design (Cresswell, 2014). Since the study's overarching goal was to enquire into how liquidity management relates to the efficiency and effectiveness of Nigerian construction firms, this research approach was suitable. The study used a correlational research design to examine the relationship between various liquidity management metrics and the performance of construction companies as measured by profit after tax. These metrics include working capital ratio, quick ratio, cash ratio, and operating cash flow ratio.

3.2 Population of the Study

The population of this study is made up of construction/real estate companies in Nigeria, quoted in the Nigerian Stock Exchange (NSE) as at 31st December 2023. There are Nine (9) manufacturing companies in Nigeria.

3.3 Sample size and Sampling Technique

The sample size used for this study was drawn using convenience sampling technique. Convenience sapling technique is a technique where members of the population must meet certain criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the purpose of the study (Dornyei, 2007). From the population of the study, the sample size was selected based on the availability of data required from those companies. The companies selected for this is presented in table 3.1.

Table 3.1 Selected Companies for the Study

S/N	COMPANIES
1	Julius Berger Nigeria Plc
2	Sfs Real Estate Investment Trust
3	Smart Products Nigeria Plc
4	Updc Plc
5	AVA Infrastructure Fund

Source: Researcher's Compilation, 2025.

3.4 Sources of Data

The data used for this study were collected mainly from secondary sources. Data used were retrieved from journals as well as from Published financial statements of the companies under consideration.

3.5 Model Specification

The model specification for the study on 'Liquidity management and the performance of construction companies in Nigeria' was developed to show the relationship between the independent variables and the dependent variable. The independent variables included in the study were Liquidity management proxies. The dependent variable was the Performance of construction companies.

To model the relationship algebraically, we proposed an equation where the dependent variable (Profit after tax) was a function of the independent variables (Working capital ratio, Quick ratio, Cash ratio, and Operating cash flow ratio). The algebraic equation is expressed as follows:

$$Profit\_after\_tax = \beta0 + \beta1\ (Working\_capital\_ratio) + \beta2\ (Quick\_ratio) + \beta3\ (Cash\_ratio) + \beta4\ (Operating\_cash\_flow\_ratio) + \varepsilon$$

In this equation:

- Profit_after_tax represents the performance of construction companies.
- β0 is the intercept, a constant term.
- β1, β2, β3, and β4 are the coefficients of the respective independent variables.
- Working_capital_ratio, Quick_ratio, Cash_ratio, and Operating_cash_flow_ratio are the independent variables related to liquidity management.
- ε represents the error term.

3.6 Description and measurement of Variables

In my final year project titled "Liquidity Management and the Performance of Construction Companies in Nigeria," the variables were categorized into independent and dependent variables. The proxies used to measure each of them are as follows:

Independent variables: Liquidity Management

The proxies used to measure Liquidity Management included:

Working Capital Ratio

Formula: (Current Assets / Current Liabilities)

Quick Ratio

Formula: ((Current Assets - Inventory) / Current Liabilities)

Cash Ratio

Formula: (Cash + Cash Equivalents) / Current Liabilities)

Operating Cash Flow Ratio

Formula: (Operating Cash Flow / Current Liabilities)

Dependent variables: Performance of Construction Companies

The proxy used to measure the Performance of Construction Companies was:

Profit After Tax (No specific formula, as it is a direct financial metric reported by companies).

3.7 Method of data analysis

For this study, multiple regression analysis was chosen as the most suitable data analysis technique. This method was selected because it allows for the examination of the relationship between multiple independent variables (liquidity management proxies) and a single dependent variable (performance of construction companies). Multiple regression analysis is well-regarded for its ability to handle complex relationships among variables and to assess the individual impact of each independent variable on the dependent variable. According to Hair et al. (2010), multiple regression analysis is particularly useful in scenarios where there is a need to measure the predictive power of several variables on a particular outcome. The analysis was performed using the Statistical Package for the Social Sciences (SPSS) software. SPSS is known for its user-friendly interface and robust statistical analysis capabilities. It effectively handles large datasets and provides comprehensive output, which facilitates accurate interpretation of results. With SPSS, it becomes easier to validate the assumptions of regression analysis and to conduct necessary statistical tests. Thus, the choice

of SPSS ensured the reliability and validity of the findings related to the influence of liquidity management on the performance of construction companies in Nigeria.

4.0 Data Analysis and Discussion of Findings

4.1 Descriptive Statistics

The descriptive statistics showed information about the data used for the study. The mean, minimum, maximum and standard deviation of the variables are given in table 4.1:

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LogPAT	50	5.0492	9.1110	6.311504	.8925124
Working Capital Ratio	50	-9.2506	32.1374	2.254640	6.3952857
Quick Ratio	50	-9.2506	32.1374	2.116274	6.4122164
Cash Ratio	50	-1.2037	4.0895	.400440	.8491367
Operating Cash Flow	50	-.6163	2.1235	.327470	.4538960
Valid N (listwise)	50				

Source: Researcher's Computation, 2025

The result in Table 4.1 revealed that the dependent variable financial performance which is proxied by profit after tax had a mean of N6.3 with standard deviation of 0.89 for the companies during the years under review. This means that Real estate/construction firms generate the profit of N6.3 for every one-naira unit of assets. The minimum profit after was 5.04 with a maximum of 9.11%.

The descriptive statistics for working capital ratio had a mean value of 2.25%; with the minimum and maximum of -9.25% and 32.13% respectively.

The descriptive statistics for working quick ratio had a mean value of 2.1; with the minimum and maximum of -9.25% and 32.13% respectively.

Operating cash flow had the mean value of 0.33%, and with the minimum and maximum of -0.62% and 2.12% respectively.

4.2 Test of Hypotheses

The hypotheses formulated for the study should be confirmed or rejected based on the decision rule which is stated as follows:

1. The null hypothesis should be accepted if the calculated t-value is less than the t-table value, critical value at 5% level of significance, but if the calculated t-value is greater, we reject the null hypothesis.

2. The null hypothesis is rejected if the computed F-statistics value is greater than the critical of F-statistics at 5% level of significance.

Test of Hypothesis One

$H0_1$ There is no significant influence of the working capital ratio on the performance of construction companies in Nigeria.

Table 4.2 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.039	.177		34.063	.000
	Working Capital Ratio	.662	.527	4.744	1.257	.215
a. Dependent Variable: LogPAT						

Source: Researcher's Computation, 2025

The result in Table 4.2 revealed the beta coefficient of 4.744 and the t-value of 1.257. And the critical t-value is 2.0096. The decision rule for this study states that the null hypothesis will be accepted if the calculated t-value is less than the critical t-value at 5% level of significant. In line with this, the null hypothesis one is accepted, since the calculated t-value is less than the critical t-value. Hence, the alternate hypothesis is rejected.

Test of hypothesis two

$H0_2$ There is no significant impact of the quick ratio on the performance of construction companies in Nigeria.

Table 4.3 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.039	.177		34.063	.000
	Quick Ratio	-.723	.529	-5.193	-1.365	.179
a. Dependent Variable: LogPAT						

Source: Researcher's Computation, 2025

The result in Table 4.3 revealed the beta coefficient of -5.193 and the t-value of -1.365 for quick ratio. And the critical t-value is 2.0096. The decision rule for this study states that the null hypothesis will be accepted if the calculated t-value is less than the critical t-value at 5%

level of significant. In line with this, the null hypothesis two is accepted, since the calculated t-value is less than the critical t-value. Hence, the alternate hypothesis is rejected.

Test of Hypothesis Three

$H0_3$ There is no significant impact of the cash ratio on the performance of construction companies in Nigeria.

Table 4.4 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.039	.177		34.063	.000
	Cash Ratio	.342	.189	.325	1.810	.077
a. Dependent Variable: LogPAT						

Source: Researcher's Computation, 2025

The result in Table 4.4 revealed the beta coefficient of 0.325 and the t-value of 1.810 for cash ratio. And the critical t-value is 2.0096. The decision rule for this study states that the null hypothesis will be accepted if the calculated t-value is less than the critical t-value at 5% level of significant. In line with this, the null hypothesis three is accepted, since the calculated t-value is less than the critical t-value. Hence, the alternate hypothesis is rejected.

4.4 DISCUSSION OF FINDINGS

Table 4.6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.471[a]	.222	.153	.8215169
a. Predictors: (Constant), Operating Cash Flow, Cash Ratio, Working Capital Ratio, Quick Ratio				

Source: Researcher's Computation, 2025

Table 4.7 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.662	4	2.166	3.209	.021[b]
	Residual	30.370	45	.675		
	Total	39.032	49			
a. Dependent Variable: LogPAT						
b. Predictors: (Constant), Operating Cash Flow, Cash Ratio, Working Capital Ratio, Quick Ratio						

Source: Researcher's Computation, 2025

The result in Table 4.6, the result shows R= 0.471, R square= 0.22 and R square adjusted = -0.153. The R square is called the coefficient of determination. It measures the degree variation in the dependent variable explained by the independent variable. The R square of 0.22 implies that only 22% variation in the financial performance of construction/ real estate companies is influence by liquidity management.

Table 4.7, ANOVA Table, shows how the independent variables (WCR, QR, CR and OCF) statistically predict the dependent variable (profit after tax). The result indicates the p-value of 0.021, which is less than 0.05. Based on the analysis, it implies the joint influence of the independent variables on the dependent variable is statistically significant.

The result of the study revealed that working capital ratio have an insignificant effect on the financial performance of construction companies in Nigeria. The implication of this finding is that real estate/construction companies are not able to control their current assets and liabilities, hence, leading to the reduction in profit. The finding disagrees with the study conducted by Uwaleke and Akinnagbe (2023).

The findings also revealed that quick ratio does not have significant effect on the performance of real estate/construction companies in Nigeria. This implies that the companies are unable to meet their short-term financial obligations as and when due, thus, reducing the financial performance of the firms. The study is in contrast with the findings of Idamoyibo Hwerien Rosemary et al. (2021).

The findings further revealed that cash ratio does not have a significant influence on the performance of real estate/construction companies in Nigeria. Also, operating cash flow does not have a significant on the performance of real estate/construction companies in Nigeria. This can be further explained that companies' ability to meet their short term obligation using cash and cash equivalent does not lead to a corresponding influence (positive or negative) on the performance of listed real estate companies in Nigeria. The findings is in contrast with the works of Etim *et al.* (2022), Lawrence (2023) and Daniel Adekanmi Aderemi, *et al*. (2022).

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This study used a correlational research design to examine the impact of liquidity management on the performance of Nigerian construction companies. The data for the study came from secondary sources, and SPSS was used for data analysis, specifically multiple linear regression and descriptive statistics. The study's findings included the following:

1. Working capital ratio have an insignificant effect on the financial performance of construction companies in Nigeria.
2. Quick ratio does not have significant effect on the performance of real estate/construction companies in Nigeria
3. Cash ratio does not have a significant influence on the performance of real estate/construction companies in Nigeria
4. Operating cash flow does not have a significant on the performance of real estate/construction companies in Nigeria

5.2 CONCLUSION

Finding out how much of an impact liquidity management has on the success of Nigerian construction companies was the primary motivation for the research. Studies have shown that publicly traded Nigerian real estate and construction firms' bottom lines are impacted by their liquidity management practices. Another way to look at it is that companies' profitability is directly proportional to how well they handle their current assets and obligations.

5.3 Recommendations

The research concluded that Nigerian real estate and construction firms might benefit from better cash management if they implemented budgetary control procedures.

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