International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. 14, Issue 8, Aug 2026

https://ijecm.co.uk/

# EFFECT OF LIQUIDITY MANAGEMENT PRACTICES ON PERFORMANCE OF MOTOR VEHICLE ENTERPRISES IN NAKURU CITY, KENYA

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**Abstract**

*Liquidity management is a critical determinant of organizational performance, particularly for inventory-intensive businesses such as motor vehicle enterprises. This study examined the effect of liquidity management practices on the performance of motor vehicle enterprises in Nakuru City, Kenya. The study was guided by the Free Cash Flow Theory. A descriptive research design was adopted to provide an accurate description of existing liquidity management practices and their influence on business performance. The target population comprised 148 respondents drawn from 37 motor vehicle enterprises, including owners, financial managers, operations managers, and sales managers. Since the population was relatively small, a census sampling technique was employed. Primary data were collected using structured close-ended questionnaires and analyzed using the Statistical Package for Social Sciences (SPSS) version 25. Descriptive statistics, including means and standard deviations, were used to summarize the data, while Pearson correlation and multiple regression analyses were used to determine the relationship between liquidity management practices and enterprise performance. The findings revealed that respondents agreed that effective liquidity management* *practices positively influenced enterprise performance (overall mean = 3.94, SD = 0.88). Performance indicators also recorded a high level of agreement (overall mean = 4.04, SD = 0.77). Correlation analysis established a strong positive and statistically significant relationship between liquidity management practices and performance ($r = 0.602$, $p < 0.05$). Regression analysis further indicated that liquidity management practices had a positive and statistically significant effect on the performance of motor vehicle enterprises ($\beta = 0.089$, $p = 0.010$). The study concludes that effective liquidity management enhances business performance by improving cash flow, operational efficiency, and financial stability. It recommends that motor vehicle enterprises strengthen cash flow forecasting, improve receivables collection, optimize payment schedules, and maintain adequate liquidity reserves to support sustainable growth and competitiveness.*

*Keywords: Liquidity management practices, Motor vehicle enterprises, Nakuru City, Kenya*

## INTRODUCTION

Liquidity management is a critical aspect of financial management that enables businesses to maintain adequate cash and other liquid assets to meet short-term obligations while supporting daily operations. Motor vehicle enterprises depend heavily on effective liquidity management because they require substantial working capital to finance inventory, spare parts, maintenance services, and operational expenses (Kiymaz et al., 2024). In a competitive business environment such as Nakuru City, firms that effectively manage cash, accounts receivable, accounts payable, and inventory are better positioned to sustain operations and improve profitability. Efficient working capital and liquidity management significantly enhance organizational performance by reducing financing costs and improving operational efficiency (Wanzala & Obokoh, 2024).

The motor vehicle industry in Kenya has experienced increased competition, changing customer preferences, and economic uncertainties that have intensified the need for effective liquidity management. Motor vehicle enterprises frequently experience challenges related to delayed customer payments, high inventory holding costs, and increasing supplier obligations, all of which affect business performance (Deb et al., 2023). Consequently, managers are expected to adopt appropriate liquidity management practices that ensure sufficient cash flow while maintaining profitability. Firms maintaining an optimal cash conversion cycle and efficient receivables, payables, and inventory management achieve superior financial performance compared to firms with inefficient liquidity practices (Wanzala & Obokoh, 2024).

Nakuru City is one of Kenya's rapidly growing commercial centers, hosting numerous motor vehicle dealers, repair garages, spare parts distributors, and automobile service enterprises. Despite the sector's contribution to employment and economic development, many businesses continue to experience liquidity constraints that affect growth and sustainability (Nag, 2024). While previous studies have examined working capital management in listed firms and other sectors, limited empirical evidence specifically addresses liquidity management practices among motor vehicle enterprises within Nakuru City. This study therefore seeks to examine the effect of liquidity management practices on the performance of motor vehicle enterprises in Nakuru City by providing evidence that can assist business owners, managers, investors, and policymakers in improving financial management practices and enhancing enterprise performance (Wanzala & Obokoh, 2024).

**Statement of the problem**

Motor vehicle enterprises play an important role in the economy of Nakuru City through employment creation, revenue generation, and the provision of transport-related goods and services. However, many of these enterprises continue to experience financial challenges characterized by cash shortages, delayed payments to suppliers, excessive inventory levels, and poor debt collection practices (Wanzala & Obokoh, 2024). These liquidity-related challenges often limit the ability of firms to meet short-term financial obligations, invest in business expansion, and maintain consistent profitability. Although liquidity management has been recognized as a key determinant of firm performance, evidence from recent studies indicates that many businesses still struggle to maintain an optimal balance between liquidity and profitability, leading to declining financial performance (Kumar et al., 2024).

Several empirical studies have investigated the relationship between liquidity management and firm performance in listed companies, manufacturing firms, and commercial enterprises both globally and within Kenya. However, few studies have specifically focused on motor vehicle enterprises operating in Nakuru City, despite the unique liquidity challenges associated with inventory-intensive businesses. The existing knowledge gap limits the availability of context-specific evidence that can guide financial management decisions within the sector. Consequently, it remains unclear how liquidity management practices such as cash management, accounts receivable management, inventory management, and accounts payable management influence the performance of motor vehicle enterprises in Nakuru City. This study therefore seeks to address this gap by examining the effect of liquidity management practices on the performance of motor vehicle enterprises in Nakuru City.

## LITERATURE REVIEW

### Theoretical Review

Free Cash Flow (FCF) Theory emphasizes the importance of managing surplus cash flows to enhance firm value and reduce agency conflicts. The theory has been utilized in modern applications with excess cash flows being strategically invested in value-addition investments, reduction of debts or distributions to shareholders. Agency problems occur when managers use excess cash in projects that maximize their utility, but not the wealth of the shareholders (Baker, Jensen, and Murphy, 2014).

Recent researches emphasize that proper management of free cash flow is in line with the decisions made by the managers and the shareholders and enhance performance of the organization. The focus on the projects with positive net present value can help firms increase the value creation in the long term and reduce the waste of capital (Richardson, 2015). Further, organizations with high cash flow rates are in a better financial position to react to market opportunities and risky economic factors (Soyer and Hogarty, 2015).

It has also been found that the financial resiliency of companies with healthy liquidity positions is also stronger. Sufficient free cash flow promotes creditworthiness, allows negotiating a wider range of suppliers, and increasing the availability of the firm to survive financial shocks (Acharya, Almeida, and Campello, 2017).

The theory has however been criticized as being too conservative. Companies can lose the opportunity to invest in high-risk and high-payoff projects and thus restrict innovation and long-term development (Harris and Raviv, 2017). Moreover, the necessity of raising cash flows in the short term can cause managers to reduce critical spending on training and research and development of employees as well as compromise future competitiveness (Biddle, Hilary, and Verdi, 2016). The theory was applicable to the present research since the theory outlines how liquidity management affects the performance of organizations. Effective cash flow management, through motor vehicle enterprises, can enable them to reinvest in productive assets, increase operations, and increase profitability.

### Empirical Review

Osoro and Muturi (2019) investigated the impact of liquidity-risk management practices on the financial success of Saccos in Kisii County, Kenya. The study used a descriptive survey design. 20 respondents from the population were selected through census technique. Structured questionnaires were used. Secondary data was obtained from the financial reports prepared by SACCOs and SASRA. Capital adequacy had a significant impacted ROA in SACCOs. Saving mobilizations were not affected significantly by asset quality and capital leverage.

Majakusi, (2020) examined the consequences of liquidity management on the fiscal efficacy of profitable banks. Secondary data used was attained from the CBK. A regression concept was utilized in data examination. Commercial banks had the ability to absorb reasonable operational and functional losses without risking the institutions' stability. Furthermore, the administration of the commercial banks was capable of additional cash. The study found that ROA and liquidity administration are positively correlated. This relationship is also statistically significant. This means sufficient cash causes good financial results.

Otieno Nyago and Onditi (2019) did an empirical approach of the association of liquidity risk administration practices at microfinance banks MFBs in Kenya. The research implemented a longitudinal design using panel data from the period 2014 to 2018. The target population consisted of 12 licensed MFBs. 6 MFBs were purposively sampled. Secondary quantitative data was gathered from the MFBs financial reports using a document analysis guide. Descriptive statistics were utilized to highlight the trend of MFB risk exposure and performance. Pearson correlation was applied to determine the strength and association of variables. A panel data according to system GMM technique was used to estimate a multiple regression model of liquidity risk management and financial performance. The regression coefficient values around GMM 0.3 indicated that they positively inclined with FGR and CAR parameters of liquidity risk management, but it dropped significantly on ROAA performance measure.

Amira, Alala and Musiega (2023) investigated how liquidity danger administration is inspired of fiscal prosperity of business banks. The methodology used included the use of both explanatory and longitudinal research designs. Thirty two (32) Commercial Banks in Kenya were targeted. Time series and cross-sectional panel data of 10 years between 2010 and 2019 was used. The analysis was performed with descriptive and inferential statistics with the aid of EViews. The management of liquidity risk was negatively related to ROE or ROA with an insignificant relationship. It is noted that liquidity risk management negatively impacts on the financial performance measure in ROA or ROE, it is advisable that commercial banks consider maintaining this measure to the lowest possible level to avoid engaging in loss making ventures.

## RESEARCH METHODOLOGY

### Research Design

A descriptive research design was used in the research. The goal for this study design is to explain the current condition of things. Based on Mugenda and Mugenda (2012), descriptive research design is used to systematically describe characteristics, behaviors, or conditions of a population or phenomenon as they exist. It is appropriate when variables cannot be manipulated and when the goal is to provide accurate information, identify patterns or trends, and establish baseline data for future research without determining cause-and-effect relationships. A descriptive research design was suitable for this study because it helped identify patterns, relationships, and variations in data without manipulating variables, providing a clear snapshot of the situation.

**Target Population**

Mugenda and Mugenda (2012), states that target group is a general set of the study of all members of real or fictional set of people, events or topics to which an analyst desires to produce the findings. The total target population was 148 respondents. The study unit of analysis comprised of 37 motor vehicle dealers within Nakuru city while the unit of observation was 37 owners, financial managers, operations managers and the sales managers of motor vehicle dealers. The study targeted motor vehicle dealers owners, financial managers, operations managers and the sales managers of motors vehicles dealers because they are directly involved in the financial management of the business and their roles are directly involved in or impacted by financial management practices. Nakuru City was chosen because it is a rapidly growing commercial hub with a high concentration of motor vehicle dealers. Its competitive and dynamic business environment provides an ideal setting in an emerging urban economy.

**Sample and Sampling Techniques**

A sampling frame is a list or a representation of all the elements in a population from which a sample was drawn. It serves as a reference for researchers to select participants or sampling units for their study (Babbie, 2016). Sampling techniques refer to the methods used by researchers to select participants or sampling units from the sampling frame for inclusion (Creswell & Creswell, 2017). Since the study population was small the researcher used a census technique to incorporate all the 148 targeted respondents in the investigation.

**Data Collection Instrument**

The study collected primary data desired for the study. Questionnaires were used to collect primary data employing close ended questionnaires which were self-designed. By using close-ended questionnaires, the study aimed to gather precise data to draw meaningful conclusions. Close-ended questionnaires ensure that all respondents are presented with the same questions and response options, which helps in maintaining consistency in the data collected. This standardization facilitates more straightforward comparison and analysis.

## Data Processing and Analysis

Analysis of data is the procedure of giving order, organization and significance to the vast information gathered (Neuman, 2015). Data analysis includes reduction of collected data to a reasonable size, creating reports, searching for trends and employing statistical methods. The data that was gathered in this research was quantifiable in character. Descriptive and inferential statistics were used in data analysis with the help of SPSS version 25. Descriptive statistics involving the use of percentages, measures of central tendencies (mean) and measures of dispersion (standard deviation). The inferential statistics use was multiple regressions analysis.

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon_i$

Where;

Y= Performance of Motor vehicle dealers; α =Regression constant

$\beta_{1 =}$ Coefficient factors; $X_{1 =}$ Liquidity Management Practices

$\varepsilon_{i=}$ Error term assumed to be normally distributed

## EMPIRICAL FINDINGS

### Descriptive findings

Respondents were required to express their level of agreement with the statements on the effect of liquidity management practices on the performance of motor vehicle enterprises in Nakuru City. Specifically, questions revolved around cash conversion cycle and receivables.

Table 1: Liquidity Management Practices

| Liquidity management practices statements | N | Means | Standard deviations |
|---|---|---|---|
| Proper inventory management ensures that popular vehicle models are readily available for customers which increases sales | 123 | 3.94 | 1.02 |
| Inventory management helps to avoid stock-outs, which could lead to lost sales opportunities. | 123 | 3.92 | 0.86 |
| Shorter cash conversion cycle allows the motor vehicle dealers to improve supplier relations which enhances performance | 123 | 3.94 | 0.81 |
| Optimizing cash conversion cycle allows motor vehicle dealers to enhance their overall working capital efficacy | 123 | 3.89 | 0.93 |
| Effective receivables management accelerates cash inflows, improving liquidity of the business | 123 | 3.93 | 0.85 |
| Timely collection of receivables minimizes the risk of bad debts and write-offs, preserving the financial health of the business. | 123 | 4.02 | 0.82 |
| **Overall mean score** | | **3.94** | **0.88** |

The findings revealed that proper inventory management ensures that popular vehicle models are readily available for customers which increases sales (Mean=3.94, std. dev=1.02). Findings further revealed that inventory management helps to avoid stock-outs, which could lead to lost sales opportunities (Mean=3.92, std. dev=0.86). Additionally, shorter cash conversion cycle allows the motor vehicle dealers to improve supplier relations which enhances performance (Mean=3.94, std. dev=0.81). Optimizing cash conversion cycle allows motor vehicle dealers to enhance their overall working capital efficacy (Mean=3.89, std. dev=0.93). The findings revealed that effective receivables management accelerates cash inflows, improving liquidity of the business (Mean=3.93, std. dev=0.85) and that timely collection of receivables minimizes the risk of bad debts and write-offs, preserving the financial health of the business. (Mean=4.02, std. dev=0.82). Liquidity management practices affected the performance of motor vehicle dealers in Nakuru City since the overall mean score was 3.94 and a 0.88 standard deviation on a five-point Likert scale.

The study's finding that timely collection of receivables minimizes the risk of bad debts and write-offs (Mean = 4.02, SD = 0.82) aligns with established financial management principles and empirical evidence. Efficient accounts receivable management is crucial for maintaining liquidity and financial stability in businesses. Research by Yegon et al. (2022) on tea firms in Kenya demonstrated that a shorter accounts receivable collection period positively impacts financial performance by reducing bad debts and enhancing cash flow. Similarly, Munene and Tibbs (2024) indicated that effective accounts receivable management improved liquidity and operational efficiency in Embu Water and Sanitation Company, leading to better financial performance. Furthermore, a research on edible oil producing companies in Kenya revealed a positive and significant relationship between accounts receivable management and financial performance, emphasizing the significance of timely collections in enhancing profitability (Onsong'o, 2024).

These findings highlight the crucial function of timely collection of receivables in preserving the financial health of businesses. Implementing effective credit policies, automating invoicing systems, and establishing dedicated credit control departments are recommended strategies to enhance receivables management and minimize the risk of bad debts.

**Performance**

Respondents were required to express their level of agreement with the statements on the performance of motor vehicle dealers in Nakuru City. Specifically, questions revolved around number of cars sold and frequency of vehicle importation.

Table 2: Performance

| Performance statements | N | Means | Standard deviations |
|---|---|---|---|
| The amount of sales has increased for the last five years | 123 | 3.98 | 0.82 |
| The business has diversified in the type of products they sale | 123 | 4.08 | 0.77 |
| The business has recorded gradual increase in profit for the last five years | 123 | 4.02 | 0.71 |
| The business has opened new branches within the town | 123 | 4.11 | 0.78 |
| **Overall mean score** | | **4.04** | **0.77** |

The findings revealed that the amount of sales has increased for the last five years (Mean=3.98, std. dev=0.82). The business has diversified in the type of products they sale (Mean=4.08, std. dev=0.77). The findings revealed that the business has recorded gradual increase in profit for the last five years (Mean=4.02, std. dev=0.71) and that the business has opened new branches within the town (Mean=4.11, std. dev=0.78). There was performance of motor vehicle dealers in Nakuru City since the overall mean score was 4.04 and a 0.77 standard deviation on a five-point Likert scale.

The study's finding that motor vehicle dealers have opened new branches within Nakuru City (Mean = 4.11, SD = 0.78) reflects a strategic response to growing market demand and the need for enhanced customer accessibility. This expansion aligns with broader industry trends where dealerships are increasing their physical presence to cater to a wider customer base and improve service delivery. For instance, Simba Corporation partnered with Swanley Motors to open a new dealership in Thika, aiming to capture a larger share of the light-duty truck segment in the Mount Kenya, Eastern, and Rift Valley regions. This move underscores the importance of geographic expansion in reaching underserved markets and enhancing brand visibility (Kenya News Agency, 2025).

Similarly, Nissan Kenya is actively expanding its dealership network to boost market share. The company plans to open new showrooms in Kisumu, Eldoret, and Naivasha, as part of a Sh1.3 billion investment. This expansion strategy aims to provide better access to sales and after-sales services across the country (Business Daily, 2024). These industry developments highlight the significance of opening new branches as a means to enhance customer reach, improve service delivery, and strengthen market presence. For motor vehicle dealers in Nakuru City, such expansions are critical for remaining competitive and meeting the evolving requirements of their clientele.

### Correlation Analysis

This was conducted using Pearson's correlation coefficient (r) (Table 3). A p-value of less than 0.05 was used to determine statistical significance, showing that the observed correlation was not due to chance.

Table 1: Correlation Results

| | | Performance | Liquidity management practices |
|---|---|---|---|
| Performance | Pearson Correlation | 1 | |
| | Sig. (2-tailed) | | |
| Liquidity management practices | Pearson Correlation | .602** | 1 |
| | Sig. (2-tailed) | .000 | . |
| | N | 123 | 123 |

Table 3 shows the calculated r coefficient which helps in determining if the relationship is positive or negative and the p value which establishes the level of significance. The Pearson correlation coefficient 0.602 between liquidity management practices and performance shows that there is a high positive relationship between the two. The p-value of 0.000 indicates that such a relationship is statistically significant which underscores the need to have sufficient cash flows in motor vehicle enterprises. Adequate liquidity management has the advantage of ensuring that companies can fulfill their immediate liabilities, prevent the distress of a firm, and keep it running in its day to day activities. In the case of motor vehicle dealers, the ability to pay suppliers on time and the capability of financing inventory is a key to competitiveness. Other researchers who have examined comparable studies in Kenya have shown that companies that maintain good liquidity management obtain higher efficiency and profitability (Ngugi et al., 2023).

### Regression Analysis

The regression analysis encompassed the regression coefficients as shown in Table 4.

Table 4: Regression Coefficients

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 1.044 | 0.324 | | 3.221 | 0.002 |
| Liquidity management practices | 0.085 | 0.083 | 0.089 | 1.020 | 0.010 |

Dependent Variable: Performance

The study's finding that liquidity management practices exhibit a positive and statistically significant relationship with performance ($\beta = 0.089$, $p = 0.010$) and therefore the null hypothesis is rejected. The findings highlights the critical role of effective liquidity management in enhancing financial outcomes and aligns with existing literature emphasizing the importance of maintaining optimal liquidity levels to meet short-term obligations while ensuring long-term profitability. For instance, Matunda et al. (2024) found that effective liquidity management positively influences the financial performance of commercial banks. Their study highlighted that capital adequacy and interest rates significantly impact return on assets, emphasizing the need for robust liquidity strategies. Similarly, Wanjiru and Waweru (2025) demonstrated that liquidity ratios are strongly correlated with financial stability in SACCOs in Kiambu County, Kenya. Their research suggests that maintaining high liquidity improves trust and operational resilience, which are vital for sustained performance.

## CONCLUSION

The study found a significant positive relationship between liquidity management practices and performance of motor vehicle enterprises in Nakuru City. Respondents confirmed that effective cash flow planning and management of current assets and liabilities are essential for business continuity and stability. The findings affirm that businesses with strong liquidity positions are better positioned to meet short-term obligations, avoid financial distress, and take advantage of emerging market opportunities. Proper liquidity management ensures operational efficiency, builds stakeholder confidence, and contributes to improved profitability and resilience in the face of economic uncertainty.

## RECOMMENDATIONS

The study recommends that the motor vehicle enterprises must focus on the effective liquidity management by keeping a track of cash flows, cash reserves, and meeting the liquidity commitments within the short run. Financial requirements may be monitored and predicted by choosing such tools as cash budgeting, real-time accounting system, and liquidity ratios. Receivables collection and optimization of payments should also be improved by businesses to maintain a steady supply of cash. Setting financial policy in terms of healthy balance between liquid assets and liabilities will help reduce risks related to cash deficit and continuity in operations particularly in periods of economic uncertainty or low sales activity.

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