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EFFECT OF OPERATING CASH FLOWS ON THE FINANCIAL PERFORMANCE OF NON-FINANCIAL FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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ABSTRACT
Operating cash flow management plays a critical role in enhancing the financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE). This study specifically examined the effect of operating cash flows on firm performance, guided by the Free Cash Flow Theory, Agency Cost Theory, and Keynesian Theory of Money. Using a cross-sectional design and secondary data from 44 non-financial firms between 2017 and 2023, the analysis employed descriptive and inferential statistics through STATA software. The findings revealed that efficient management of operating cash flows significantly and positively influences financial performance by improving liquidity, profitability, and overall financial stability. The study concludes that strengthening operating cash flow practices is vital for firm success and recommends the adoption of real-time cash flow monitoring systems and robust working capital policies. These insights are valuable for managers, policymakers, and researchers aiming to foster financial resilience in non-financial sectors.
KEYWORDS: *Operating Cash Flows, Financial Performance, Non-Financial Firms, Nairobi Securities Exchange (NSE), Return on Assets (ROA),*

INTRODUCTION

Effective management of operating cash flows is a cornerstone for the financial survival and success of firms, as it directly influences their ability to meet short-term obligations, invest in growth opportunities, and maintain liquidity. Strong operating cash flows enable firms to sustain their operations, avoid the risk of liquidation, and strengthen their financial stability. According to Benincasa, Betz, and Gattini (2024), firms that closely monitor and manage their cash flows are better positioned to withstand financial challenges and economic fluctuations. Conversely, liquidity crises often arise from poor cash flow management, forcing firms into distress situations such as the liquidation of assets to meet immediate financial commitments (Laghari, Ahmed, & López García, 2023). Therefore, the ability to generate and manage operating cash flows is a critical determinant of a firm's financial performance.

Extant literature underscores the significant relationship between operating cash flow practices and firm performance outcomes. Nangih, Ofor, and Ven (2020) found that firms with robust cash flow management practices consistently reported higher returns on equity (ROE) and returns on assets (ROA), attributing this to their ability to allocate resources efficiently and capitalize on profitable investment opportunities. Furthermore, Musembi and Sporta (2023) emphasized that for non-financial firms typically characterized by lower profit margins and higher operational costs efficient operating cash flow management is indispensable for maintaining competitiveness and ensuring financial stability.

Globally, operating cash flow information is recognized as a critical component of financial reporting, providing stakeholders with insights into a firm's ability to generate cash from its core operations. As noted by Pornupatham et al. (2023), financial statements are incomplete without cash flow information, as it offers a unique perspective on an entity's operational efficiency and financial health. Al-Nassafi (2022) highlighted that the cash flow statement is particularly valuable for investors seeking to understand the sources and uses of a firm's cash, beyond what is depicted in income statements or balance sheets. Harianto (2023) further affirmed that a firm's capacity to generate positive operating cash flows significantly contributes to improved financial performance, enhances liquidity, and strengthens the firm's ability to meet liabilities and sustain profitability.

Regionally, evidence from sub-Saharan Africa mirrors global findings. Kipngetich, Tenai, and Kimwolo (2021) established that operating cash flows positively influence stock returns, suggesting that firms should prioritize efficient utilization of their cash resources to enhance shareholder value. Similarly, Odo and Ohazuluike (2021) reported that cash flow from operating activities significantly impacts company profitability, underscoring the necessity for firms to continuously improve their operational cash management practices.

In the Kenyan context, the importance of operating cash flows for firm performance has become increasingly evident, particularly in light of economic disruptions such as the COVID-19 pandemic. Mwangi (2022) noted that liquidity constraints among non-financial firms in Kenya were exacerbated during the pandemic, leading many firms to struggle with meeting operational expenses. However, firms that maintained strong operating cash flows demonstrated greater resilience. Kipngetich, Tenai, and Kimwolo (2021) further observed that operating cash flows are a significant determinant of stock returns among firms listed on the Nairobi Securities Exchange (NSE), reinforcing the need for efficient cash flow management practices to drive financial performance and enhance investor confidence.

The Nairobi Securities Exchange, as the principal stock market in Kenya, hosts a diverse array of non-financial firms spanning sectors such as manufacturing, telecommunications, and retail (Odhowa & Mutswenje, 2022). These firms contribute substantially to the country's GDP and employment. Their financial health, as reflected by operating cash flow performance, is critical not only for their own sustainability but also for the broader stability of the Kenyan economy. As such, understanding and enhancing operating cash flow practices remain paramount for the long-term financial success of non-financial firms listed on the NSE

STATEMENT OF THE PROBLEM

Non-financial companies listed on the Nairobi Securities Exchange (NSE) are crucial to Kenya's economic growth, contributing approximately 10% to the country's Gross Domestic Product (GDP) and playing a significant role in employment generation. However, in recent years, particularly during and after the COVID-19 pandemic, these firms have faced significant financial challenges. According to the Capital Markets Authority (CMA), 42% of NSE-listed companies are currently operating at less than half of their capacity, and 79% are encountering severe cash flow issues. This has made it difficult for these companies to meet essential financial obligations, including paying salaries and covering operational expenses. The Nairobi Securities Exchange (2019) reported a decline in financial performance, with many firms recording negative returns on equity (ROE) and returns on assets (ROA). Profit after tax, for example, dropped from Ksh. 13.6 million in 2016 to Ksh. 12.2 million in 2019, highlighting a troubling downward trend in financial performance. One of the primary contributors to this decline in performance is the ineffective management of operating cash flows. Operating cash flows are critical for the day-to-day functioning of a business, as they reflect the cash generated or used in the core operational activities. However, poor management of operating cash flows can significantly impact liquidity, profitability, and overall financial performance. Despite its importance, there is a lack of comprehensive studies examining the specific influence of operating cash flows on the financial performance of non-financial firms listed on the NSE. Empirical research on this topic has been limited, and existing studies show inconsistent results regarding the relationship between operating cash flows and financial performance. Furthermore, the post-2016 period, which includes the economic disruptions caused by the COVID-19 pandemic, has received little attention in the literature. This research aims to fill this gap by investigating the influence of operating cash flows on the financial performance of non-financial firms listed on the Nairobi Securities Exchange between 2017 and 2023. The study seeks to provide insights into how variations in operating cash flows affect the financial outcomes of these firms, with implications for investors, policymakers, and corporate managers.

RESEARCH HYPOTHESIS

H_{01} *Operating cash flows have no statistically significant effect on the financial performance of non-financial firms listed in the Nairobi Securities Exchange*

LITERATURE REVIEW

In this section, we present the theoretical, empirical, and conceptual frameworks that underpin the study of the influence of operating cash flows on the financial performance of non-financial firms listed on the Nairobi Securities Exchange.

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THEORETICAL REVIEW

This section provides a review of the theoretical foundations that explain the relationship between operating cash flows and financial performance, drawing on key financial theories to frame the study's analysis.

Agency Cost Theory

Agency Cost Theory, introduced by Jensen and Meckling (1976), posits that conflicts of interest arise between managers and shareholders due to differing objectives, especially when managers have substantial control over company cash flows. The theory suggests that when managers have excess cash at their disposal, they may prioritize personal interests over the firm's long-term performance, leading to inefficiencies in resource allocation and investment decisions. In the context of operating cash flows, this theory highlights that firms with surplus cash might engage in wasteful investments or acquisition strategies that do not align with shareholder interests, ultimately diminishing the company's financial performance (Cunha, 2013; Thuong, 2020).

Furthermore, Agency Cost Theory indicates that excessive free cash flow can lead to conflicts within the firm, resulting in reduced operational efficiency and shareholder value destruction. For instance, when firms hold excessive cash reserves, managers may use these funds for non-value-creating activities, such as diversifying into unrelated business areas, which could harm operational performance. As observed by Amah, Ekwe, and Uzoma (2016), this misalignment between managers' incentives and shareholders' interests can adversely affect the financial performance of firms.

This theory is highly relevant to the current study, as it underscores the importance of managing operating cash flows effectively to minimize agency costs. By monitoring how operating cash flows are utilized, firms can reduce inefficiencies, align management and shareholder interests, and ultimately improve financial performance. The theory also supports the investigation into how managing operating cash flows can influence financial outcomes for firms listed on the Nairobi Securities Exchange, where the efficient use of available cash is critical to maintaining liquidity, enhancing profitability, and reducing financial distress.

EMPIRICAL REVIEW

The empirical review section examines past studies on the relationship between operating cash flows and the financial performance of non-financial firms, with a focus on findings from both global and local contexts. This review highlights key insights, trends, and gaps in the literature that inform the current study's investigation of the influence of operating cash flows on financial performance.

Operating Cash Flows and Financial Performance

Operating activities, often referred to as operating cash flow management, involve managing cash flows associated with a firm's core operations and are crucial as they reflect the firm's ability to generate cash through its business activities (Qaisi, 2020). According to Ofoegbn and Okoro (2020), operating cash flows are significantly and positively related to financial performance. Specifically, cash from operating activities correlates with stock returns and short-term profitability.

Qaisi (2020) conducted a descriptive survey case study on ten publicly owned industrial companies listed on the Jordan Stock Exchange. The study used net income, operating cash flow to sales ratio, and changes in working capital to measure operating cash flows. Panel data from 2012 to 2017 was analyzed using multiple linear regression. The study found that effective operating cash flow positively impacted stock prices, recommending that firms balance cash inflows and outflows to maintain stability and improve profitability. However, this study was conducted in Jordan's industrial sector, which leaves a gap in understanding how operating cash flows affect financial performance in different sectors, particularly in emerging markets like Kenya. The study also does not address how sectoral differences may influence the relationship between operating cash flow and financial performance.

Rahman and Sharma (2020) examined the impact of operating cash flow on the financial performance of manufacturing and insurance firms listed on the Tadawul Stock Exchange in Saudi Arabia. Using secondary data collected from annual financial reports of 10 firms (five from the insurance sector and five from the manufacturing sector) between 2014 and 2018, the study employed panel regression and multiple correlation methods for data analysis. The study found a significant positive relationship between operating cash flow and financial performance.

However, this study's focus on Saudi Arabia leaves a gap in understanding how operating cash flows influence financial performance in non-financial firms in Kenya, specifically on the Nairobi Securities Exchange (NSE).

Ofoegbn and Okoro (2020) explored the effect of operating cash flow, financing cash flow, and investing cash flow on the performance of listed deposit money banks in Nigeria. Using secondary data from 12 deposit money banks over the period 2006–2015, the study applied panel data regression and found that the performance of the banks was not significantly influenced by operating, investing, and financing cash flows. The study recommended that banks should focus more on the credit-creating function, as it plays a unique role in banking operations. However, the study's focus on the banking sector raises a gap in the literature regarding how operating cash flow affects non-financial sectors. Given that the banking sector operates differently from other industries, it would be essential to explore the role of operating cash flows on financial performance in non-financial firms listed on the NSE.

Kuria, Memba, and Oluoch (2024) investigated the relationship between operating cash flow volatility and the stock market value of firms listed on the NSE. The study used a three-year moving standard deviation to measure operating cash flow volatility and firm market value based on firm capitalization ratios. The study analyzed 450 firm observations from 45 listed companies between 2011 and 2022, using random walk theory, functional fixation theory, and efficient market hypothesis to anchor their research variables. The findings revealed that operating cash flow volatility negatively correlated with firm market value. However, this study did not directly explore how operating cash flows, rather than their volatility, impact overall financial performance. This leaves a gap in understanding the direct influence of operating cash flow on financial performance in non-financial firms listed on the NSE.

Kipngetich, Tenai, and Kimwolo (2021) examined the effect of operating cash flow on stock returns of firms listed on the NSE using an explanatory research design. The study targeted 29 listed companies, with panel data collected from 2007 to 2017. Data was analyzed using fixed and random effects methods, and panel regression was employed for hypothesis testing. The study found a significant positive relationship between operating cash flow and stock returns, suggesting that efficient utilization of cash resources enhances stock returns. However, the study focused primarily on stock returns, and did not explore how operating cash flows affect financial performance across other dimensions, such as profitability or overall firm value. This highlights a gap in understanding the broader implications of operating cash flow on financial performance in the context of non-financial firms listed on the NSE.

Financial Performance

Financial performance refers to a company's ability to generate profits and manage its resources effectively, which is crucial in determining its overall financial health and operational efficiency. It is commonly assessed through various financial metrics, which provide insights into different aspects of a company's operations, including profitability, liquidity, and asset management. Among the most widely used measures of financial performance are Return on Assets (ROA) and Return on Equity (ROE), which help in evaluating a firm's profitability and the effectiveness of its management in utilizing resources. While both measures are essential for assessing financial well-being, they offer different perspectives, with ROA focusing on how efficiently a company uses its assets to generate profits, and ROE reflecting the returns generated for shareholders based on their equity investment (Kalantonis, Goumas, & Rodosthenous, 2019).

Return on Assets (ROA) is particularly significant as it provides a clear understanding of how well a company uses its total assets to produce earnings. This is a key measure because it incorporates all resources at a company's disposal, highlighting the effectiveness of asset utilization in generating returns (Almagtome & Abbas, 2020). ROA is calculated by dividing net income by total assets, and a higher ROA typically indicates a more efficient use of assets in producing profit. Operating cash flow, which represents the cash generated from core business operations, plays a vital role in influencing ROA as it reflects the liquidity and operational efficiency of a company. Unlike net income, which includes non-cash items such as depreciation and amortization, operating cash flow offers a more accurate picture of a company's financial health by focusing on actual cash generated from its ongoing business activities (Ofoegbn & Okoro, 2020). This cash flow is integral to a company's ability to reinvest in its operations, pay down debt, or return value to shareholders, ultimately affecting its profitability and financial performance. Therefore, the link between operating cash flow and ROA is essential in understanding how effectively a firm can translate its cash-generating capacity into profitable outcomes.

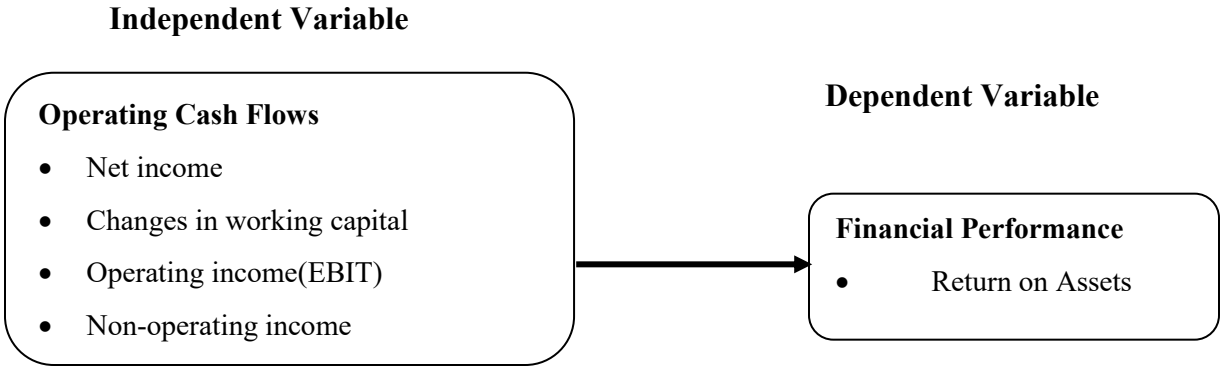
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In this study, ROA was chosen as the primary metric for assessing financial performance due to its comprehensive nature and relevance in evaluating the relationship between operating cash flows and profitability. Since ROA reflects the efficiency with which a company uses its total assets to generate profits, it is particularly suited for understanding the broader impact of operating cash flows on a firm's financial performance (Rahman & Sharma, 2020). The study aims to explore how effectively non-financial firms listed on the Nairobi Securities Exchange (NSE) are utilizing their operating cash flows to generate returns from their assets. By focusing on ROA, the study seeks to provide insights into the efficiency of these firms in leveraging their resources, particularly in terms of operating cash flows, to enhance profitability. Additionally, ROA is a useful metric for comparing firms across different industries, as it allows for an evaluation of performance based on total asset utilization, irrespective of industry-specific variations in capital structure or operational requirements (Kuria, Memba, & Oluoch, 2024). This characteristic makes ROA an ideal measure for assessing financial performance in a diverse group of firms, such as those listed on the NSE, which operate across various sectors with different capital intensity levels.

Ultimately, ROA offers a clear and consistent measure for evaluating the efficiency and profitability of firms based on their operational activities. Given its ability to directly link operating cash flows to asset utilization and profitability, ROA is an appropriate and valuable metric for this study, which seeks to assess the financial performance of non-financial firms listed on the Nairobi Securities Exchange. Through the analysis of ROA, the study aims to provide a deeper understanding of how operating cash flows influence the overall financial performance of these firms and contribute to their ability to generate sustainable profits (Kipngetich, Tenai, & Kimwolo, 2021).

CONCEPTUAL FRAMEWORK

Figure 1: Conceptual Framework



METHODOLOGY

This study adopted a positivist research philosophy, which emphasizes objectivity and the use of empirical data to explore the relationship between operating cash flows and financial performance. A cross-sectional research design was employed, as it facilitates data collection from multiple non-financial firms at a specific point in time, providing a snapshot of their current cash flow and financial performance. This approach allowed for the efficient analysis of liquidity, investment decisions, and operational efficiency across different firms. Additionally, the cross-sectional design helped identify trends, patterns, and comparisons among firms of varying sizes and sectors, offering insights into the immediate influence of operating cash flows on financial performance.

This study targeted 44 non-financial companies listed on the Nairobi Securities Exchange (NSE), selected for their publicly available financial records. The decision to focus on non-financial firms was based on reports indicating inconsistencies in cash flow management, including challenges in debt repayment, supplier payments, and employee compensation (K.A.M & KPMG, 2023).

This study utilized panel data collected from the firms' publicly available annual financial reports spanning from 2017 to 2023. Secondary data was chosen for its accuracy and the ease it provides in comparing financial performance across different industries and years (Taherdoost, 2019). The cash flow statement was used to gather data on various cash flow components, while the statement of financial position and income statement facilitated the computation of return on assets. Data was extracted using a structured data extraction document.

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RESULTS AND DISCUSSION

This section presents and analyzes the findings of the study, interpreting the relationship between operating cash flows and the financial performance of non-financial firms listed on the Nairobi Securities Exchange.

Descriptive Statistics

Data was collected from 35 out of the 44 non-financial firms listed on the Nairobi Securities Exchange, resulting in a response rate of 79.5%. This response rate was deemed sufficient for conducting statistical analyses and drawing valid conclusions about the relationship between operating cash flows and financial performance, with Mugenda and Mugenda (2013) noting that a response rate above 50% is considered satisfactory in social science research.

Table 1 Descriptive Results

	Obs	Mean	Std Dev	Min	Max
Firm performance	210	0.644	0.298	-1.508	1.516
Operating cash flow	210	0.755	0.821	-4.167	1.897

The findings presented in Table 1 reveal that operating cash flow had a positive mean value of 0.755, with a standard deviation of 0.821, suggesting a generally positive but variable impact on firm performance. This is consistent with Ofoegbn and Okoro (2020), who found a positive relationship between operating cash flow and financial performance, confirming that effective management of operating cash flow positively influences firm performance. Similarly, Qaisi (2020) highlighted the importance of adequate and effective operating cash flow, noting that it plays a significant role in enhancing share prices and, by extension, financial performance, which is reflected in the current study's results showing a positive relationship between operating cash flow and firm performance.

Furthermore, the variability observed in the operating cash flow, indicated by the high standard deviation, mirrors the findings of Rahman and Sharma (2020), who noted that firms with consistent and stable operating cash flow experience better financial performance. The range of operating cash flow values, from -4.167 to 1.897, underscores the variability in cash flow management practices among firms, a finding that is consistent with Nguyen, Doan, and Nguyen (2020), who pointed out that discrepancies in operating cash flows could hinder a firm's ability to meet its obligations and impact overall financial performance. The current study's findings thus confirm that while operating cash flow can positively affect firm performance, the extent of this relationship is influenced by how effectively firms manage their cash flows, supporting existing literature on the importance of operating cash flow in improving financial outcomes.

INFERENTIAL STATISTICS

Correlational Analysis

Pearson correlation analysis was used to examine the relationship between operating cash flow and financial performance, as measured by return on assets. This analysis helped determine the strength and direction of the linear relationship, providing insight into how variations in operating cash flow correlate with changes in the financial performance of non-financial firms listed at the Nairobi Securities Exchange. The analysis was conducted at a 95% confidence level, ensuring the reliability and accuracy of the results.

Table 2 Pearson correlations between Operating cash flow and firm performance

		1	2	3	4	5
Firm performance (1)	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	210				
Operating cash flow (2)	Pearson Correlation	0.005**	1			
	Sig. (2-tailed)	0.000				
	N	210	210			
	N	210	210			

**. Correlation is significant at the 0.01 level (2-tailed).

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The Pearson correlation analysis results reveal that operating cash flow has a very weak positive correlation with firm performance (r = 0.005). This suggests that changes in operating cash flow have an insignificant relationship with the financial performance of non-financial firms listed on the Nairobi Securities Exchange, as measured by return on assets. The near-zero correlation may imply that operating cash flows, despite being a key component of a firm's financial health, do not exhibit a strong or direct impact on the firm's performance in the context of the firms under study. This finding contrasts with previous literature, where operating cash flows were often positively linked with financial performance (Qaisi, 2020; Ofoegbn & Okoro, 2020), and calls for further exploration of contextual factors that may influence this relationship in the Kenyan market.

Regression Analysis

Panel regression was carried out to assess the influence of operating cash flow management on the financial performance of the non-financial firms listed at the NSE between 2017 and 2022. The following null hypotheses were tested.

H_{01} Operating cash flows have no statistically significant effect on the financial performance of non-financial firms listed in the Nairobi Securities Exchange.

Table 3 Panel regression analysis for Return on Assets

Return on Assets	Coef.	Std. Err.	Z	P>|Z|	[95% Conf.	Interval]
Operating cash flow	0.0451063	.0044524	10.13	0.000	.0363798	.0538328
_cons	0.1044964	.0655239	1.59	0.111	.2329209	.023928
R Square (Within) = 0.9297						
R Square (Between) = 0.8058						
R Square (Overall) = 0.8944						
corr(u_i, X) = 0 (assumed)						
Wald chi2(4) = 765.21 .						
Prob > chi2 = 0.0000.						
sigma_u =.1936679						
sigma_e = .26048277						
rho = .35599637						

The regression results presented in Table 3 show that the overall coefficient of determination (R^2) is 0.8944, indicating that approximately 89.44% of the variation in the financial performance (measured by Return on Assets) of non-financial firms listed at the NSE can be explained by operating cash flow management practices. The R^2 (between) value of 0.8058 further indicates a strong explanatory power across different firms, while the R^2 (within) value of 0.9297 demonstrates a strong fit within the individual firms over time.

The coefficient for operating cash flow is 0.0451 ($p < 0.01$), suggesting that a one-unit increase in operating cash flow is associated with an increase of 0.0451 in the financial performance of the firms, holding other factors constant. This positive and statistically significant relationship ($Z = 10.13$, $p < 0.000$) highlights the critical role that efficient management of operating cash flows plays in enhancing firm profitability. The constant term of 0.1045 ($p > 0.05$) was not statistically significant, implying that when operating cash flow is zero, the base level of financial performance is not significantly different from zero.

The rho value of 0.3560 indicates that approximately 35.6% of the variance in firm performance is due to differences across firms, suggesting a moderate degree of firm-specific effects in the data.

These findings are consistent with those of Rahman and Sharma (2020), who found a positive and significant relationship between operating cash activities and financial performance in the industrial sector in Saudi Arabia. Similarly, the results align with the observations by Ndungu and Oluoch (2016), who, although focusing on financing cash flows, also highlighted that specific cash flow components have significant effects on firm performance for companies listed at the NSE.

Overall, the results reinforce the importance of operating cash flow as a critical driver of financial performance, emphasizing the need for firms to prioritize operational efficiency and cash management practices to enhance their profitability and financial sustainability.

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Operating cash flow and financial performance of the non-financial firms

The first hypothesis of the study stated that operating cash flows have no statistically significant effect on the financial performance of non-financial firms listed on the Nairobi Securities Exchange. Upon testing this hypothesis at a 95% confidence level, the results revealed a beta coefficient of 0.0451, a p-value of 0.000 ($p < 0.05$), and a t-value of 10.13, which exceeds the critical value of 1.96. These results indicate that the relationship between operating cash flows and financial performance is both positive and statistically significant.

The positive beta coefficient suggests that an improvement in operating cash flow practices leads to an enhancement in firm performance. Specifically, elements of operating cash flow such as net income, changes in working capital, operating income (EBIT), and adjustments for non-operating income contributed significantly to strengthening the financial performance of the firms.

Based on these findings, it can be concluded that operating cash flow practices play a critical role in driving profitability among non-financial firms listed at the NSE. Consequently, the study rejected the null hypothesis and affirmed that operating cash flows have a positive and statistically significant influence on financial performance.

The findings of this study is therefore similar that of Ofoegbn and Okoro (2020), who also found that operating cash flows have a significant and positive relationship with financial performance. Similarly, Kipngetich, Tenai, and Kimwolo (2021) also established that operating cash flow had a significant and positive relationship with the stock returns of the listed companies.

Conclusion

Drawing from the empirical evidence and the summary of the findings, several key conclusions can be made regarding the relationship between operating cash flows and the financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE).

The study concludes that operating cash flows exert a statistically significant and positive influence on the financial performance of non-financial firms. Specifically, firms that demonstrate strong and stable cash inflows from their core operating activities tend to achieve superior financial outcomes, reflected in higher returns on assets. Effective management of operating cash flows enables firms to meet their operational obligations promptly, invest in profitable ventures, and strengthen their financial resilience against market fluctuations.

Moreover, the findings emphasize that sound cash flow practices including the optimization of working capital, timely collection of receivables, prudent management of payables, and control of operational costs are critical drivers of enhanced liquidity and profitability. Firms that actively monitor and manage their operating cash flows are better positioned to maintain operational efficiency, support strategic investments, and ultimately, deliver greater value to shareholders.

Therefore, the study underscores the importance of integrating robust cash flow management strategies into the overall financial planning and operational frameworks of non-financial firms. Strengthening operating cash flow management is essential not only for sustaining day-to-day operations but also for securing long-term financial sustainability and competitive advantage within dynamic market environments

Recommendations

At the policy level, it is recommended that regulatory authorities such as the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) strengthen financial reporting frameworks by enforcing standardized guidelines for the disclosure of operating cash flows. The adoption of uniform reporting standards would enhance the consistency, transparency, and comparability of financial data across firms, thereby supporting better investment decisions and regulatory oversight. Furthermore, policy initiatives such as fiscal incentives could be introduced to recognize and reward firms that demonstrate strong operating cash flow performance. For example, offering tax rebates to firms that consistently meet timely payment obligations to employees and suppliers could encourage operational efficiency and financial discipline across the sector.

From a managerial standpoint, firms are advised to embrace digital financial management systems that enable real-time monitoring, forecasting, and analysis of operating cash flows. Implementing such technologies would allow

firms to optimize their cash conversion cycles, maintain optimal working capital levels, and ensure the timely settlement of operational liabilities, ultimately strengthening liquidity and profitability. Additionally, firms should establish internal benchmarks to continuously assess the efficiency of their operating cash flow management practices. Regular strategic reviews anchored on these benchmarks would enable management to identify potential cash flow risks early, adjust operational strategies accordingly, and sustain long-term financial performance. Emphasizing the adoption of proactive cash flow strategies is critical for firms aiming to achieve financial resilience and maximize shareholder value.

Areas for Further Research

While this study provides important insights into the influence of operating cash flows on the financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE), it also opens opportunities for further research. Future studies could expand the scope by examining the impact of other cash flow dimensions, such as free cash flows and cash flow volatility, on firm valuation and investor confidence. Additionally, comparative studies across different sectors or between financial and non-financial firms could offer a deeper understanding of sector-specific cash flow management practices. Longitudinal studies incorporating macroeconomic variables such as inflation rates, interest rates, and currency fluctuations could also provide a broader contextual understanding of how external factors influence the relationship between cash flows and financial performance. Such future research would not only enrich the existing body of knowledge but also offer practical strategies for firms navigating increasingly dynamic financial environments.

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