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Deconstructing Firm Size Effects In Emerging Markets: A Moderation Analysis Of The Liquidity And Firm Value Nexus

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Abstract
Firm value is a critical element for both investors and managers, particularly in emerging markets, where financial limitations and market inefficiencies significantly influence performance. This study investigates the relationship between liquidity and firm value, alongside the moderating effect of firm size, quantified as the natural logarithm of total assets, while controlling for leverage. Grounded in Operating and Cash Conversion Cycle Theory, Size Effect Theory, and Agency Theory, the analysis utilizes panel data from 63 non-financial firms listed on the Nairobi Securities Exchange from 2008 to 2022. Liquidity is assessed using a composite index that incorporates short-term liquidity, asset convertibility, and new debt liquidity, whereas firm value is represented through Tobin's Q method. Employing fixed-effects panel regression models with leverage accounted for as a control variable, the study conducts diagnostic tests to address potential issues of heteroscedasticity, autocorrelation, multicollinearity, and cross-sectional dependence. The findings reveal a positive correlation between liquidity and firm value, with firm size exerting a significant moderating influence on this relationship. Specifically, the positive effect of liquidity on firm value is more pronounced in larger firms, even when factoring in leverage. The study underscores the important role of firm size in the liquidity-value nexus within emerging market contexts. However, it notes that the findings pertain solely to associations and discuss the implications for liquidity management among firms listed on the Nairobi Securities Exchange.

Keywords: *Firm Value; Firm Liquidity; Firm Size; Total Assets; Nairobi Securities Exchange; Panel Data Analysis*

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I. Introduction

The concept of firm value is a cornerstone of corporate finance, which shows the ability of a corporation to create wealth and ensure its competitive sustainability [1]. In emerging economies like Kenya, listed companies are prone to a dynamic economic, regulatory, and structural factor, which may lead to market inefficiencies and liquidity shock [2]. Liquidity is thus a decisive factor of firm value, which provides operational stability by allowing firms to fulfill short-term obligations, continue operations, and lower expenses associated with financial distress, impacting the general market valuation [3]. Although it is significant, the liquidity-firm value relationship research indicates contradictory outcomes in the developing economies. Typical liquidity indicators consist of current ratio, cash, asset convertibility, and short-term debt [4]. A high level of liquidity improves the flexibility of operations and financial security, which will draw investors and boost the value of firms. On the other hand, a high level of liquidity can create conflicts of agency, inefficient management of assets and bad investment choices which can negatively affect shareholder wealth [5]. The findings between these two results emphasize the fact that further research is necessary especially in the African equity markets where liquidity management is quite different compared to the developed economies.

Firm size is a significant moderate term in financial studies, and it is usually described as total assets or employee numbers [6]. Larger companies usually experience a more diversified operation, more access to funds, and competitive advantages that enable them to use liquidity more efficiently than smaller ones [7]. This indicates that the effect of liquidity on the firm value might not be constant across firms [8]. There is, however, some inconclusive empirical evidence. Other studies suggest that the bigger companies enhance financial linkages by providing stability and economies of scale [9], but some findings also suggest that the size of the firm has little impact in inefficient or less-sophisticated markets [10]. The NSE is a market where firm size determines asset

base, market share, maturity in governance and access to financing. The bigger companies usually have steady cash flows and investor confidence, but the smaller companies have increased volatility and resource limitations [11,8]. Nevertheless, the conditional nature of total assets as a moderator between liquidity and firm value has not been properly studied, and most studies concentrate on the direct impact, such as liquidity, leverage, and governance.

Theoretically, investigating the premise of whether firm size mediates the liquidity-value relationship confronts traditional beliefs in financial management. The existing models, such as the resource-based perspective, pecking order hypothesis, and market efficiency perspective, indicate that the nature of larger companies has a strong impact on financial decisions and market-related valuation [13]. The fact that total assets are not a significant factor in the determination of liquidity-value correlations in the NSE provides a delicate insight into the financial dynamics of emerging markets and suggests a reevaluation of classical theories. In practice, this insight suggests to investors that bigger companies do not necessarily cope with liquidity better and disadvantage valuation. Corporate managers can be aware that liquidity strategies can directly impact firm values either across all firm sizes or regulators may apply such knowledge to inform policy on transparency, efficiency, and corporate reporting.

Problem Statement

The assessment of a firm's value is crucial for various stakeholders including investors, managers, and policymakers, especially in emerging markets characterized by financial instability and inefficiencies. The ongoing debate regarding the factors influencing firm value is enriched by significant contributions from [3,8], which stress that these determinants can differ across various economic contexts. One major factor identified is liquidity, which affects a firm's ability to meet short-term financial obligations, maintain operations, and reduce costs associated with financial distress. This notion is supported by research from [3,4]. However, the empirical relationship between liquidity and firm value remains inconclusive, with studies showing mixed outcomes; some indicate a positive correlation [6], while others demonstrate a negative relationship or no significant effect [7,8]. This inconsistency highlights the urgent need for further exploration into the conditions under which liquidity impacts firm value, prompting a focus on variables that may moderate this relationship. Additionally, firm size, generally evaluated through total assets, is believed to influence the dynamics between financial characteristics and firm value. Larger firms may exploit their liquidity more effectively into enhanced value due to advantages such as diversified operations, economies of scale, and better access to financial markets [8]. However, empirical findings, particularly from developing economies that face structural constraints and possess weaker investor protections, paint a more intricate picture. The studies conducted by [3] indicates that the correlation between firm size and its capability to increase value could be marginal or even statistically insignificant. Furthermore, [10] challenge traditional corporate finance theories regarding the moderating effect of firm size, suggesting that anticipated efficiencies do not consistently hold true across various contexts. Therefore, a substantial knowledge gap persists concerning the moderating effect of total assets on the relationship between liquidity and firm value in firms listed on the NSE. Clarifying whether this moderating influence is significant or statistically inconsequential is essential for assessing the pertinence of established financial theories, refining valuation models, and laying a robust groundwork for decision-making by investors, regulators, and corporate managers. Ultimately, this study aims to investigate the significance of total assets as a moderator in the liquidity-firm value relationship within the NSE.

Research Objective

This study investigates the moderation effect of firm size on the relationship between liquidity and value of firms listed at the Nairobi Securities Exchange.

Research Hypothesis

H_{01}: Firm size has no significant moderating influence on the relationship between liquidity and the value of firms listed at the Nairobi Securities Exchange.

II. Literature Review

The relationships among firm liquidity, size, and value are elucidated through multiple theoretical frameworks. Key among these is operating and cash conversion cycle theory, signaling theory, size effect theory, as well as agency theory, all of which are elaborated upon subsequently.

Theoretical Literature

The exploration of how firm size influences the relationship between liquidity and firm value can be understood through four primary theoretical frameworks: Operating and Cash Conversion Cycle Theory, Size Effect Theory, and Agency Theory. The Operating and Cash Conversion Cycle Theory, established by [14], posits

that firms with shorter cash conversion cycles (CCC) tend to achieve better liquidity and operational efficiency, which in turn enhances both profitability and firm value. Nevertheless, the reliability of empirical calculations of the CCC has been questioned, particularly highlighted by [15,16]. Furthermore, issues such as managerial biases and alternate signaling methods might compromise the effectiveness of liquidity signals [17,18].

In parallel, Size Effect Theory, proposed by [19], asserts that firm size acts as a proxy for risk and market behavior. It suggests that larger firms possess informational advantages, experience economies of scale, and incur lower transaction costs, allowing them to convert liquidity into value more efficiently. However, Critics of Size Effect Theory highlight that larger firms do not always outperform smaller ones due to inefficiencies like bureaucratic structures that hinder decision-making and responsiveness to market changes [20]. As companies grow, managing a larger workforce can lead to operational inefficiencies, reducing productivity and profitability [20]. Furthermore, larger firms face higher agency costs from the separation of ownership and control, creating misaligned incentives that negatively impact performance and value [21]. Agency Theory, introduced by [22] focuses on the influence of managerial discretion in liquidity management and investment decisions. This theory suggests that agency costs and incentive mechanisms vary significantly with firm size; however, it has faced criticism for failing to adequately consider broader social and relational contexts [23]. Mutually, these frameworks indicate that while liquidity is a crucial factor influencing firm value, the impact of firm size on this relationship appears to be complex and context-dependent. Additionally, inconsistencies in theories and the structural features of emerging markets, like the Nairobi Securities Exchange, indicate that total assets may not significantly moderate, which is critical to the current investigation.

Literature Review

The determinants of firm value are complex and encompass both financial and non-financial factors that significantly influence market valuation. Key variables identified in the literature include liquidity, firm size, industry effects, market power, and capital structure, which collectively are essential for firms aiming to improve their market valuation and overall performance. Liquidity has a nuanced impact; while short-term liquidity can bolster creditworthiness and operational flexibility, excessive liquidity may indicate inefficiency, leading to negative perceptions among investors [24,25]. The effect of long-term liquidity on firm value remains ambiguous, with some studies reporting no significant correlation [26,27]. Firm size can provide advantageous economies of scale and enhance market power, yet empirical evidence reveals that size alone does not reliably determine firm value, indicating the importance of other moderating factors [27,25]. Additional considerations such as industry characteristics, market power, capital structure, profitability, asset tangibility, and firm age also contribute to firm valuation, highlighting the necessity for a comprehensive understanding of both financial and non-financial determinants [26,25]. The relationship among firm liquidity, size, and value is particularly crucial in emerging markets. Studies suggest that liquidity positively affects firm value, although the size factor is often contentious. In certain Southeast Asian contexts, firm size has been found to impact the interplay of capital structure and value without incorporating liquidity into discussions, which limits insights into this relationship. For instance, research in Indonesia indicates that while profitability and liquidity positively influence firm value, firm size has minimal to no effect. Moreover, sustainability reporting may serve to moderate the impacts of liquidity and profitability [28]. Investigations in emerging economies such as Pakistan and Nigeria reveal varied influences of firm size, shaped by sector structure, market sophistication, and institutional context [29]. While it is suggested that larger firms can enhance liquidity through economies of scale and improved access to capital markets [30, 31], some counterarguments propose that firm size demonstrates minimal or variable moderating influence on the liquidity-value relationship [32]. The literature across emerging markets presents conflicting evidence, where some studies indicate a positive moderating effect of size, while others highlight a lack of significant impact [33–37]. Notably, local studies from the Nairobi Securities Exchange suggest that firm size may modulate the interaction between liquidity and firm value; however, inconsistencies exist across different sectors and economic conditions, calling for more focused inquiries [34–35]. In summary, while global and regional analyses affirm that liquidity significantly impacts firm value, the moderating role of firm size presents a more ambiguous picture. In developed markets, a larger firm size generally strengthens the connection between liquidity and value; conversely, in emerging markets, particularly across Africa, our understanding remains limited and inconclusive [38–42]. This elucidates a clear knowledge gap surrounding whether total assets effectively influence the liquidity-value relationship in emerging markets like Kenya, emphasizing the need for expanded research into this crucial financial interaction.

Figure 1: Conceptual Framework

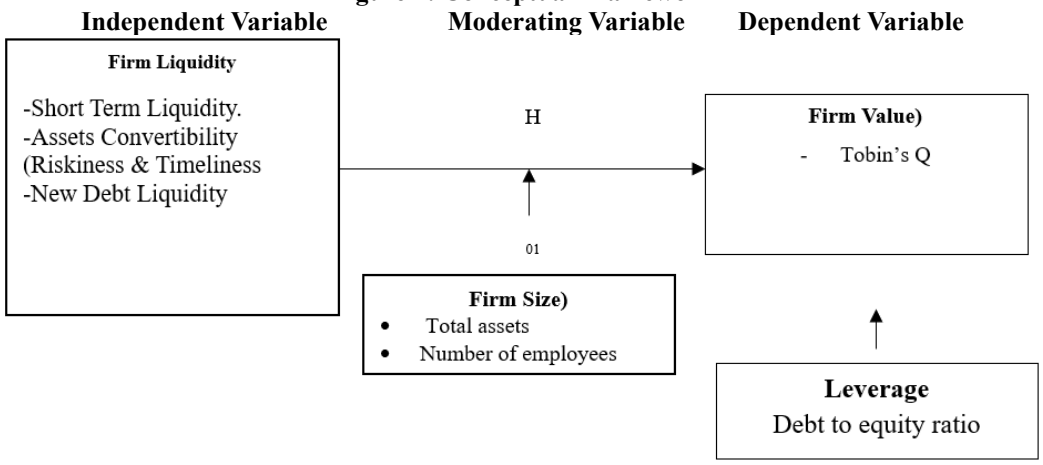

Figure 1 delineates the interconnections between firm liquidity, firm size, and firm value, incorporating leverage as a control variable. Firm liquidity, assessed through indicators such as short-term liquidity, asset convertibility, and new debt liquidity, is posited to positively impact firm value, represented by Tobin's Q. Firm size, measured by total assets and employee count, is suggested to moderate this relationship, as larger firms are likely to translate liquidity into increased value more effectively. Leverage, indicated by the debt-to-equity ratio, is considered a control variable to mitigate financial risk, thereby isolating the influences of liquidity and firm size on firm value. Additionally, the proposed framework includes the null hypothesis (H_{01}), which claims that firm size does not moderate the relationship between liquidity and firm value. This model serves as a robust foundation for testing direct, moderated, and controlled effects in regression models, aiding in the interpretation of results.

III. Research Methodology

The study investigates the relationships among firm liquidity, size, and value, utilizing quantitative secondary data from the financial statements of 63 companies listed on the Nairobi Stock Exchange over a 15-year timeframe (2008–2022). However; the regression analysis was conducted on 51 firms. This decrease can be explained by the fact that firms have been delisted, share trading has been suspended, and the studied firms were listed after the period of study began. These firms thus lacked all the complete data throughout the study period. Moreover, the difference in the count of observations between models is due to missing firm-years observations and missing data in the panel due to these structural changes in the market. The final sample of firms met the inclusion criteria of the study and met the stipulated threshold of all variables of interest. This stringent filtering process guarantees that all firms under analysis can make valid and reliable observations within the periods in question. The dataset, however, forms an imbalanced panel because of the variation in the coverage of firms-year because of delisting, suspensions of share trading, as well as, those firms listed after the study period began. This asymmetric construction explains the difference in the number of observations in the various regression models.

Firm size is quantified through total assets and employee count, while firm value is evaluated using Tobin's Q ratio. Employing a descriptive longitudinal research design rooted in positivist philosophy, the study aims for an objective analysis of how these variables interact. Multiple regression models are used to explore general relationships, with simple linear regression specifically examining the impact of liquidity on firm value. To measure liquidity and firm size, composite indices, based on several indicators, were used to measure the multidimensional nature of these variables. Liquidity was assessed on the basis of current ratio, quick ratio, and cash ratio, whereas firm size was assessed on the basis of total assets. The indicators were all normalized and standardized to create a composite indicator. The composite measures were used instead of individual indicators to minimize measurement error and have a more rigorous representation of the underlying constructs which is in line with the previous empirical finance literature. Further, the study recognizes the possibility of endogeneity between liquidity and firm value since the latter can also affect the decisions of liquidity. Despite the use of panel regression methods to correct unobserved heterogeneity, the risk of reverse causality cannot be completely eliminated. Instrumental variable or dynamic panel estimation design could be used in future research to solve this issue.

The study includes leverage as a control variable, recognizing that highly leveraged firms might experience greater financial risk, which could adversely affect market valuation. This control ensures that the influences of liquidity and firm size on firm value are accurately assessed without interference from financial risk variations. The foundational regression model is structured as follows:

Firm Value$_{it}$=β_0+β_{01}Liquidity$_{it}$+β_{02}Leverage$_{it}$+ϵ_{it}

Moderation by firm size was assessed with an interaction term in multiple regression:

Firm Value$_{it}$=β_0+β_{01}Liquidityit+β_{02}(Liquidity×Firm Size)$_{it}$+β3Leverage$_{it}$+ϵ_{it}

The robustness of the model was thoroughly evaluated through a detailed series of diagnostic procedures designed to assess various statistical properties necessary for valid inference. The Chow test was employed to evaluate poolability across cross-sections, ensuring that the data could be effectively combined. To examine the presence of heteroscedasticity and ensure consistent variance across the panel, the Modified Wald test was utilized. The Wooldridge procedure was applied to test for autocorrelation within the panel, a potential source of bias in estimations if left unaddressed. Additionally, cross-sectional dependence was evaluated through the Pesaran test, which is critical for accounting for interdependence among observations in panel data. Model specification considerations were guided by the Hausman test, which helps determine the appropriateness of fixed versus random effects in the model structure. To further scrutinize the relationships among predictors, multicollinearity was assessed using the Variance Inflation Factor (VIF), thereby identifying any predictors that might be linearly related and potentially inflating the variance of the coefficients. The stationarity of the variables was established through the Im, Pesaran, and Shin (IPS) and Augmented Dickey-Fuller (ADF) tests, ensuring that the time series data met the required conditions for reliable analysis. Lastly, the Engle–Granger cointegration method was employed to explore long-run equilibrium relationships among the variables, grounding the model's findings within established economic theory. This comprehensive diagnostic approach not only affirms the robustness of the model but also enhances the credibility and relevance of its conclusions in empirical research.

IV. Data Analysis And Findings

The study analyzed the financial performance of 63 firms listed on the NSE over 15 years (2008–2022), using a total of 765 data points from audited financial statements. This coverage represents approximately 81% of the expected dataset. Missing observations were minimal and non-influential, ensuring reliability. Quantitative metrics derived from financial ratios were used to assess critical dimensions of firms, including liquidity, size, value, and additional control variables (leverage, profitability, sales growth, tangibility). This comprehensive dataset allows for robust regression analysis while accounting for factors that may influence firm value.

Table 1: Descriptive Statistics of Study Variables

Variable	N	Range	Min	Max	Mean	Std. Dev	Variance	Skewness	Kurtosis
Short-term liquidity	912	1.388	-0.156	1.232	0.4722	0.2660	0.071	0.181	2.470
Asset convertibility	912	0.3454	0.0212	0.3666	0.1885	0.0986	0.010	0.095	1.827
New debt liquidity	912	1.0544	-0.0666	0.9878	0.3904	0.2097	0.044	0.197	2.450
Composite Liquidity	912	0.9293	-0.0678	0.8622	0.3504	0.1914	0.037	0.158	2.249
Ln of Total Assets	912	15.5253	9.3407	24.8660	16.6046	4.5559	20.756	0.131	-1.176
Ln of Number of Employees	912	5.6240	0.0351	5.6591	2.7847	1.6473	2.714	0.038	-1.214
Composite Size	912	10.5747	4.6882	15.2626	9.6946	3.1016	9.616	0.085	-1.195
Leverage	912	2.140	0.012	2.152	0.6143	0.3986	0.159	0.742	3.118
Q Ratio	912	3.8975	0.0403	3.9378	1.5686	0.8152	0.665	0.215	-0.591

Table 1 provides detailed descriptive statistics for important variables utilized in this study. Liquidity measures including short-term liquidity, asset convertibility, and new debt liquidity show moderate levels among firms listed on the NSE, with a composite liquidity average of 0.3504. There is substantial variation in firm size, quantified by the natural logarithm of total assets and number of employees, indicating significant heterogeneity within the sample. Tobin's Q, serving as a proxy for firm value, averages 1.5686, which suggests that, on average, firms enjoy a market valuation slightly above their book values. The control variable of leverage indicates a moderate utilization of debt financing, with a mean value recorded at 0.6143. The overall distribution characteristics of liquidity, firm size, leverage, and firm value demonstrate sufficient variability and stability within the data. This validation confirms the appropriateness of the dataset for panel regression analysis and underlines the reliability of estimating the proposed econometric models.

Table 2: Wooldridge Test for Autocorrelation

Test	F-statistics	p-value	Decision
Wooldridge	-	0.0534	Fail to reject null; no autocorrelation

Table 2 outlines the results from the Wooldridge test regarding first-order autocorrelation within the residuals of the panel data regression. The p-value obtained was 0.0534, which is slightly above the typical

threshold of 5% for significance. This result implies that the null hypothesis—which posits that there is no first-order autocorrelation—cannot be dismissed. Thus, the analysis suggests a general independence of residuals over time. Although this finding tends to affirm the reliability of the estimated coefficients, the nearly significant p-value indicates the necessity for careful interpretation. It is advisable to consider the possibility of minor serial correlation in any robustness checks or sensitivity analyses that follow.

Table 3: Pesaran's Test for Cross-sectional Dependence

Test	Statistic	p-value	Decision
Pesaran CD	2.272	0.0231	Reject null; cross-sectional dependence detected

Table 3 presents the findings from Pesaran's cross-sectional dependence (CD) test, which evaluates the correlation of residuals among firms within a panel dataset. The test yielded a statistic of 2.272 and a p-value of 0.0231, both indicating significant cross-sectional dependence. This result implies that shocks experienced by one firm may also influence others, a phenomenon frequently observed in markets characterized by sectoral or macroeconomic interconnections. To mitigate the impact of this dependence and achieve unbiased standard errors in further analysis, robust clustered standard errors were utilized in subsequent regression models. This approach significantly improves the validity and reliability of the estimated coefficients in the study.

Table 4: Hausman Test for Fixed vs Random Effects

Test	Chi-square	p-value	Decision
Hausman	**-**	**< 0.05**	**Fixed- effects model preferred**

The Hausman test was conducted to determine the appropriate model for panel data, specifically to choose between fixed-effects (FE) and random-effects (RE) regression. The null hypothesis assumes that the RE model is consistent, implying no correlation between the regressors and firm-specific effects. A p-value below 0.05, as shown in Table 4, leads to rejection of this null hypothesis, supporting the use of the fixed-effects model. This indicates that unobserved firm-specific factors are correlated with the independent variables, ensuring that the regression accounts for within-firm heterogeneity and produces unbiased estimates of the effects of liquidity, firm size, and their interaction over time.

Table 5: Variance Inflation Factor (VIF) for Multicollinearity

Variable	VIF	1/VIF
All independent variables	<10	>0.1

Table 5 displays the Variance Inflation Factor (VIF) values for all independent variables in the regression analysis, with all values remaining below the threshold of 10 and their reciprocals (1/VIF) exceeding 0.1. This suggests that multicollinearity is not an issue, affirming that liquidity and firm size, along with their interaction, yield unique predictive insights. Consequently, the coefficient estimates are deemed reliable. The lack of significant multicollinearity bolsters confidence in the assessment of both direct and moderating impacts of the independent variables on firm value.

V. Hypotheses Testing And Discussion Of Findings

Table 6: Moderating Effect of Total Assets on Relationship between Liquidity and Firm Value

Variable	Coefficient (β)	Std. Error	t-value	p-value	Significance
Constant	0.2150	0.0245	8.776	0.000	***
Liquidity	0.0820	0.0093	8.817	0.000	***
Firm Size (Ln Total Assets)	0.0380	0.0042	9.048	0.000	***
Liquidity × Firm Size	0.0380	0.0051	7.451	0.000	***
Leverage (Control)	−0.0214	0.0068	−3.147	0.002	***

Table 6 analyzes the fixed-effects regression results to assess how firm size affects the relationship between liquidity and firm value, specifically measured by Tobin's Q, while controlling for leverage. The findings indicate a positive and statistically significant relationship between liquidity and firm value, with a beta coefficient of 0.0820 ($p < 0.01$), suggesting that firms with higher liquidity tend to have higher market valuations. Additionally, firm size also shows a significant positive relationship with firm value, represented by a beta of 0.0380 ($p < 0.01$). Notably, the interaction term for liquidity and firm size is also positive and statistically significant ($\beta = 0.0380$, $p < 0.01$), demonstrating that firm size effectively moderates the relationship between liquidity and firm value. This means that the positive effect of liquidity on firm value is more pronounced in larger

firms, even when controlling for leverage. The model exhibits a strong explanatory power with a within-R^2 of 0.9597, and the overall significance of the model is confirmed by the F-statistic. As a result, the null hypothesis (H01), which posits that firm size does not significantly moderate the relationship between liquidity and firm value, is decisively rejected.

VI. Model Diagnostics And Fit

Table 7: The fixed-effects regression model

Statistic	Value
Model	Fixed Effects
Dependent Variable	Tobin's Q
Number of Firms	51
Observations	816
Within R^2	0.9597
F-Statistic	14,626.88 (p = 0.000)
Rho	0.2913

The fixed-effects regression model detailed in Table 6 investigates how firm size moderates the relationship between liquidity and firm value, measured by Tobin's Q, while controlling for an additional variable. This analysis encompasses 51 firms, yielding a total of 816 firm-year observations. The model demonstrates a high within R^2 of 0.9597, indicating that approximately 96% of the variation in Tobin's Q over time for the firms is accounted for by liquidity and firm size, along with their interaction and the control variable, illustrating strong explanatory power. The F-statistic of 14,626.88 with a significance level of $p = 0.000$ confirms that the independent variables have a statistically significant impact on firm value. Additionally, the rho value of 0.2913 reveals that around 29% of the variance in Tobin's Q can be attributed to firm-specific, time-invariant characteristics, with the rest explained by within-firm changes over time. These findings reinforce the validity of the fixed-effects model and offer a solid foundation for understanding the moderating effects of firm size on the liquidity-value relationship.

VII. Discussions

The empirical analysis conducted on non-financial firms listed on the NSE reveals that liquidity significantly enhances firm value, aligning with both Operating and Cash Conversion Cycle Theory and Agency Theory. Key findings indicate that short-term liquidity, asset convertibility, and the ability to obtain new debt collectively improve firms' capacity to meet financial obligations. This enhancement reduces financial distress and elevates market valuations, evidenced by a high Tobin's Q. The model's robust performance, demonstrated by a within-R^2 of 0.9597, captures the majority of the variability in firm value, reassuring the robustness of the outcomes through various diagnostic tests. Additionally, the study highlights the moderating effect of firm size—measured via the natural logarithm of total assets—where larger firms benefit more from liquidity due to their ability to convert liquidity into value through strategic investing and operational efficiencies, capabilities that smaller firms may typically lack. A positive interaction between firm size and liquidity underscores how liquidity's impacts are considerably magnified in larger firms, necessitating consideration of firm size in financial strategy development. The inclusion of a control variable affirms that the relationship between liquidity and firm value remains significant when accounting for other performance influencers. The distinctions drawn between the direct and moderating effects of liquidity establish its role in enhancing firm value independently, while also noting that this influence is particularly potent in larger firms. To validate the findings, methodological concerns such as cross-sectional dependence, heteroscedasticity, and autocorrelation were scrupulously addressed through robust diagnostic methods. From a practical standpoint, the implications suggest that firms should implement liquidity management strategies that acknowledge both size and other related factors. Furthermore, policymakers might consider designing liquidity disclosure regulations that cater to varying firm sizes, while management should prioritize the efficient allocation of liquidity to optimize firm value. These insights hold particular relevance for emerging markets like Kenya, where capital markets exhibit inefficiencies and liquidity constraints are more significant.

VIII. Summary, Limitations, And Future Research

This study analyzed the interplay between liquidity, firm size, and firm value among firms listed on the Nairobi Securities Exchange (NSE) from 2008 to 2022. The results indicate that liquidity—particularly short-term liquidity, asset convertibility, and the ability to incur new debt—has a positive impact on firm value, with

larger firms benefiting more from available liquidity. These findings reject the null hypothesis (H01) and support relevant theoretical frameworks such as the Operating and Cash Conversion Cycle Theory and Agency Theory, which emphasize the critical role of liquidity management in emerging markets. However, the study has several limitations that affect the generalizability of its findings. It exclusively focuses on NSE-listed firms, which restricts the applicability of results to unlisted companies or those in different regulatory environments. While employing fixed-effects panel regression accounts for unobserved variability, it does not completely eliminate the potential endogeneity issues between liquidity and firm value. Furthermore, the reliance on quantitative secondary data may overlook important qualitative factors such as managerial decision-making, governance practices, and market sentiment. The lack of sector-specific analysis also means that variations in liquidity's effects across different industries could be obscured. Future research should consider addressing these limitations by utilizing alternative metrics for liquidity and firm value, such as cash-flow-based or market-adjusted indicators. Conducting sector-specific or cross-country studies could provide deeper insights into contextual influences. Additionally, integrating qualitative factors like corporate governance and managerial strategy could enhance understanding of how liquidity contributes to value creation. Methodologically, employing dynamic panel models or instrumental variable approaches could address endogeneity concerns and fortify causal inference. Overall, the study underscores the importance of liquidity as a crucial determinant of firm value in emerging markets, especially for larger firms, offering valuable insights for managers and policymakers and suggesting directions for further inquiry.

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