Abstract

Operational efficiency has attracted much interest in corporate finance literature over several decades. However, in the context of the agricultural sector, it has received little attention in developing economies such as Kenya. Operational efficiency and performance of Agricultural firms listed at the Nairobi securities Exchange have been fluctuating over the years. This is partly attributed to specific firm characteristics. The objective of this study was to determine the relationship between firm characteristics and operational efficiency of agricultural firms listed at Nairobi securities Exchange. The study was anchored on trade off theory, liquidity preference theory, agency theory, miller and Orr's cash management model. The target population was 7 agricultural companies listed at Nairobi securities exchange. The study used audited financial statements' secondary data collected from 2011 to 2020. Data was analysed using descriptive statistics, correlation analysis and panel data regression analysis with the help of STATA version 13. The study found out that there was a significant negative relationship between asset tangibility, firm size and operational efficiency of agricultural companies listed at Nairobi securities exchange. Further, there is a significant positive relationship between cash reserves and operational efficiency of agricultural firms listed at Nairobi securities exchange. This study recommends that management of agricultural companies listed at Nairobi securities exchange should pay attention on asset tangibility, firm size and cash reserves because they have a significant relationship with operational efficiency. Firms can utilize productive assets as collateral for debt without incurring high borrowing costs. The firm size should be optimal because very large firms are characterised by inefficiencies due to control weaknesses. Policy makers should incorporate factors such as asset tangibility, firm size and cash reserves in their strategic plans.