

## EFFECT OF CASH AND LIQUID SUBSTITUTES ON PROFITABILITY OF SELECTED QUOTED MANUFACTURING FIRMS IN NIGERIA

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### ABSTRACT

The study examined the relationship between cash (including liquid substitutes) and profitability of listed firms in the manufacturing sector of the Nigerian Stock Exchange. Ex-post-facto research approach via quantitative panel methodology was employed to evaluate the effect of the cash and cash equivalents on the dependent variable. Data were collated from the audited annual reports of thirty-six (36) manufacturing firms listed on the Nigerian Stock Exchange for the fifteen year period: 2003-2017. Diagnostic tests were carried out on the collated data using Levin-Lin-Chu panel unit-root test which confirmed their stationarity and Westerlund Panel Cointegration Tests that depicted the variables were not cointegrated in the long run. Further, Hausman test confirmed the consistency and suitability of the Fixed Effects (FE) multiple regression model. Hypothetical statements tested portrayed the existence of a significant positive influence of cash and cash equivalents on return on assets of the sampled firms. These results imply that optimizing firms' profits necessitate striking the best liquidity-profitability trade-offs, otherwise firms keeping insufficient liquid assets may be forced to borrow from external sources at exorbitant costs or become illiquid. The study concurred that Nigerian manufacturing firms' profitability is significantly influenced by the adequacy of cash holdings.

**Keywords:** Cash, Liquid Substitutes, Profitability, Firms.