CORPORATE LIQUIDITY DRIVEN PROFITABILITY: EVIDENCE FROM LISTED MANUFACTURING FIRMS IN NIGERIA.

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Abstract

This study examined the level at which corporate performance can be driven by active corporate liquidity management in the manufacturing sector of Nigeria. The study sought to unravel the relationship between active corporate liquidity management and profitability which has long presented a critical ground for debate among authors without reaching a consensus position .To this end, the study adopted expo-facto and inferential research designs with secondary panel and cross- sectional data generated from the Central Bank Statistical Bulletin and various annual reports of Nigerian quoted manufacturing firms. A sample size of fifteen listed manufacturing firms between 2013 and 2019 periods was selected by judgment and purposive sampling techniques. Data were analyzed with using panel data regression analysis, Hausman Test, and correlational coefficient matrix and descriptive statistical methods respectively. Findings revealed existence of positive relationship between the firms' return on assets and corporate liquidity measures. The result to align with some previous findings, hence we hereby conclude that active corporate liquidity management can significantly drive corporate profitability in the manufacturing sector. Sequel to this finding, it is suggested that manufacturing firms in Nigeria should explore realistic working capital management policies as well as active liquidity management strategy that will adequate liquidity position and enhanced market value to the benefit of shareholders.

Keywords: *Corporate liquidity, Profitability, Manufacturing, Relationship and Nigeria.*

1. INTRODUCTION

Despite the huge investments on equipment, machinery, building and plant etc, the failure of the firm to efficiently manage the ingredients of production process will ultimately translate the entire effort and funds to a waste (Akinsulire2019). Hence the value placed on corporate liquidity by stakeholders as a result of its roles in driving corporate returns as well as their intrinsic values cannot be overemphasized. Amihuand Mendelson (1986) Amihu and Mendelson (1986) view corporate liquidity as the capacity of the firm to speedily transform business assets into cash assets as at when desired.

Hence the more cash assets in the company's book the more liquid the company is rated and the higher its market value and confidence attached to the firm.

According to Graham, (2013) corporate liquidity refers to the swiftness and robustness by which firms aspire to meet rising financial obligations without any form of default or delay. He described liquidity as a firm's ability to fund increase in assets, meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. In addressing how corporate liquidity policy can affect the firms' profitability, Cinnamon and Brian (2002) opined that corporate liquidity assists the business to be well positioned to retire all financial obligations as they fall due even in the nearest future. They however identified erroneous measurement of corporate liquidity through the balance sheet data that are generally short term tenured to be a major a challenge of corporate liquidity appraisal by companies.

Osuoha (2005) notes that adequate portfolio planning demands that investors' liquidity need among other factors , should be considered critical for her investment objectives, Hence a smart investment manager should rate portfolio status based on liquidity criteria by setting out the minimum percentage of the asset portfolio that could easily be converted into cash without significant asset value reduction.

Similarly Chordia, Roll and Subrahmanyam (2000) in their study also conclude that sector wide liquidity risk in form systematic risks tend to be more difficult to diversify thereby compounding investment challenges for the investors Obrimah, O.A. (2016).

Corporate performance evaluation criteria has posed a critical issue of debate among economists, financial experts, researchers, as well as financial sector stakeholders. The trend even becomes more contentious as some stakeholders tend to rely highly on firm's ability to grow profit in form of dividend payout and sales turnover over time while others tend to prioritize their need on business sustainability in terms of ability to meet recurrent obligations. But Iswatia and Anshoria (2007) posit that since corporate performance revolve around the capacity of an organization to gain and manage its resources in order to develop competitive advantage, its achievement can also be appraised based on sustained increase in output , ability to meet recurrent obligations and generate working capital which are fundamental to actualization of corporate term objectives. The challenges of asset liquidity management is aggravated by the inconsistency of corporate liquidity assessment tools applicable in the financial markets. In addressing the inconsistency of liquidity measurement implications for organizational performance have generated conflicting opinion on the subject matter. While Chandra (2001) was of the opinion that a high level of corporate liquidity

signifies some level of financial strength for the firm , Neto (2003) on different perspectives , held that high level of corporate liquidity exposes the company to undesirable experiences due the assumption that current assets generate less return on assets than fixed assets investment as a result of incremental cost elements and opportunity costs that tend to reduce overall profitability of the business.

2. Problem statement

There is growing concern on how best corporate liquidity could be managed by an organization so as to drive high corporate profitability, optimal liquidity and efficiency. While some authors have advocated aggressive liquidity management approach others tend to proposed passive strategies. Chandra (2001) was of the view that aggressive liquidity management has the tendency to generate high profitability which could translate to high efficiency and profitability. But others like Neto (2003) consider high profitability induced profitability could also amount to excess liquidity, that endanger corporate resources which translate to funds misallocation, ineffectiveness and low productivity in the absence of appropriate liquidity management strategy. Conversely, liquidity evaluation and corporate performance assessments criteria tend to create validity and reliability problems in timing of liquidity management decisions by managers. Hence the author is of the view that, divergence of opinions among authors with respect to the subject matter and couple with the need to enhance internal risk assessment strategies which could ameliorate and diversify the already challenging systematic risks' impacts, present a good motivation for this investigation this sector, this investigation will aptly address the internal risk management challenges in the manufacturing sector. Thus the study findings, while contributing to existing literature, will aptly provide working template that could guide the managers' decisions about corporate liquidity risk management which is considered as a major internal risks assessment factor in an organization.

3. Objective of the Study

This study aims at investigating if corporate performance is significantly driven by the way the corporate liquidity is managed and controlled. Specifically the study intends to ascertain the nature and level of relationship and association existing between corporate liquidity and corporate profitability.

Research Questions

Sequel to the proposed objectives, the study attempts to proffer solutions this question:

1. To what extent is corporate profitability driven by corporate liquidity of the manufacturing in Nigeria.

2. What is the nature of association between corporate profitability and liquidity of manufacturing firms in Nigeria?

Research Hypotheses

In order to proffer solutions to the foregoing, the following research hypotheses are hereby stated:

H_0: corporate profitability is not significantly driven by corporate liquidity in Nigeria.

H_1: corporate profitability is significantly driven by corporate liquidity in Nigeria

H_0: corporate profitability has no association with corporate liquidity in Nigeria

H_1: corporate profitability is associated with corporate liquidity in Nigeria

Significance of the Study

Firms in Nigeria are daily confronted with vagaries of adverse economic environments driven by insecurity, poor governance, policy inconsistency which are beyond their management control. The need for an in-house systematic risks management strategy calls for adequacy of working capital management tool of which liquidity assessment. This study will immensely be of great value to firms' decision makers, investors and business analysts as a guide liquidity management and value creation in an organization. While contributing to existing knowledge the findings of this study remains a resource and reference material for the financial industry stakeholders, academics and researchers as a whole.

Limitation of the study

The major limitation of this study is paucity of data caused by listed companies noncompliance with publication of their performance reports as well as late submission of annual reports to the regulatory bodies.

3. LITERATURE REVIEW

The concept of corporate liquidity: Corporate liquidity connotes different meaning to different people subject to their various ideologies. Graham, (2013) defines corporate liquidity as "the swiftness and robustness to meet rising financial obligations without any form of default or delay". He further described liquidity as the firms' ability to fund increase in assets, expected and unexpected cash and collateral obligations without incurring unnecessary losses. According to Ashraf, Nabel and Hussain (2017) liquidity refers to the short term assets including cash, advances, short term loans bank balances as well as current liabilities and short term borrowings. Instructively, firms' vulnerability to liquidity risks explains the need to discuss liquidity management as a driver for its effectiveness and profitability. Jagongo and Makori (2013) view corporate liquidity as the responsibility of all firms to

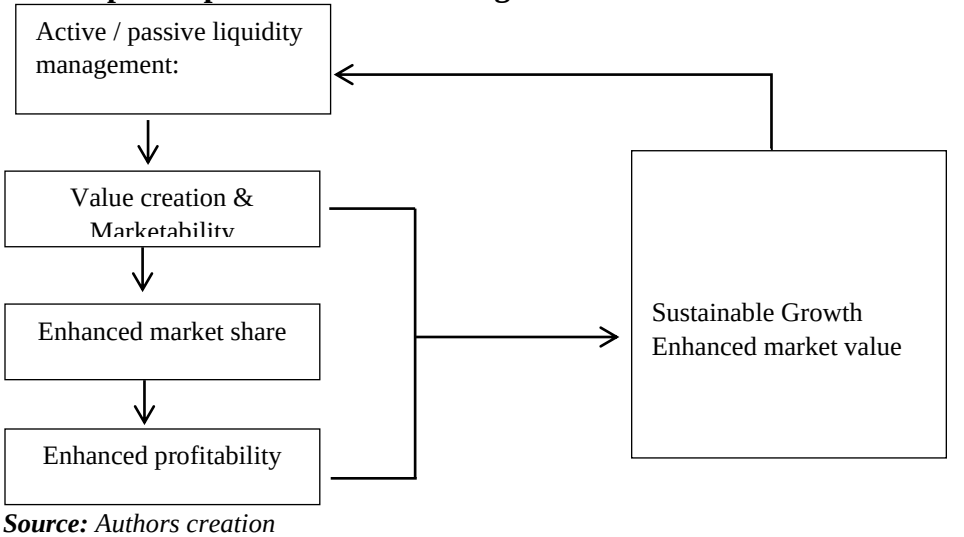
counter their fiscal duties through the conversion of their current assets into near cash items so as to daily obligations. To them, business continuity could be more threatened, when firms adopt passive liquidity management strategy which tend to expose them more to liquidity risk challenges than aggressive liquidity management approach that may results to excess liquidity scenario. Hence achieving corporate sustainability through a balanced liquidity management strategies to avoid excess liquidity or idle cash in the organization should be targeted by all firms.

Corporate profitability: Corporate profitability refers to financial performance assessment criteria for a company's ability to create value and generates income through its various business operations. It is used to measure the company's short run efficiency. Companies that pursue corporate profitability objectives however tend to be more exposed long term sustainability challenges. Bassey, Tobi, Bassey & Ekwere, (2016) noted that a sustainable business operations requires the managers to weigh complex trade-offs between growths, returns and general risks by adopting of risk-adjusted metrics that could enhance shareholders wealth in order to achieve long run sustainable growth.

Delineating the transmission channel between corporate liquidity and corporate profitability through aggressive liquidity management strategies:

Finance experts are of the view that the firms that adopt passive liquidity have lower amount in working capital are potentially exposed to funding challenges that might ultimately translate to financial distress . Figure (1) illustrates this scenario.

Figure 1: A transmission channel between corporate liquidity utilization and corporate performance in an organization.



Source: *Authors creation*

Figure 1 above depicts a business process usually energized by adequate working capital availability, utilization and buoyed by aggressive liquidity management strategies. The firm's liquidity position resulting from either active or passive liquidity management strategies could ginger value creation , product marketability and enhanced market share which for company translates to corporate efficiency in terms of corporate profitability and enhanced market value and corporate growth as documented in Modigiliani and Miller (1950) .In the long run liquidity position generated from viable business activities facilitated and executed through adequate funding will cumulatively translate to a sustainable business growth, development, expansion and enhanced market value to the benefit of the shareholders.

Theoretical Review

The theoretical foundations reviewed while investigating the connection between corporate liquidity and its profitability were anchored on the Liquid Asset Theory, Trade-off Theory and the pecking order theory respectively.

Liquid Asset Theory: The concept of corporate liquidity management is fundamentally premised on the liquid asset theory as proposed by Keynes (1936). The theory is used to explain the need for which firms to be rational in making investment decision that targets high returns, minimum risks and ensures adequate provisions for holding liquid assets. This theory in support of the liquidity preference theory focuses on precautionary motives for holding cash assets instead of illiquid assets by companies desire to cushion the effect of uncertainties and market imperfections affecting the business operations. But according to Dietrich and Wanzenried (2011) observed that achieving high returns while holding liquid assets at a low risk could be counterproductive since liquid assets are cost ineffective and have the tendency to reduce profits.

Trade off Theory:

The static trade off theory as proposed by Modigliani and Miller (1950) explains that under perfect market condition, the capital structure a firm does not define company's market value rather the firm's market value is determined through its profitability, earning power and the riskiness of its underlying assets. This theory holds that corporate efficiency could be achieved when there is a trade-off among the underlying assets' liquidity, profitability and the market value of the firm. In support of this theory, Raheman & Nasr, (2007) and Graham (2013) were of the view that passive working capital management tend to render the management inefficient and unattractive to investors under competitive investment market.

Pecking Order Theory: The pecking order theory as proposed by Myers and Majluf (1984) disagrees with the static trade-off theory. Under this theory it is

argued that firms adopt pecking order arrangement in making use of internal resources first by issuing their safest security first when raising funds. This is necessary in order to boost the company's liquidity position. The theory supports the use of internal financing normally sourced from retained profit to boost corporate liquidity as it allows the firm to avoid external funding costs that could erode corporate profitability.

Empirical Review

Corporate liquidity connection with profitability remains a contentious issue among authors, financial managers and policy makers in every economy including Nigeria. The belief that corporate performance driven by liquidity position could trigger long term growth opportunity and financial sustainability for both small and big organization makes this subject matter an attractive area of empirical debates across markets.

Nazir and Afza (2009) investigated the relationship between working capital policy and profitability of some 126 firms in the Charachi Stock Exchange using panel data approach adopting conservative and aggressive investment policies for their liquidity measures. The study revealed negative relationship between profitability and working capital policy in the industrial sector investigated.

Sharma and Kumar (2011) examined the effect of working capital management on profitability of Indian non-financial firms listed on Bombay Stock Exchange between 2002 and 2008 using multiregression analysis method and found a positive relationship between working capital management and firms' profitability.

Vahid, Mohsen and Mohammadreza (2012) examined the impact of working capital management policies on the firms' profitability and market value of listed in Tehran Stock Exchange using panel data regression analysis methods and found that conservative and aggressive investment financing policy both have negative impacts on the firm's profitability and market values.

Ajanta (2013) assessed the nexus between trading firms' liquidity and profitability in Sri Lanka applying descriptive statistics, correlational raking matrix and multiregression techniques for data analysis. The result revealed positive and significant relationship between current ratio and return on assets of the sampled firms.

Nyamao et al. (2012) The study examined the effects of working capital management on the financial performance of SMEs in Kenya. The study used cross-sectional survey using stratified sampling approach, descriptive and inferential statistics. The result disclosed low working capital management

practices among the firms positive relationship between financial performance and efficiency of cash management.

Mathuva (2009) The study investigated the influence of working capital management components on the profitability thirty quoted firms Nairobi. The study applied Pearson spearman's ranked correlations coefficient and pooled ordinary least squares for data analysis. Findings disclosed significant negative relationship existing between profitability and cash collection periods.

Agbada and Osuji (2013) The study evaluated the efficacy liquidity management and banking performance in Nigeria. The study adopted the survey research design using Pearson product-moment correlation coefficient for data analysis. Findings indicates that there is positive relationship between efficient liquidity management and banking performance.

Ben-Caleb et al. (2013) examined the relationship between profitability and liquidity management of thirty listed manufacturing companies listed in the Nigerian. Descriptive statistical method and multi regression analysis were applied and findings revealed split result of insignificant influence of cash conversion cycle on profitability and also positive relationship between current ratios and return on assets thereby contradicting Agbada and Osuji (2013) study on the banking sector.

Owolabi and Obida (2012) The study investigated the relationship between liquidity management and profitability of 46 quoted firms quoted in Nigeria. The study made use of ordinary least square method for data analysis. Findings revealed that cash conversion cycle. credit policies and cash flow management has significant influence on corporate liquidity This result contradicts Ben-Caleb (2013) study on the same sector.
Significantly, most of the empirical studies were based on different markets and different econometric analysis techniques and revealed conflicting results thus confirming lack of consensus among authors.

4. RESEARCH METHODOLOGY

Research design, data sources, population, sampling method and size:
The study adopted expo-facto, descriptive and quantitative research design based on secondary panel data and cross sectional time series data sourced from Nigerian Stock exchange, Central Bank Statistical Bulletin and companies annual reports of various years between 2013 and 2019. A sample size of fifteen quoted companies from the population of 28 quoted industrial firms on Nigerian Stock Exchange were selected using purposive and judgment sampling methods.

Method of data analysis

The study relied on secondary panel data sourced from annual reports of the 15 sampled quoted firm in the Nigerian and sourced data were analysed using panel data regression, Correlation coefficient matrix and Hausman test analysis methods respectively.

MODEL SPECIFICATION:

The panel data regression analysis models for fixed effect and random effects models are hereby functionally specified as below.

ROA = *f*(CR, ATR,ST,DR,GDR, ER)……1

ROAit = α1 + β2CRit + β3ATRit + β4STit+ β5DRit + β6GDRit+ + β7ERit+ẹi+ μit……2

Substituting equation 3 into equation 2

ROAit = α1 + β2CRit + β3ATRit + β4STit + β5DRit + β6GDRit+ + β7ERit +wit……3

Where:

ROA = Return on assets, a proxy for corporate profitability for each company

α1 = The intercept for each variable and it is constant term.

T = time period

μit = cross-section and time series error term,

ẹi = individual specific error term

wit = Composite error term consisting of *ẹi* and *μit*

CR = Current ratio

AT R = Acid Test Ratio

ST = Stock Turnover

DR = Debt ratio

GDP = Gross Domestic Product

ER = Exchange Rate

β_1- β6 = coefficients assumed ≥ 0

β5&β7 = coefficients ≤ 0 .

JUSTIFICATION FOR VARIABLES INCLUDED: The Return on Assets (ROA) is a proxy for company performance hence it**s** inclusion as the endogenous variable.

Current ratio, Acid test ratio, Debt ratio and Stock turnover ratio represent are proxy for corporate liquidity that drive profitability hence their inclusion as exogenous variables. They are corporate liquidity measurement factors. Corporate liquidity management and its resultant effect on companies' performance is a function of conducive economy defined by macroeconomic factors hence the inclusion of Gross domestic product and exchange rate as control variables.

MODEL ESTIMATION: The panel data analysis requires preliminary test with Hausman test for suitability of Random Effect or Fixed Effect model for this study. Test for strength of association among the variables is evaluated using the Pearson's Correlation Coefficient Matrix analysis method while descriptive statistical test the nature of data distribution and compliance with regression normality assumption assumptions before the application of panel regression analysis model.

Data presentation, interpretations and findings:

Table .2 Descriptive statistics results:

	ROA	CR	ATR	ST	DR	GDP	ER
Mean	11.6	1.14	0.82	22.53	54.04	96.76	217.78
Median	8.0	1.038	0.67	7.28	53.34	95.17	196.47
Maximum	121.9	2.55	2.14	342.4	175.34	114.90	305.50
Minimum	-18.9	0.073	0.052	1.007	18.30	81.00	157.31
Std. Dev	0.16	0.56	0.55	62.39	0.26	11.54	61.035
Jarqu-Bera	227.59	6.34	13.44	108.191	220.91	3.97	9.49
P-Value	0.8778	0.4197	0.1209	0.5287	0.76778	0.5876	0.8689
obs	75	75	75	75	75	75	75

Source: *Author's compilation using Eviews9*

Table 2 presents the descriptive statistical results for the series indicating the mean, median minimum maximum, standard deviation , Jacque Beraand probability .

Average values for the series are 11.6,1.14,0.82, 22.5, 54, 96.7and 217.7 for ROA,CR, ATR, ST, DR, GDP and ER. The Median values for the all the series are 8.0,1.03,0.67,7.28,53,95.17,198.47 respectively. Similarly the minimum vales are -18.9, .07,.05, 1.00,18.3,81.and 157 while the maximum values are 121.9,2.55,2.14,342,175.3, 114.9 and 305 respectively for all the series.

The standard deviation which test the variability in the series are 0.16, 0.56, 0.55, 62.4, 0.26, 11.5 and 61.0 all correctly spread .The Jarque–Bera and the probability values for the variables are all higher than 5% insignificant .05 level of significance, implying the acceptance of null hypothesis of normally distributed data series 227.5: 0.85, 6.34: 0.42, 13.4: .12, 108.2: 0.5, 220.9: 0.76, 3.91:.58 and 9.5:.86 respectively.

Pearson's Correlation Coefficient Analysis

This result of this Pearson's correlation coefficient matrix tests revealed the strength and direction of the association among the investigated variables on table 3 . Return on Asset (ROA) and various liquidity variable such as current ratio, Acid Test Ratio, and other independent variables; Stock Turnover, Gross Domestic Product, Inflation Rate, Exchange Rate From the decision criteria stated in the chapter three correlation values below 50% indicates weak association By expectation, past level of firm's liquidity as measured by Return on Assets and liquidity ratio should exert significant influence on the current level of profitability as measured by macroeconomic variables.

Table 3: Pearson's Correlation Coefficient Matrix

	ROA	CR	ATR	ST	DR	GDP	ER
ROA	1						
CR	0.06851	1					
ATR	0.12337	0.93767	1				
ST	0.05219	0.32083	0.48807	1			
DR	0.08754	-0.5484	-0.5002	-0.2902	1		
GDP	-0.1578	-0.0738	-0.058	0.07549	0.06217	1	
ER	-0.1931	-0.0683	-0.0462	0.06782	0.07755	0.94711	1

Source: *Author's compilation using Eviews9*

From the correlation result, Return on Assets weakly correlated with the dependent and the control variables respectively.

From the correlation results, return on assets revealed weak but positive relationship with the liquidity variables investigated. Expectedly ,it revealed weak and negative association with the gross domestic product (GDP) and exchange rate (ER) , implying the need for manufacturing firms' to actively monitor liquid assets usage even during buoyant economic conditions.

Panel Regression Analysis Result

In line with Gujarati (1988),Vahid, Mohsen and Mohammadreza (2012) ,panel regression model is adopted because it is statistically takes into account the heterogeneity of data variables by eliminating biasness from data and describing within sample differences and deviations between measurements.

Table 4.Correlated Random Effects from the Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq Statistic	Chi-Sq.d.f.	Prob.
Cross-section random	0.000000	8	1.0000

Hausman statistic set to zero

Source*: Author's compilation using Eviews9*

Table (4)above shows the outcome of the Hausman test which shows that random effect is more appropriate model for this study by accepting the null hypotheses.

Random effects estimated regression results:
Table 5 discloses the result of panel regression analysis to ascertain the nature of relationship between the dependent variable (Return on Assets) and all the explanatory variables.

The model result is as stated: with details below.
ROA = 2.233894 + I.825381CR + 1.361274ATR + 0.098083ST- 0.426457DR
-0.1OI32IGDP
-0.018489ER
Table 5: Cross-section random effects estimated regression results
Cross- section random effects estimated regression results
Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 07/15/19 Time: 18:29
Sample:2013 2017
Periods included: 5
Cross-sections included: 15
Total panel (ba1anced) observations: 75
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.233894	3.250373	-0.687273	0.0004
CR	1.825381	0.661323	-2.760194	0.0075
ATR	1.361274	0.504511	2.698207	0.0088
ST	0.098083	0.173433	0.565538	0.5736
DR	-0.426457	0.350813	-1.215624	0.2285
GDP	-0.101321	2.049635	-0.049434	0.9607
ER	-0.018489	1.104193	-0.016744	0.9867
R-squared	0.7419894	Mean dependent var		-0.4492
Adjusted R-square	0.737457	S.D. dependent var		0.32454
S.E. of regression	0.283398	Sum squared resid		5.30075
F-statistic	3.880463	Durbin-Watson stat		1.85312
Prob. (F-statistic)	0.000846			

Source: *Author's compilation using Eviews9*

The F-statistic is used to test the joint impact of the independent variables on the dependent variable.

Decision rule: if the prob.(F-statistic) is less than the significance level of 0.05, reject the null hypothesis that all parameters equal to zero.

Conclusion: The prob.(F-statistic) from the result is 0.00080, so the null hypothesis was rejected. This also means that the model can confidently attribute the changes in corporate profitability to the variation in the corporate liquidity variables investigated.

Discussion of Findings:

From this analysis result, the coefficient of determination R-square which measures the sharing of the variations among the investigated series group is 0.741. This implies that 74.2% variation in Return on Asset (ROA) is collectively explained by variation in Current ratio, Acid Test Ratio, Stock Turnover, Debt Ratio, Gross Domestic Product and Exchange Rate. The value of the intercept which is 2.23 shows that Return on Asset increase by 2.23% when all variables are held constant. Positive and correct signs were displayed by all the explanatory variables except gross domestic product, exchange rate and debt ratio implying that changes in GDP and exchange rate may not have immediate effect on the companies' performance in the short run but could be possible in long run.

Coefficient vale of 1.82 which is significant at .05 level of significant with P-value of .0075 exist between Current Ratio and Return on Asset, implying that a unit change in corporate liquidity measure will result in 1.82% increase in profitability.

Similarly a unit change in Acid Test Ratio will result to 1.3% increase in Return on Asset. The relationship is also observed to be statistically significant given its p-value of 0.008. This implies that, a change in the company's current ratio will result to a positive increase of 1.4% in profitability.

The relationship between Gross Domestic Product and Return on Asset was negative with a coefficient of -0.1013 and p-value of 0.9607 which is statistically insignificant relationship thus indicating a negative change of -0.10% in profitability of the companies due to a unit change in gross domestic product of economy.

Exchange Rate and Return on Asset was also found to have a negative relationship with a coefficient of -0.0184 and statistically insignificant at 0.05level of significance.

There is also absence of autocorrelation as captured by the Durbin Watson value of 1.9%.

Thus, the current study findings corroborates some previous studies of Owolabi and Obida 2012, Agbada and Osiji 2015 and Janathan 2013 on the banking and industrial sectors while conflicting with that of Ben –Caleb et al (2013).

Hypothesis Test Result

Decision rule: Reject the Null Hypothesis if the probability value of F-statistic is less than 5% significance level

Conclusion: The null hypothesis was rejected based on hypotheses test result with the p-value of F-Statistic (0.000846) which is statistically significant at 0.05, implying that corporate liquidity can significantly drive the firm's profitability

Conclusions

The study sought to find out if corporate profitability is driven by corporate liquidity in the Nigerian manufacturing sector. Secondary panel data sourced from Nigeria Stock Exchange, companies' annual reports and Central Bank Statistical Bulletins respectively were analysed using panel data regression analysis model, correlation coefficient matrix and Huasman testing methods. The study findings revealed high and relationship(R*2) of 74% existing between the company's liquidity position and corporate profitability thus confirming corporate liquidity as a key driver of profitability of the manufacturing firms in Nigeria. This result also corroborates with previous study findings of (Owolabi and Obida 2012, Agbada and Osiji 2015 and Janathan 2013) while disagreeing with (Ben –Caleb et al 2013).

Recommendations

Sequel to these findings, it is hereby recommended as follows:

1. That quoted manufacturing firms in Nigeria should explore an active working capital management strategy that will improve the firms' liquidity position in order to prevent incessant exposures to adverse impact of liquidity risk vulnerability to as to fast track cash conversion activities in order to maximize cost effective corporate liquidity position contents.
2. Given the weak and negative influences the macroeconomic variables have on corporate profitability as revealed by the study, it implies that firms are seemingly vulnerable to economic swings, hence an active liquidity management coupled with viable fund diversification is recommended so as to maintain optimal and sustainable liquidity position in tandem with economic conditions.

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