FIRM SIZE, PROFITABILITY AND CASH HOLDINGS: A CAUSAL ANALYSIS OF SELECTED QUOTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

The study examined the causal relationship between firm size, profitability and level of cash and cash equivalents of selected quoted manufacturing firms in the Nigerian Stock Exchange. Ex-post-facto research approach via panel least squares was employed to assess the nature and extent of association between these variables. Data were collated from the audited annual reports of thirty-seven (37) manufacturing firms for the fourteen year period: 2005-2018. 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. Hypothetical statements tested using Granger Causality Wald Tests portrayed that CASH and LnTA cause ROA (proxies for cash and cash equivalents, logarithm of total assets and return on assets respectively). 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 asserted that Nigerian manufacturing firms' profitability is proportionately and significantly influenced by size of the firm and adequacy of cash holdings.

Keywords: Cash Holding, Firm Size, Profitability.