

Title: Liquidity Management and Profitability of Manufacturing Companies in Nigeria

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Abstract: Liquidity and its management determines to a great extent the growth and profitability of a firm. This is because either inadequate liquidity or excess liquidity may be injurious to the smooth operations of the organization. This seeming controversy has attracted a lot of interest in the subject of liquidity management. The primary aim of this paper is to investigate the relationship between liquidity and profitability. The analysis is based on a sample of 30 manufacturing companies listed on the Nigeria Stock Exchange for the period 2006- 2010. The result suggests that current ratio and liquid ratio are positively associated with profitability while cash conversion period is negatively related with profitability of manufacturing companies in Nigeria. The association in all the cases was however, statistically insignificant, indicating low degree of influence of liquidity on the profitability of manufacturing companies. Hence, the overall state of liquidity should be improved by establishing more realistic credit policy which would engender shorter cash conversion period (CCP), hence have a favourable impact on the profitability of the company.