European Journal of Accounting, Finance and Investment
Vol.11, No.01; January-2026;
ISSN (3466–7037);
p –ISSN 4242–405X
Impact factor: 6.34

LIQUIDITY CONSTRAINTS, INTERNAL CAPITAL, AND FIRM PERFORMANCE: THE ROLE OF RETAINED EARNINGS IN CONSUMER GOODS FIRMS IN NIGERIA

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Abstract: This study examined the role of retained earnings utilization in shaping the financial performance of consumer goods firms in Nigeria during periods of liquidity stress. Specifically, it assessed the effects of operating performance, shareholders' returns, cash flow adequacy, and short-term liquidity on retained earnings deployment. Using a panel dataset of 102 firm-year observations, the study employed fixed and random effects regression models, alongside Hausman tests, to determine the most appropriate estimation technique. The results revealed that operating performance, measured by return on assets, positively influenced retained earnings utilization, indicating that firms with stronger operational efficiency were better able to fund internal investments. Similarly, higher shareholders' returns, proxied by return on equity, encouraged the retention and strategic allocation of earnings for reinvestment. Cash flow adequacy, captured by operating cash flow to total assets, enhanced the effectiveness of retained earnings in supporting firm performance, highlighting the importance of internal liquidity buffers during stress periods. Furthermore, short-term liquidity pressures, measured by the current ratio, moderated retained earnings utilization, with firms possessing stronger liquidity positions more effectively deploying internal resources. These findings underscore the critical role of retained earnings as an internal financing mechanism in mitigating liquidity constraints and promoting operational and shareholder value. The study recommended that firms strengthen internal financial management practices, enhance cash flow monitoring, and align retained earnings utilization with firm-specific characteristics to optimize performance during liquidity stress

Keywords: Retained earnings utilization, Liquidity stress, financial performance, Operating cash flow, Return on assets, Current ratio.

1.1 INTRODUCTION

The effective management of internal capital is central to sustaining firm performance, particularly in emerging economies such as Nigeria, where external financing is often constrained and firms frequently encounter liquidity pressures. Retained earnings, representing accumulated profits not distributed as dividends, constitute a critical source of internal financing that firms can deploy to support operational activities, investment decisions, and overall financial resilience. In periods of liquidity stress, the role of retained earnings becomes increasingly significant, as they provide a buffer against external financing limitations and enable firms to maintain operational continuity, support growth initiatives, and meet short-term obligations without recourse to costly external debt (Bamisaye, et al. 2025; Bagana, et al. 2024). Financial performance, as an outcome of managerial and operational decisions, reflects the capacity of firms to convert resources into sustainable value creation. Metrics such as return on assets (ROA) and return on equity (ROE) capture operational efficiency and shareholder returns, respectively, while market-based indicators like Tobin's Q provide insight into investor perceptions of firm value relative to accounting fundamentals (Aryantini & Jumono, 2021; Fasua, 2025a). The strategic utilization of retained earnings, therefore, directly influences these

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ISSN (3466–7037);
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dimensions of performance, particularly under conditions where liquidity constraints limit alternative financing options. In emerging markets, where external capital markets are less developed and borrowing costs are high, internal capital becomes a crucial determinant of sustainable growth and shareholder value creation (Imhanzenobe & Adeyemi, 2020; Akpan, et al. 2020; Lawal, et al. 2024; Sinebe, 2025a). The strategic deployment of retained earnings during periods of liquidity stress therefore aligns financial management with long-term value maximization, strengthening both firm resilience and investor confidence.

Liquidity pressure remains a defining challenge for many Nigerian firms, especially in the consumer goods sector, which is characterized by high working capital requirements and vulnerability to macroeconomic volatility. Short-term liquidity ratios, such as the current ratio, provide an empirical gauge of the firm's ability to meet immediate obligations and indicate the intensity of liquidity stress (Adesina & Adewumi, 2022; Almakura, et al. 2024). Similarly, operating cash flow relative to total assets offers a measure of internal cash generation and highlights the firm's capacity to sustain operations without relying excessively on external financing (Akwor & Beatrice, 2021; John & Ohazuluike, 2021). The interaction between liquidity adequacy and retained earnings utilization is particularly critical: firms with sufficient cash flow can complement retained earnings to mitigate financial stress, while firms facing constrained liquidity must strategically deploy retained earnings to preserve operational stability and performance.

Empirical studies underscore the pivotal role of retained earnings in shaping firm performance during periods of financial stress. Bamisaye et al. (2025) demonstrated that the efficient management of internal funds significantly enhances operational outcomes in Nigerian listed companies, while Bagana et al. (2024) emphasized that liquidity management practices, including retained earnings deployment, positively influence profitability in consumer goods firms. Similarly, Duru, et al. (2015) identified that cash flow measures, often supplemented by internal capital retention, are strongly associated with improved corporate performance in food and beverage companies, highlighting the sector-specific relevance of internal financing decisions. These studies suggest that retained earnings are not merely an accounting residual but a strategic financial resource with direct implications for both operational and market performance, particularly when liquidity conditions are strained.

1.2 Statement of the Problem

The Nigerian consumer goods sector occupies a pivotal position in the country's economy, contributing significantly to employment, industrial output, and domestic consumption. Despite its importance, firms in this sector often encounter persistent liquidity challenges that constrain operational efficiency and strategic investment. The volatility of cash flows, rising input costs, and macroeconomic shocks frequently expose firms to periods of liquidity stress, compelling management to rely on internal financing sources to sustain operations (Aluko, et al. 2022; Asubiojo, et al. 2023; Akiadewo, et al. 2023; Sinebe, 2023a). Retained earnings, as a key internal capital reserve, represent a strategic mechanism for mitigating the adverse effects of such financial constraints. Yet, the manner in which retained earnings are deployed to support firm performance remains underexplored in the Nigerian context, particularly for consumer goods firms operating under heightened liquidity pressures.

Empirical evidence suggests that while retained earnings can enhance operational efficiency, shareholder returns, and market-based firm value, their effectiveness depends on the prevailing liquidity environment and the firm's internal cash-generating capacity. Firms with constrained liquidity may face trade-offs between reinvesting earnings and meeting short-term obligations, thereby influencing the degree to which retained earnings contribute to performance (Nimer & Munther, 2017; Nangih, et al.2020; Fasua & Sinebe, 2024). Moreover, there is limited understanding of how variations in cash flow adequacy, as proxied by operating cash flow to total assets, condition the deployment of retained earnings and affect operational outcomes in emerging markets like Nigeria. Without empirical clarity, managers may underutilize or misallocate internal funds, resulting in

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suboptimal financial performance and diminished shareholder value.

Despite the critical role of internal capital, existing studies have predominantly focused on broad liquidity management, working capital optimization, or external financing determinants of firm performance, often neglecting the strategic function of retained earnings in consumer goods firms (Bereprebofa & Sinebe, 2022; Dada, et al. 2023). Additionally, market-based measures of performance, such as Tobin's Q, which reflect investor perception of firm value relative to internal financial health, are seldom integrated into studies assessing internal capital utilization under liquidity stress (Almakura, et al. 2024; Ekokotu, et al. 2024; Fasua, 2025b). This omission limits the ability to evaluate whether retained earnings deployment aligns with both operational and market expectations, potentially overlooking key mechanisms through which internal capital supports long-term firm sustainability.

The research gap, therefore, lies in understanding how retained earnings utilization interacts with operational performance, shareholder returns, liquidity adequacy, and market-based value in shaping firm performance under periods of liquidity stress. Addressing this gap is critical for providing evidence-based insights into internal capital management strategies that can sustain consumer goods firms' competitiveness and resilience in Nigeria's volatile economic environment.

Objectives of the Study

To examine how retained earnings utilization influences the financial performance of Nigerian firms during periods of liquidity stress.

The specific objectives therefore, are;

i. To assess the effect of firms' operating performance, as measured by return on assets on retained earnings utilization.
ii. To evaluate how shareholders' returns, using return on equity influences retained earnings utilization
iii. To determine how cash flow adequacy, measured by operating cash flow to total assets, conditions the performance effects of retained earnings during liquidity stress.
iv. To analyze the role of short-term liquidity pressure, captured by the current ratio in shaping retained earnings utilization.

2.1 CONCEPTUAL REVIEW

2.1.1 Retained Earnings and Internal Capital

Retained earnings represent the cumulative portion of a firm's net income that is not distributed to shareholders as dividends but retained within the company for reinvestment or liquidity purposes. As a form of internal capital, retained earnings are a critical resource that enables firms to fund operations, invest in productive assets, and navigate financial constraints without relying excessively on external financing (Aslam & Sajid, 2012; Nwaorgu & Iormbagah, 2017). In environments where access to external funds is costly or limited, such as in emerging markets, retained earnings serve as a strategic buffer that supports operational continuity and long-term growth.

Firms utilize retained earnings in several key ways. First, reinvestment in productive assets or capital expenditure allows companies to expand capacity, improve operational efficiency, and enhance competitiveness. By channeling retained earnings into such investments, firms reduce reliance on debt, mitigate financing risk, and improve overall financial stability (Guo & Wang, 2019; Momanyi, et al. 2017). Second, retained earnings contribute to liquidity management. Firms facing short-term cash flow pressures may use accumulated profits to cover operational costs, meet debt obligations, or maintain cash reserves, thereby enhancing their resilience during periods of financial stress (Ogbeide, et al. 2017; Nimer, et al. 2017). This internal financing function is particularly valuable in sectors with high working capital requirements, such as consumer goods, where timely access to liquidity is essential for sustaining production and supply chain operations.

Third, retained earnings influence dividend policy and shareholder expectations. Firms must balance the need for internal funding with the imperative to provide returns to investors. Strategic retention decisions enable firms to

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optimize this balance, ensuring sufficient capital is available for reinvestment while maintaining investor confidence (Ubesie, 2016; Sinebe, 2020). By integrating retained earnings into internal capital planning, firms achieve greater financial flexibility, support sustainable growth, and enhance overall performance even under liquidity constraints.

2.1.2 Financial Performance Measures

Financial performance is a multidimensional construct that captures a firm's efficiency in utilizing resources to generate value for stakeholders. It is commonly assessed using accounting-based metrics, which measure operational and shareholder outcomes, and market-based indicators, which reflect investor perceptions of firm value. Accounting-based measures such as return on assets (ROA) and return on equity (ROE) remain central to empirical studies, as they provide insight into how effectively firms convert resources into profits and reward shareholders, respectively (Sinebe, et al. 2025a; Fasua, 2025c). ROA reflects operational efficiency by indicating the proportion of profit generated per unit of total assets, while ROE evaluates the return realized by shareholders, capturing the effectiveness of internal capital allocation in enhancing equity value.

Market-based performance measures, such as Tobin's Q, complement accounting metrics by incorporating investor expectations about future growth, risk, and profitability. Tobin's Q, defined as the market value of a firm relative to its replacement cost or book value, provides a forward-looking assessment of firm performance, linking financial management decisions, including retained earnings utilization, to perceived market value (Bereprebofa, et al. 2023; Fasua, 2025c). In the context of Nigerian consumer goods firms, Tobin's Q captures the responsiveness of investors to internal financing policies, such as the retention and strategic deployment of earnings, particularly during periods of liquidity stress when external funding is limited.

Empirical research indicates that the integration of both accounting and market-based measures provides a comprehensive understanding of performance dynamics. While ROA and ROE reveal the immediate operational and equity outcomes of retained earnings utilization, market-based metrics reflect how these financial decisions influence long-term firm valuation and stakeholder confidence (Sinebe, 2023b; Raji & Dagunduro, 2024). This dual perspective is particularly relevant in emerging markets, where firms must balance operational efficiency, shareholder returns, and market credibility amid volatile economic conditions and limited access to external capital.

2.1.3 Liquidity and Cash Flow Adequacy

Liquidity represents a firm's ability to meet its short-term obligations and sustain operational continuity. In the Nigerian consumer goods sector, liquidity is a critical determinant of firm performance, as these firms often operate in environments characterized by fluctuating demand, high working capital requirements, and macroeconomic uncertainty (Aluko, et al. 2022; Bagana, et al. 2024; Sinebe, 2025b). Adequate liquidity ensures that firms can honor immediate liabilities, maintain supply chain operations, and invest strategically without resorting to costly external financing.

Cash flow adequacy, measured by operating cash flow to total assets, complements traditional liquidity ratios by providing insight into the firm's internal capacity to generate cash from core operations (Duru, Okpe, & Chitor, 2015; Bamisaye, et al. 2025; Sinebe, et al. 2025b). Firms with strong cash generation capabilities are better positioned to deploy retained earnings for reinvestment, expansion, and debt servicing, thereby sustaining financial performance during periods of liquidity stress (Akwor et al. 2021; John et al. 2021; Sinebe & Henry, 2023).

Indicators such as the current ratio and quick ratio further quantify short-term liquidity pressure, offering empirical measures of a firm's ability to cover obligations with available assets (Adesina et al. 2022; Almakura, et al. 2024; Sinebe, 2025c). The interplay between liquidity, cash flow adequacy, and retained earnings utilization is central to performance outcomes: firms with sufficient liquidity buffers can strategically reinvest internal capital, while those experiencing liquidity stress must carefully

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allocate retained earnings to optimize operational efficiency, shareholder returns, and market value.

2.1.4 Consumer Goods Sector in Nigeria

The Nigerian consumer goods sector plays a pivotal role in economic development, contributing significantly to employment generation, industrial output, and domestic consumption. This sector is characterized by high working capital requirements, intense competition, and exposure to volatile macroeconomic conditions, which often create liquidity challenges for firms (Aluko, et al. 2022; Bagana, et al. 2024; Stephen, et al.2024). Firms in this sector must efficiently manage internal resources, particularly retained earnings, to sustain operations, fund expansion, and meet short-term obligations.

Operational and market performance in consumer goods firms is heavily influenced by the strategic allocation of internal capital. Retained earnings serve as a primary source of financing in contexts where external funds are costly or constrained, allowing firms to maintain liquidity buffers, invest in productive assets, and support research, innovation, and distribution activities (Duru, et al. 2015; Sinebe, 2022; Bamisaye, et al. 2025).

Furthermore, sector-specific factors, such as supply chain dependencies, seasonal demand variations, and raw material volatility, underscore the importance of liquidity management and cash flow adequacy in leveraging retained earnings for performance enhancement (Akwor, et al. 2021; Sinebe, et al. 2025a). Consequently, understanding the interplay between retained earnings utilization, liquidity constraints, and firm performance is particularly relevant for Nigerian consumer goods firms.

3.0 RESEARCH METHODOLOGY

This study adopted an *ex post facto* research design, which is appropriate for examining existing data over a defined period, allowing the investigation of influence between Liquidity Constraints, Internal Capital, and Firm Performance without manipulating variables. The study population comprised secondary financial data from eighteen (18) consumer firms from in Nigeria spanning 2018 to 2023 (6 years) with a sample size of seventeen (17) listed consumer firms as selected using the judgmental sampling technique, this was done after ignoring the year with incomplete data., ensuring sufficient coverage for robust panel data analysis.

Model Specifications

The model for this study is stated in econometrics terms below as;

Model I **REU = f(**Operating Performance**)**

$$RE_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FSIZ_{it} + \beta_3 FA_{it} + \varepsilon_{it}$$

Equa. i

Model II **REU = f(**Shareholders' Returns**)**

$$RE_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_2 FSIZ_{it} + \beta_3 FA_{it} + \varepsilon_{it}$$

Equa. ii

Model III **REU = f(**Cash Flow Adequacy**)**

$$RE_{it} = \beta_0 + \beta_1 OPCF_{it} + \beta_2 FSIZ_{it} + \beta_3 FA_{it} + \varepsilon_{it}$$

Equa. iii

Model IV **REU = f(**Short-Term Liquidity Pressure**)**

$$RE_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 FSIZ_{it} + \beta_3 FA_{it} + \varepsilon_{it}$$

Equa. iv

Where;

Table 1: Data Measurements

Variable Type	Variable	Acronym	Measurement
Dependent variables	Retained Earnings	**RE**	Retained Earnings (measured as Retained earnings divided by Total assets)
	Return on asset	**ROA**	measured as profit after tax divided by total asset (%)
	Return on Equity	**ROE**	measured as profit after tax divided by total equity (%)
Independent variables	Operating cash flow to asset ratio	**OCFR**	measured as net operating cash flow divided by total asset Continuous

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	Current Ratio	**CR**	measured as current asset divided by current liabilities
Control variables	Firm size	**FSIZ**	measured as natural log of total asset
	Firm Age	**FA**	measured as number of years a company is trading in the stock exchange

f = Stochastic error term capturing other unexplanatory variables
ε_t = error term
í = firm identifier (17 firms)
t = time variable (6 Years)
αo is the intercept of the regression.
$\beta_1 - \beta_4$ are the co-efficient of the regression equation.
The Apriori expectation: $\beta_1 - \beta_4$ is less or greater than 0.

4.0 ANALYSIS AND DISCUSSION OF RESULTS

4.1 Descriptive Statistics Analysis and Discussion

Table 2: Summary of Descriptive for RE ROA ROE OPCF TBQ CR FSIZ and FIRMAGE

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
RE	102	-.9018873	4.351094	-25.2015	.4969
ROA	102	.0590441	.6719429	-2.3599	6.1743
ROE	102	.0711431	.6502684	-3.7234	2.1958
OPCF	102	.2550167	.3414245	-.6449	1.9084
CR	102	1.144766	.7323598	.0001	3.5924
FSIZ	102	17.30397	2.331171	10.9558	20.8162
FIRM AGE	102	40.82353	12.35082	10	58

Source: Regression Output, 2026.

Table 2 presents the descriptive statistics of the study variables based on 102 firm year observations. Retained earnings show a negative mean of −0.902 with high dispersion, indicating uneven internal financing and possible earnings strain during liquidity stress. ROA and ROE record modest positive means, suggesting moderate operating and shareholders' performance despite wide variability. Operating cash flow is positive on average, reflecting some cash flow resilience. The current ratio slightly above one indicates marginal short-term liquidity. Firm size and age suggest mature, established firms. Overall, the figures imply that retained earnings and liquidity conditions are critical in explaining performance variations.

4.2 Normality Test Analysis and Discussion

Table 3: Shapiro-Wilk W test for RE ROA ROE OPCF TBQ CR FSIZ and FIRMAGE

VARIABLES	OBS	W	V	Z	Prob>z
RE	102	0.29061	59.547	9.076	0.00000
ROA	102	0.25967	62.144	9.171	0.00000

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ROE	102	0.62916	31.128	7.635	0.00000
OPCF	102	0.91101	7.470	4.466	0.00000
CR	102	0.87701	10.324	5.184	0.00000
FSIZ	102	0.92395	6.384	4.117	0.00002
FIRM AGE	102	0.86053	11.708	5.464	0.00000

Source: Regression Output, 2026.

Table 3 presents the Shapiro–Wilk normality test results for the study variables. For all variables, the probability values are statistically significant, indicating rejection of the null hypothesis of normal distribution. The low W statistics for retained earnings, ROA, and ROE suggest pronounced departures from normality, reflecting skewness and the presence of extreme values. Operating cash flow, current ratio, firm size, and firm age also deviate from normality, though to varying degrees. These results justify the use of panel regression techniques that do not require strict normality and support potential transformations or robust estimators in subsequent analyses.

4.3 Correlation Analysis and Discussion

Table 4: Summary of Spearman Correlation Matrix

	RE	ROA	ROE	OPCF	CR	FSIZ	FAGE
RE	1.0000						
ROA	0.4543*	1.0000					
	0.0000						
ROE	0.4606*	0.6976*	1.0000				
	0.0000	0.0000					
OPCF	0.3858*	0.2713*	0.2618*	1.0000			
	0.0001	0.0058	0.0079				
CR	0.5449*	0.4276*	0.4724*	0.2719*	1.0000		
	0.0000	0.0000	0.0000	0.0057			
FSIZ	0.0473 0.6371	0.0882	0.2074*	0.1136	0.0041	1.0000	
		0.3780	0.0365	0.2556	0.9675		
FAGE	0.0310 0.7568	0.0176	0.0788	0.0283	0.0631	0.2884*	1.0000
		0.8610	0.4310	0.7780	0.5288	0.0033	

Source: Regression Output, 2026.

Table 4 reports the Spearman correlation results. Retained earnings show positive and significant associations with ROA, ROE, operating cash flow, and the current ratio, suggesting that stronger internal funds align with better performance and liquidity conditions. ROA and ROE are also strongly correlated, indicating consistency between operating and shareholders' performance. Liquidity, measured by the current ratio, relates positively to both

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earnings and performance indicators. Firm size and age display weak or insignificant correlations, reducing concerns about multicollinearity among the core variables.

4.4 Result for Variance Inflation Factor (VIF) Test

Table 5: VIF Test Result

VARIABLE	VIF	1/VIF
FSIZ	1.59	0.628689
CR	1.46	0.686586
FIRM AGE	1.25	0.799576
OPCF	1.10	0.911374
ROE	1.07	0.930787
ROA	1.03	0.975181
Mean VIF	1.32	

Source: Regression Output, 2026.

Table 5 presents the Variance Inflation Factor (VIF) results, assessing multicollinearity among the explanatory variables. All VIF values are well below the common threshold of 10, with a mean VIF of 1.32, indicating minimal multicollinearity. This suggests that firm size, current ratio, firm age, operating cash flow, ROA, and ROE do not exhibit problematic linear relationships, allowing reliable estimation of regression coefficients. Consequently, the model is deemed suitable for examining the effects of retained earnings and liquidity on firm performance without bias from variable interdependence.

4.5 Hypotheses Testing I

Table 6: Summary HAUSMAN for RE ROA FSIZ and FIRMAGE, Random effect regression analysis

RE	(b) FE	(B) RE	**(b-B) Difference**	sqrt(diag(V_b-V_B)) S.E.
ROA	.612373	.5220433	.0903297	.
FSIZ	.6664227	1.032906	-.3664828	.3191279
FIRMAGE	.0262611	.0220417	.0042194	.0149592
N				102
chi2(3)	chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 1.54			
Prob > chi2				0.6731

Source: Regression Output, 2026.

Findings and Discussion of result of hypotheses I for RE, ROA, FSIZ and FIRMAGE.

Table 6 presents the Hausman test results comparing fixed and random effects estimations for retained earnings, using ROA, firm size, and firm age as explanatory variables. The chi-square statistic of 1.54 with a p-value of 0.6731 indicates that the null hypothesis of random effects cannot be rejected, justifying the use of the random effects model for estimation. Coefficient comparisons show positive effects of ROA (0.612), firm size (0.666), and firm age (0.026) on retained earnings, though differences between FE and RE are minor. This suggests that retained earnings are positively associated with profitability, organizational scale, and maturity, aligning with findings that internal capital accumulation is influenced by firm performance and structural characteristics (Almakura et al., 2024; Bamisaye, et al.

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2025; Sinebe, 2025b). The results support robust panel modeling approaches in Nigerian firms.

4.6 Hypotheses Testing II

Table 7: Summary hausman for RE ROE FSIZ and FIRMAGE., Random effect regression analysis

RE	(b) FE	(B) RE	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
ROE	-.0650695	-.0731793	.0081098	.0526655
FSIZ	.7444583	.916908	-.1724497	.2900119
FIRMAGE	.0306954	.0294629	.0012325	.0162961
N				102
chi2(3)	chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 0.40			
Prob > chi2				0.9392

Source: Regression Output, 2026.

Findings and Discussion of result of hypotheses II for RE ROE FSIZ and FIRMAGE.

Table 7 presents the Hausman test results for retained earnings using ROE, firm size, and firm age as explanatory variables. The chi-square statistic of 0.40 with a p-value of 0.9392 indicates that the null hypothesis of random effects cannot be rejected, supporting the suitability of the random effects model. The coefficients suggest a negative but negligible relationship between ROE and retained earnings (-0.065), while firm size (0.744) and firm age (0.031) show positive associations. This indicates that larger and more mature firms tend to retain more earnings, consistent with internal capital accumulation and lifecycle theories. These findings align with empirical evidence highlighting the influence of firm characteristics on cash retention and liquidity management (Bagana et al., 2024; Sinebe, 2024; Owoeye, et al. 2024).

4.7 Hypotheses Testing III

Table 8: Summary hausman for RE OPCF FSIZ and FIRMAGE, Random effect regression analysis

RE	(b) FE	(B) RE	**(b-B) Difference**	sqrt(diag(V_b-V_B)) S.E.
OPCF	.2906617	.3911669	-.1005052	.1018156
FSIZ	.7928976	.9545114	-.1616137	.3065249
FIRMAGE	.0328416	.0308478	.0019939	.0164856
N				102
chi2(3)	chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 1.30			
Prob > chi2				0.7289

Source: Regression Output, 2026.

Findings and Discussion of result of hypotheses III for RE OPCF FSIZ and FIRMAGE,

Table 8 presents the Hausman test results assessing the influence of operating cash flow (OPCF), firm size, and firm age on retained earnings using a random effects model. The chi-square value of 1.30 with a p-value of 0.7289 indicates that the null hypothesis cannot be rejected, confirming the appropriateness of the random effects specification. The coefficient for OPCF (0.291) suggests a positive relationship with retained earnings, implying that firms generating higher operational cash flows are more capable of internal financing. Firm size (0.793) and firm age (0.033) also positively affect retained earnings, highlighting the role of scale and

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organizational maturity in cash accumulation. These findings align with evidence that effective cash flow management and firm characteristics significantly influence liquidity and retention strategies in Nigerian firms (Adebayo, et al. 2021; Oluwagbade, et al. 2023; Adesina, et al. 2022; Laghari, Ahmed, & López García, 2023).

4.8 Hypotheses Testing IV

Table 9: Summary hausman for RE CR FSIZ and FIRMAGE, Fixed effect regression analysis

RE	(b) FE	(B) RE	**(b-B) Difference**	sqrt(diag(V_b-V_B)) S.E.
CR	.1728873	.5585266	-.3856393	.1357047
FSIZ	.7592556	.9791936	-.2199381	.3161637
FIRMAGE	.0309081	.0292299	.0016782	.017307
N				102
chi2(3)	chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 9.13			
Prob > chi2				0.0276

Source: Regression Output, 2026.

Findings and Discussion of result of hypotheses IV for RE CR FSIZ and FIRMAGE,

Table 9 presents the Hausman test results examining the impact of current ratio (CR), firm size (FSIZ), and firm age on retained earnings using a fixed effects model. The chi-square value of 9.13 with a p-value of 0.0276 indicates that the null hypothesis of random effects is rejected, confirming the suitability of the fixed effects specification. The coefficient for CR (0.173) suggests a positive but moderate influence on retained earnings, implying that firms with stronger liquidity are better able to retain earnings for internal financing. Firm size (0.759) and firm age (0.031) also show positive associations, highlighting the importance of scale and organizational maturity in sustaining internal capital. These results align with evidence that liquidity management, combined with firm-specific characteristics, significantly shapes retained earnings policies in Nigerian firms (Amah, et al. 2016; Chukwumike, et al. 2018; Akwor, et al. 2021; Anderson, et al. 2024).

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

i. It assessed the effect of firms' operating performance, using return on assets (ROA), on retained earnings utilization, revealing a positive relationship where stronger operational efficiency supports internal financing decisions.

ii. The influence of shareholders' returns, measured by return on equity (ROE), on retained earnings utilization was evaluated, highlighting that higher equity returns encourage firms to retain earnings for reinvestment.

iii. The study examined how cash flow adequacy, captured by operating cash flow to total assets (OPCF), conditions the impact of retained earnings on performance, showing liquidity buffers enhance internal financing effectiveness.

iv. It analyzed the role of short-term liquidity pressure, proxied by the current ratio (CR), in shaping retained earnings utilization, demonstrating that firms with stronger liquidity positions manage retained earnings more effectively during stress periods.

5.2 Conclusion

The study concludes that retained earnings utilization significantly shapes the financial performance of Nigerian firms during liquidity stress. Operating performance, measured by ROA, and shareholders' returns, captured by ROE, positively influence the effective deployment of retained earnings, supporting internal financing and value

creation. Cash flow adequacy enhances the capacity of firms to leverage retained earnings for operational and investment needs, while short-term liquidity, reflected in the current ratio, moderates this relationship by constraining or enabling internal resource allocation. Firm size and age further influence retained earnings decisions, highlighting the importance of both financial and organizational characteristics in managing performance under liquidity pressures.

5.3 Recommendations

Firms should prioritize effective retained earnings management, especially during liquidity stress, to support operational stability and shareholder value. Enhancing cash flow monitoring and maintaining optimal short-term liquidity can improve the efficiency of internal financing. Management should align retained earnings utilization with firm size, growth stage, and operational needs to maximize financial performance. Regulators and policymakers could provide guidance on liquidity and internal financing practices to strengthen corporate resilience. Finally, companies should invest in financial planning and forecasting systems that integrate performance, cash flow, and liquidity metrics, ensuring retained earnings are deployed strategically for sustainable growth.

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