Effect of Liquidity and Profitabilty on Value Relevance of Listed Financial Companies in Nigeria

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ABSTRACT

The Nigerian financial sector has witnessed significant growth and transformation over the past decade, contributing significantly to the country's economic progress. Consequently, this study is undertaken to examine the effect of profitability and liquidity on the value relevance of listed financial companies in Nigeria for the period of ten years 2012 to 2021. Profitability and liquidity are the independent variables while TOBIN's Q is the proxy for value relevance as the dependent variable of the study. The debt-to-equity ratio was used as the control variable. Value Relevance theory is the theory used to underpin the work. The study adopted a quantitative research design and data for the fourty listed financial companies were sourced from the published financial statements of the companies. Multiple regression with the aid of STATA 16 application software was used in analyzing the data. The study outcome revealed that profitability and liquidity significantly affected the value relevance of listed financial companies in Nigeria. The study recommends that Management should pay more attention to profitability and liquidity as it enhances the value relevance of listed financial companies in Nigeria. The study suggests further studies to be domiciled in listed non-financial companies in Nigeria.

Keywords: Profitability, Liquidity, Value relevance, TOBIN's Q

INTRODUCTION

Background to the Study

The financial performance of companies has always been a subject of great interest for investors, analysts, and researchers alike. Among the myriad of factors influencing financial performance, liquidity, and profitability have emerged as two critical dimensions that significantly impact the value relevance of companies. The Nigerian financial sector has witnessed substantial growth and transformation over the past decade. As a key driver of the nation's economy, it plays a pivotal role in attracting both domestic and foreign investors. As such, stakeholders seek to comprehend the underlying factors shaping the market value of these financial institutions.

Liquidity measures a firm's ability to meet its short-term obligations, while profitability reflects the company's capacity to generate earnings and sustain long-term growth. Understanding how these two factors interplay and influence the value relevance of listed financial companies in Nigeria is of utmost importance, considering the country's dynamic and evolving economic landscape. The value relevance of financial companies denotes the extent to which financial information impacts the decision-making process of investors and analysts, ultimately influencing stock prices and shareholder wealth. Determining the relationship between liquidity, profitability, and value relevance becomes imperative in guiding investment strategies and ensuring optimal resource allocation in the Nigerian financial market.

The effect of liquidity and profitability on value relevance has been a subject of significant interest in the realm of finance and accounting research. Numerous studies have explored the relationship between these key financial indicators and their impact on the value of companies, particularly within the context of the global financial landscape. With the Nigerian economy experiencing substantial growth and development over the past decade, the Nigerian financial sector has emerged as a crucial driver of the nation's economic progress. Consequently, understanding the dynamics of liquidity, profitability, and value relevance in the context of listed financial companies in Nigeria has become a pertinent area of investigation.

In a recent study conducted by Anande-kur *et al.* (2021), it was revealed that liquidity and profitability significantly influenced the value relevance of firms. The results highlighted the importance of managing liquidity and profitability effectively to enhance the market value of companies in these economies. Similarly, Olayinka *et al.* (2021) opined that both liquidity and profitability were positively associated with the value relevance of banks. The findings underscored the significance of maintaining sound financial health to bolster the market perception of banking institutions in Nigeria. Furthermore, the relevance of liquidity and profitability indicators in assessing the value of financial companies has also been investigated on a global scale. A study by Bhatti *et al.* (2019) revealed a positive relationship between liquidity and firm value and a positive but non-linear relationship between profitability and firm value. The study demonstrated the importance of liquidity and profitability as determinants of company value, applicable to various global financial markets.

Despite the growing body of research on the relationship between liquidity, profitability, and value relevance, there remains a gap in the literature concerning the specific context of Nigerian listed financial companies. The Nigerian financial sector faces unique challenges and opportunities, driven by the country's economic conditions, regulatory framework, and market dynamics. In light of the Nigerian financial sector's vital role in driving economic growth and attracting investment, understanding the factors influencing the value relevance of listed financial companies is essential. As a dynamic and evolving market, the Nigerian financial landscape presents a unique opportunity to explore how liquidity and profitability interact with value relevance over an extended period (Yusuf *et al.*, 2019).

By conducting an in-depth investigation over ten years from 2012 to 2021, this study will capture the long-term trends and dynamics that influence liquidity, profitability, and value relevance within the Nigerian financial context. The extensive time frame allows for a comprehensive understanding of the relationships between these variables, providing a robust analysis of the factors that impact the market value of listed financial companies in Nigeria. This study aims to fill a critical research gap by investigating the effect of liquidity and profitability on value relevance within the context of listed financial companies in Nigeria. Building on recent research on the topic, this study's focus on the Nigerian financial sector will provide valuable insights into how these financial indicators interact and influence company value over ten years.

Research Problem

The Nigerian financial sector has witnessed significant growth and transformation over the past decade, contributing significantly to the country's economic progress. However, amidst this growth, questions remain regarding the factors that influence the value relevance of listed financial companies in Nigeria. While previous studies have explored the relationship between liquidity, profitability, and value relevance in various global contexts, there is a notable gap in research specifically addressing this issue within the Nigerian financial market.

Despite the growing importance of the Nigerian financial sector and its impact on the nation's economy, there is a lack of comprehensive research examining the effect of liquidity and profitability on value relevance in listed financial companies in Nigeria from 2013 to 2022. The interplay between liquidity, profitability, and value relevance within the unique Nigerian financial landscape remains relatively unexplored, leaving investors, regulators, and policymakers with limited empirical evidence to make informed decisions. Understanding the drivers of value creation and destruction in the Nigerian financial market is critical for stakeholders seeking to optimize resource allocation, manage financial risks, and foster sustainable growth. Therefore, this study aims to bridge the research gap and contribute valuable insights into the complex relationship between liquidity, profitability, and value relevance, providing evidence-based guidance for stakeholders operating within the Nigerian financial sector.

Research Objective

The primary aim of this study is to investigate the influence of liquidity and profitability on the value relevance of listed financial companies in Nigeria from 2012 to 2021. To achieve a comprehensive understanding, the research objectives have been delineated as follows:

1. To investigate the relationship between liquidity and value relevance in Nigerian listed financial companies and ascertain whether higher liquidity levels lead to increased value relevance.
2. To examine the relationship between profitability and value relevance in Nigerian listed financial companies and determine whether higher profitability positively impacts value relevance.

Research Questions

This study seeks to explore the relationship between liquidity, profitability, and value relevance in listed financial companies in Nigeria from 2012 to 2021. To achieve a comprehensive understanding of these critical financial dimensions, the research will address the following research questions:

1. Is there a significant relationship between liquidity and value relevance in Nigerian listed financial companies, and does higher liquidity lead to increased value relevance?
2. Does profitability have a positive impact on the value relevance of Nigerian listed financial companies, and to what extent does higher profitability influence investor perceptions?

Statement of hypotheses

Based on the Objectives and Questions raised above, the hypotheses for this study is stated as follows:

$H0_1$: There is no significant relationship between liquidity and value relevance in listed financial companies in Nigeria.

$H0_2$: There is no significant relationship between profitability and value relevance in listed financial companies in Nigeria.

$H0_3$: There is no significant relationship between the combined effect of liquidity and profitability and value relevance in listed financial companies in Nigeria.

Significance of the Study

This study holds significant importance for various stakeholders in the Nigerian financial market and contributes to the broader academic and practical understanding of the relationship between liquidity, profitability, and value relevance in listed financial companies.

For investors and shareholders, the findings of this study will provide crucial insights into the determinants of value creation and destruction in the Nigerian financial market. Understanding how liquidity and profitability impact the value relevance of listed financial companies will aid investors in making informed decisions regarding portfolio allocations and risk management strategies. By identifying the key financial indicators that influence firm value, investors can better assess the potential for returns and manage their investment portfolios effectively.

Regulators and policymakers will benefit from the research findings to enhance financial stability and market transparency within the Nigerian financial sector. By gaining a deeper understanding of the relationship between liquidity, profitability, and value relevance, regulators can develop targeted policies and regulations that promote sound financial practices, improve reporting transparency, and mitigate systemic risks. The study's recommendations will serve as evidence-based guidance for enhancing regulatory frameworks and ensuring the integrity of financial reporting practices in the listed financial companies.

Listed financial companies themselves will gain valuable insights into the importance of maintaining optimal liquidity levels and sustainable profitability to enhance their market perception. Understanding the impact of liquidity and profitability on value relevance will enable these companies to align their financial strategies with investor expectations and market dynamics, fostering long-term growth and value creation. By recognizing the significance of financial health and performance indicators, listed financial companies can implement measures to improve their competitive positioning and attract potential investors and stakeholders.

LITERATURE REVIEW

The literature review for this study critically examines and synthesizes existing academic research and empirical studies relevant to the effect of liquidity and profitability on value relevance in listed financial companies. The review will explore key theories, financial concepts, and empirical findings related to liquidity, profitability, value relevance, and their interrelationships within the context of the Nigerian financial market. By analyzing the existing body of knowledge, this literature review aims to identify gaps, inconsistencies, and areas of consensus, providing a comprehensive foundation for the current study and offering insights that will contribute to the understanding of financial performance drivers in the Nigerian financial sector.

Conceptual Framework

The conceptual framework of this study encompasses the examination of how liquidity and profitability influence the value relevance of listed financial companies in Nigeria from 2012 to 2021. Liquidity and value relevance, as well as profitability and value relevance, are critical dimensions that significantly impact the financial performance and market perception of listed financial companies in Nigeria. Understanding these relationships is essential for investors, regulators, and policymakers in making informed decisions and enhancing the overall stability and growth of the Nigerian financial market.

Value relevance of a company

Value relevance is a critical concept in the context of financial companies, as it directly relates to how financial information reported by these companies influences investor decisions and subsequently impacts their stock market prices. For financial companies, value relevance is of paramount importance due to the unique nature of their operations and the extensive reliance on financial reporting by investors and stakeholders (Davies & Diepiriye, 2018). Financial companies, such as banks, insurance companies, and investment firms, heavily rely on the credibility and transparency of their financial information to attract investors and maintain market confidence. Anande-kur *et al.* (2021) asserted that value relevance is especially crucial for financial companies because their performance and stability significantly impact the overall health and stability of the financial market. Investors, shareholders, and regulators closely monitor the financial health and performance of financial companies to assess their risk exposure and growth prospects.

Financial companies' value relevance is closely linked to their profitability, asset quality, capital adequacy, and risk management practices. For instance, higher profitability, as reflected by metrics like return on equity (ROE) and net profit margin, enhances the value relevance of financial companies as investors perceive them to have better growth potential and the ability to generate returns. Similarly, strong asset quality and capital adequacy ratios signal a company's ability to manage risks effectively, further bolstering value relevance among investors.

Overall, value relevance is crucial for financial companies as it reflects their ability to provide reliable financial information that drives investor confidence and market valuation. By ensuring their financial reports are transparent, relevant, and credible, financial companies can strengthen their value relevance and attract a broader investor base, contributing to their sustained growth and success in the financial market.

Liquidity and Value Relevance

Liquidity is a crucial financial metric that represents the financial health and capacity of a listed financial company to meet its short-term obligations promptly and efficiently. It reflects the availability of liquid assets that can be readily converted into cash without significant loss in value. Chen et al. (2019) affirmed that companies with higher liquidity tend to command higher market capitalization. Investors perceive such companies as being more stable and capable of effectively managing their financial resources. As a result, liquidity plays a pivotal role in influencing a company's stock market prices, further enhancing its value relevance within the market (Anande-kur *et al.*, 2021).

Liquidity and value relevance are inherently interconnected as liquidity serves as a fundamental indicator of a company's ability to meet short-term obligations promptly and efficiently. Adeusi and Adetunji (2018) discovered that companies demonstrating strong liquidity positions were favored by investors due to their perceived financial stability and capability to fulfil obligations, leading to an increase in value relevance within the market. Also, Ojukwu and Anyanwu (2021) further underscore the significance of liquidity levels as critical indicators of financial performance and value relevance in the Nigerian financial market. In their study, they highlighted that companies with higher liquidity levels attract heightened investor interest and experience greater market capitalization, emphasizing the substantial influence of liquidity on shaping market perceptions and overall value relevance.

The linkage between liquidity and value relevance is particularly noteworthy as investors closely scrutinize a company's liquidity position to gauge its financial health and risk profile. Companies with strong liquidity positions are deemed more capable of weathering financial uncertainties, inspiring confidence among investors, and positively impacting value relevance within the Nigerian financial market (Yusuf *et al.*, 2019).

Profitability and value relevance

Profitability plays a crucial role in determining the value relevance of listed financial companies in Nigeria. Value relevance refers to the extent to which financial information influences investor decisions and subsequently impacts the company's stock market prices. Profitability, as a key financial metric, directly affects investor perceptions of a company's financial performance and growth prospects, thereby influencing its value relevance in the market.

Johnson and Smith (2018) in their study found that companies with higher profitability ratios are often perceived as more financially stable and capable of generating sustainable earnings, which positively impacts their value relevance among investors. This was substantiated by the research of Li and Wang

(2019) where it was demonstrated that companies with higher profitability metrics experienced higher stock market valuations, as investors tend to associate profitability with better growth prospects and returns. This implies that profitability influences investors' perception of a company's future performance and thus influences its value relevance in the market. Adekunle and Adeyemi (2021) in their study asserted that higher profitability ratios were associated with greater shareholder value, indicating that profitability enhances a company's attractiveness to investors and positively influences its value relevance. Shareholders often seek companies with consistent and growing profits, which are perceived as more valuable and, consequently, have a higher value relevance in the market.

Profitability significantly contributes to the value relevance of listed financial companies in Nigeria. As investors assess a company's financial performance and growth prospects, profitability serves as a critical determinant of its value relevance. Higher profitability levels indicate a company's ability to generate sustainable profits, attract investors, and positively impact its stock market prices, further reinforcing its value relevance within the Nigerian financial market.

Macroeconomic Conditions

The broader economic conditions in Nigeria, including GDP growth, inflation rate, and interest rates, can significantly impact the financial performance and value relevance of listed financial companies. Economic conditions influence consumer behaviour, market sentiment, and overall business activities, which can affect the companies' profitability and stock market prices. This study acknowledges the role of economic conditions as an external factor that may moderate the relationship between liquidity, profitability, and value relevance. Understanding the influence of economic conditions will provide insights into the contextual elements that shape the financial dynamics within the Nigerian financial market.

Empirical review

Liquidity and Value Relevance

Anande-kur *et al.* (2021) empirically investigated the ability of information contained in the financial statements of Nigerian Deposit Money Banks (DMBs) to reflect the market value of its equity. The study adopted the ex-post facto research design in the investigation. Data used for the study were extracted from the annual published accounts of listed DMBs for the period 2012 to 2018 comprising the years Nigeria adopted International Financial Reporting Standards (IFRS) in the preparation and publishing of financial statements. Descriptive statistics and panel data regression analysis were used in the analysis of the data. Findings from the study revealed that earnings per share, bank capital efficiency, and liquidity of listed DMBs in Nigeria are value relevant. Whereas book value per share of DMBs is not value-relevant. This suggests that audited income statements and statements of the financial position of DMBs in Nigeria are value relevant. The study, therefore, recommends amongst others the need for potential investors to pay more credence to earnings per share, equity, and liquidity in making decisions to invest in DMBs.

Sani *et al.* (2021) determined the influence of firms' liquidity on financial performance of quoted insurance companies in Nigeria. The study employed a descriptive research design. The population of the study consisted of twenty (20) insurance firms listed on the floor of the Nigerian Exchange Group as of 30th September 2021 covering the periods of 2014 to 2019. The sample size of the study is made up of seven (7) insurance and assurance companies in Nigeria. Simple random sampling technique was employed in selecting the sample size of the study. The study used GLS random effects regression method to analyze the data of the study. The outcome of the study revealed that the capital adequacy ratio is the major factor that influences the financial performance of quoted insurance firms in Nigeria. The study finally recommended that management of quoted insurance firms in Nigeria should offer their shares to the general public for subscription, this will, in turn, increases their capital/ revenue and the resultant effect would be an investment in viable assets this will enhance the financial performance in the long run.

Yusuf *et al.* (2019) empirically investigated the optimum synergy between liquidity and profitability management of quoted banks in Nigeria. Data were collected from secondary sources. The population of the study consists of all quoted Banks in Nigeria as at 31st December 2013. However, the sample size was determined using purposive sampling techniques. Profitability and liquidity variables were used and a multiple regression model, correlation analysis, and F-tests were employed in testing the hypothesis at a 5% level of significance. The result showed that there is a significant optimum synergy between liquidity and profitability management of banks in Nigeria. Also, optimum liquidity and profitability management is achieved when a balance is struck between the two performance indicators in such a way that the pursuit of one of them does not lead to a detrimental effect on the other. The study recommends that banks should maintain optimum liquidity and profitability equilibrium. Moreover, appropriate and stiff sanctions should be taken against banks that mismanage their working capital. This study recommends that banks should be mindful of liquidity risks while pursuing their profit maximization objective.

Davies and Diepiriye (2018) examined the effect of financial risk on the value relevance of accounting information of quoted insurance firms in Nigeria. The objective was to investigate whether there is a dynamic long-run relationship between various financial risks and the value relevance of accounting information. Time series data was sourced from financial statements of quoted insurance firms and the Central Bank of Nigeria statistical bulletin from 1990-2016. Value relevance of accounting information was proxy by aggregate stock prices of the quoted insurance firms while financial risk was proxy by debt to total capital ratio, capital to expenditure ratio, liquidity risk, volatility of earnings from general insurance business, volatility of earnings from life insurance business, exchange rate risk. The study adopted the Ordinary Least Square as the data analysis method. The β coefficient of the independent variables shows that expenditure ratio and variation in earnings from general insurance have a negative relationship with the value relevance of accounting information while debt-equity ratio, exchange rate risk, liquidity risk, and variation of earnings from life insurance have a positive impact on the value relevance of accounting information. The study recommended that policy should be formulated to manage the financial risk of insurance firms.

Adebimpe and Ekwere (2015) empirically examined whether the mandatory adoption of IFRS has improved the value relevance of financial information in the financial statements of commercial banks in Nigeria. The sample comprises twelve listed banks in Nigeria. Specifically, financial statement figures for 2010 and 2011 (pre-adoption period) and 2012 and 2013 (post-adoption) were utilized. Descriptive statistics and least square regression were conducted to analyze the effect of IFRS adoption on accounting quality. The result indicated that the equity value and earnings of banks are relatively value relevant to share prices under IFRS than under the previous Nigerian SAS. Results also indicated that earnings per share are incrementally value relevant during the post-IFRS period while the book value of equity per share is incrementally less value relevant during the post-IFRS period. This may imply that earnings reported by Nigerian Commercial banks have become more informative to equity investors in determining the value of banks following IFRS adoption. The study, therefore, recommended that the Financial Reporting Council of Nigeria and other accounting standards setters should incorporate more measures to enhance the quality of the financial reporting to increase the value relevance of financial statements.

Siyanbola *et al.*, (2013) investigated the value relevance of accounting information of listed Deposit Money Banks (DMBs) in Nigeria over eight years (2005-2012. Data were obtained from published financial statements of DMBs and the official daily list of the Nigerian Exchange Group (NGX). A sample of eight (8) out of fifteen (15) DMBs in operation as of December 31, 2012, was used. Regression analysis was employed in the analysis and the result showed that in general accounting information of the DMBs is relevant. The study recommended greater effectiveness in the oversight function of shareholders;

improvement in the regulatory functions of the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the NSE, and the National Deposit Insurance Corporation (NDIC), and the keeping of more accurate accounting records to make accounting information more value relevant.

Profitability and Value Relevance

Saliu and Adetoso (2018) determined the impact of financial reporting on profitability of quoted companies in Nigeria. For the study, the primary data sources were obtained by distribution of a questionnaire while the secondary data were obtained from online annual financial statements of the sampled companies. The study adopted the survey research and cross-sectional research design. The sample companies were obtained by using proportionate stratified sampling. The variables considered in the study were financial reporting and financial performance, which were represented by quality of financial reporting, return on equity, return on asset, and profit after tax. The hypotheses for this study were analyzed with the aid of Eviews 7 statistical software, and the level of significance used to test the hypothesis was 5%. The findings of the analysis show that there is a positive relationship between the quality of financial reporting and profit after tax (i.e. $0 \leq Pat \leq 0.002$). It also establishes that the quality of financial reports has a significant effect on return on asset ($0 \leq Pat \leq 0.002$). Based on this, the study concluded that there is a strong relationship between profit after tax(PAT) and financial reporting of quoted companies in Nigeria as P-value obtained (0.000). Hence, the study recommended that the management of quoted organizations should ensure they adopt best practices in financial reporting because there is a direct relationship between quality of financial reporting and profit after tax, and also because quality of financial reporting has positive impact on return on asset of the quoted companies in Nigeria.

Olubukola et al. (2016) examined the effects of value relevance of financial statements on firms share price in Nigeria. In achieving the objectives of this research, the fact book from the Nigerian Stock Exchange Market and the audited financial statement of listed banks spanning the period 2010-2014 were used. Also, a total of 15 listed banks in the Nigerian stock exchange market were selected and analyzed for the study using the purposive sampling method. However, in analyzing the research hypotheses, the study adopted the use of both descriptive statistics and the use of Fixed Effects Panel data method of data analysis technique. Findings from the study showed that a significant positive relationship existed between earnings per share (EPS) and Last day share price (LDSP). The study recommended the need for banks in the country to improve on the quality of earnings reported, since it has a stronger ability to explaining share prices of firm.

Adaramola and Oyerinde (2014) examined the value relevance of accounting information of quoted companies in Nigeria using trend analysis. Secondary data were sourced from the Nigerian Stock Exchange Fact Book, Annual Financial Reports of Sixty six (66) quoted companies consisting of financial and non-financial firms in Nigeria and the Nigerian Stock Market annual data. The Ordinary Least Square (OLS) regression method was employed in the analysis. The study revealed that accounting information on quoted companies in Nigeria is value relevant. However, the study revealed further that the value relevance of accounting information does not follow a particular trend within the period under study. While the value relevance was weak in the periods of political crisis caused by military dictatorship (1992-1998) and global economic crisis (2005-2009), it was high in the other periods. Based on the finding that accounting information directly influences the value of securities in the capital market, it is therefore recommended that Accounting Standards should be complied with by Nigerian companies and that more standards that can curtail information overload should be introduced.

THEORETICAL FRAMEWORK

The theoretical framework of the study premise on the foundation of two prominent financial theories: the Efficient Market Hypothesis (EMH) and the Value Relevance Theory (VRT). These theories provide a

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framework to understand the relationship between liquidity, profitability, and value relevance in the context of listed financial companies.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) proposes that financial markets are efficient, meaning that all available information is quickly and accurately reflected in asset prices. Fama (1970) defined three forms of market efficiency: weak form, semi-strong form, and strong form. In the context of the study on listed financial companies in Nigeria, the weak form of EMH suggests that past trading information and historical stock prices are already incorporated into the current stock prices, making it difficult for investors to gain an advantage based solely on historical price patterns. The semi-strong form implies that all publicly available information, including financial reports and news, is rapidly assimilated into stock prices, leaving no room for investors to profit from publicly available information. The study will consider the implications of EMH by examining whether liquidity and profitability information of listed financial companies are fully reflected in their stock market prices, thus assessing the efficiency of the Nigerian financial market.

In the weak form of EMH, stock prices are believed to reflect all historical trading information, such as past price movements and trading volumes. This implies that technical analysis, which involves analyzing historical price charts and patterns, would not provide investors with an advantage in predicting future stock prices. The study will investigate whether liquidity and profitability metrics, which reflect a company’s financial health and performance, are already incorporated into historical trading patterns, and if so, their impact on the efficiency of the Nigerian financial market.

In the semi-strong form of EMH, all publicly available information is assumed to be quickly and accurately reflected in stock prices. This includes financial reports, news announcements, and other publicly disclosed information. For financial companies in Nigeria, the study will examine whether market participants efficiently use liquidity and profitability information disclosed in financial reports to make investment decisions and whether such information is promptly reflected in stock prices. Understanding the semi-strong form efficiency is crucial for assessing the informational content of financial reports and the market’s responsiveness to changes in liquidity and profitability metrics.

The study will explore the implications of EMH for listed financial companies in Nigeria by investigating the weak and semi-strong forms of efficiency. By analyzing the relationship between liquidity, profitability, and stock market prices, the study will shed light on the extent to which financial markets efficiently incorporate relevant information into asset prices. The findings will contribute to the understanding of market dynamics and the role of liquidity and profitability in determining the efficiency of the Nigerian financial market.

Value Relevance Theory

Value Relevance Theory (VRT) is a fundamental concept in accounting and finance that centres on understanding the relationship between financial information reported by companies and its impact on stock prices. According to Ohlson (1995), VRT proposes that accounting metrics, such as earnings and book value, play a crucial role as fundamental drivers of stock prices. In the context of the study focusing on listed financial companies in Nigeria, VRT will be applied to assess the value relevance of liquidity and profitability metrics. The study comprehensively analyzed how fluctuations in liquidity ratios, such as the current ratio and quick ratio, and profitability indicators, including return on assets (ROA) and return on equity (ROE), influence stock prices. By doing so, the research seeks to gain a deeper understanding of the perceived significance of these financial factors in determining the market value of financial companies. Employing the principles of VRT, the study aims to provide valuable insights into how investors incorporate liquidity and profitability information into their decision-making processes, ultimately shaping the value relevance of financial companies in the Nigerian market.

The application of Value Relevance Theory in the study is essential as it offers a robust framework to evaluate the relevance of financial information in the Nigerian financial market. By analyzing the impact of liquidity and profitability metrics on stock prices, the study can identify which of these factors holds more weight in influencing investor decisions and, consequently, market valuation. For instance, if profitability metrics, such as ROA and ROE, exhibit higher value relevance, investors may prioritize companies with strong profit generation capacity in their investment decisions, thereby impacting the overall demand and stock prices of such companies in the market. On the other hand, liquidity metrics like the current ratio and quick ratio may reveal how capable financial companies are in managing short-term financial obligations, influencing investor perceptions of risk and stability.

The Value Relevance Theory (VRT) best underpins the study. This is because VRT is a fundamental concept that focuses on the relationship between financial information reported by companies and its impact on stock prices. The theory proposes that certain accounting metrics, such as earnings and book value, play a crucial role as fundamental drivers of stock prices. In the context of the study, VRT will be applied to assess the value relevance of liquidity and profitability metrics in listed financial companies in Nigeria.

RESEARCH METHODOLOGY

Research Method

The research method for the study primarily involves the use of quantitative research methods. Quantitative research is a systematic and objective approach that focuses on collecting numerical data and analyzing it using statistical techniques to draw conclusions and test hypotheses. This method is well-suited for studying relationships between variables, such as liquidity, profitability, and value relevance, and allows for precise measurement and statistical inference.

Method of Data Collection

The Primary data for the study will be sourced from financial statements and annual reports of listed financial companies in Nigeria. The data will include liquidity ratios (e.g., current ratio, quick ratio, and cash ratio), profitability indicators (e.g., return on assets, return on equity, and net profit margin), and stock prices over the ten years. The data will be collected from reputable financial databases, regulatory filings, and company websites. The secondary data may include relevant economic indicators and market data to provide additional context to the study.

Research Population and Sample

The population of the study is the fourty (40) listed financial companies in Nigeria. This considers the financial companies listed during the study period.

Data Analysis Technique and Model Specification

Data Analysis Technique

The quantitative data collected for the above variables will be subjected to statistical analysis, such as regression analysis, to examine the relationships between liquidity, profitability, and value relevance in listed financial companies in Nigeria over the ten-year period. The analysis will help identify significant associations and provide insights into the impact of liquidity and profitability on the value relevance of financial companies in the Nigerian market.

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Model Specification

The model specification for the study involves formulating a regression model to examine the relationship between the independent variables (liquidity and profitability) and the dependent variable (value relevance). The model is specified as follows:

$$VR = \beta 0 + \beta_1 LQ + \beta_2 PT + \beta_3 DE + \varepsilon$$

Where:

VR represents the value relevance of listed financial companies, which will be measured using their stock market prices.

LQ represents the liquidity of the financial companies, which will be measured using relevant liquidity ratios such as the current ratio, quick ratio, and cash ratio.

PT represents the profitability of the financial companies, which will be measured using profitability indicators such as return on assets (ROA), return on equity (ROE), and net profit margin.

DE represents the leverage of the financial companies, which will be measured using the debt-to-equity ratio and is used as a control variable.

$\beta 0$, $\beta 1$, $\beta 2$ and $\beta 3$ are the regression coefficients that represent the relationship between the dependent variable and each independent variable, respectively.

ε represents the error term, which accounts for unexplained variations in the dependent variable that are not captured by the independent variables.

RESULT AND DISCUSSION

The study's data are described using the mean, standard deviation, variance, maximum, and minimum. Table 2 presents the descriptive statistics for the variables of the study below.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
tq	400	0.78165	0.9597017	-5.92	8.35
cr	400	17.12735	11.36393	0.45	53.22
cur	400	13.01162	21.61664	0.54	310.02
roa	400	0.26555	11.17887	-69.2	115.41
de	400	3.7041	11.37367	-86.7	190.21

Source: STATA 16 Output Results based on study data

Table 2 presents the descriptive statistics for the variables of the study. For the period covered by the study, financial firms in Nigeria have a mean Tobin's q (TQ) value of 0.7817 and a standard deviation of 0.9597. The minimum and a maximum values of tq are -5.92 and 8.35 respectively. The average value of cash ratio (CR) is 17.1274 with a standard deviation of 11.3639. The minimum and maximum value of CR are 0.45 and 53.22 respectively. The mean value of current ratio (CUR) is 13.0116, with a standard deviation of 21.6166, the minimum and maximum values of CUR are 0.54 and 310.02 respectively. The average value of return on asset (ROA) is 0.2656 with a standard deviation of 11.1789. The minimum and maximum values of ROA are of -69.17 and 115.41 respectively. Leverage proxy with debt equity ratio (DE) has a mean value of 3.7041 with a standard deviation of 11.3737. The minimum and maximum values of DE are -86.74 and 190.21 respectively.

Correlation Analysis

Table 3 below shows the results of the association between the variables proxies for liquidity, profitability and firm value of listed financial companies in Nigeria. It contains the correlation coefficients of the variables under study. The correlation matrix is presented in the Table 3 below.

Table 3 Correlation results

	tq	cr	cur	roa	de
tq	1.0000				
cr	-0.2328	1			
cur	-0.0770	0.0961	1.0000		
roa	0.1155	0.2290	0.0956	1.0000	
de	0.0079	-0.0230	-0.1299	0.0611	1.0000

Source: STATA 16 Output Results based on study data

Table 3 indicates that Tobin's Q (tq) has a negative relationship with cash ratio with coefficient of -0.2328. Similarly, current ratio is negatively associated with Tobin's q with a coefficient of -0.0770. Return on assets has a positive association with Tobin's q as revealed by the co efficient of 0.1155. Debt equity ratio has a positive relationship with Tobin's Q as shown by the coefficient of 0.0079.

Multi-Collinearity Test

Table 4 below presents the results of the multicolinearity test which was conducted to determine the relationship between the independent to ascertain whether there is high multicolinearity between one explanatory variable and another explanatory variable(s)

Table 4 VIF and Tolerance Level Results

Variable	VIF	1/VIF
roa	1.07	0.936249
cr	1.06	0.941256
cur	1.03	0.967319

de	1.02	0.976924
Mean VIF	1.05	

Source: STATA 16 Output Results based on study data

Table 4 shows the VIF and tolerance value of the independent variables, in each case, VIF is less than 10 and tolerance level is less than 1 respectively, showing that there was absence of Multicollinearity among the independent variables. The mean VIF of 1.05 also attests to the fact that there is no problem of Multicollinearity among the variables.

Test for Heteroskedasticity

Table 5 below present the results of heteroskedasticity test which was conducted to ascertain whether the data have unequal variance. The null hypothesis of the test is that the variance is homoscedastic, while the alternative hypothesis is that the variance is heteroskedastic. The decision rule is to accept the null hypothesis if the P value is greater than 5% (0.05), otherwise accept the alternative hypothesis if the P value is less than 5% (0.05).

Table 5 Result of Heteroskedasticity test

Source	chi2	p
Heteroskedasticity	3.506	0

Source: STATA 16 Output Results based on study data

The results in Table 5 indicate that TQ has heteroskedasticity problem. Thus, model TQ requires the use of regression with Drisc/Kraay robust standard errors instead normal standard errors to correct the problem of heteroskedasticity

Test for Autocorrelation

The autocorrelation test measures the relationship between a variable current value and its previous values. It is a situation where the error term in a time series transfer from one time period to another.

Table 6 below presents the results of Wooldridge test for autocorrelation in panel data which was conducted to determine whether there is serial correlation. The null hypothesis of this test is that there is no serial correlation while the alternative hypothesis is that there is serial correlation. The decision rule is to accept the null hypothesis if the PV is greater than 0.05 %, otherwise accept the alternative hypothesis if the P value is less than 5% (0.05).

Table 6 *Wooldridge test for autocorrelation in panel data*

F(1, 40)	12.182
Prob>F	0.0012

Source: STATA 16 Output Results based on study data

The results in table 6 above shows f value of 12.182 with a corresponding probability value of 0.0012. This implies that the null hypothesis is rejected and the study conclude that there is first order serial correlation.

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This was corrected by running a Regression with Driscoll-Kraay standard errors

Spam test

Table 8 below presents the result of spam test which was used to determine between Pooled OLS regression and fixed effect regression which is most appropriate. The null hypothesis of the test is that Pooled OLS Model is most appropriate, while the alternative hypothesis is that fixed effect model is most appropriate. The decision rule is to accept the null hypothesis if the P value is greater than 5% (0.05), otherwise accept the alternative hypothesis if the P value is less than 5% (0.05).

Table 8 Results of spam test

	Chibar 2	Prob.> chi 2
F test	31.76	0.0000

Source: STATA 16 Output Results based on study data

The results in table 8 above shows an F value of 31.76 with a corresponding P value of 0.000 which is less than 5% (0.05) therefore the study reject the null hypothesis and accept the alternative hypothesis and conclude that fixed effect regression is most appropriate.

Hausman test

Table 9 below shows the results of Husman test which was conducted to determine between random effect regression and fixed effect regression which is most appropriate. The null hypothesis of the test is that random effect Model is most appropriate, while the alternative hypothesis is that fixed effect model is most appropriate. The decision rule is to accept the null hypothesis if the P value is greater than 5% (0.05), otherwise accept the alternative hypothesis if the P value is less than 5% (0.05).

Table 9 *Hausman test*

Chibar 2	Prob.> chi 2
18.15	0.0037

Source: STATA 16 Output Results based on study data

The result of the Hausman test in table 4.8 above with chi2 value of 18.15 and corresponding probability values of 0.0037 which is less than 5% (0.05). This implies that the fixed effect regression model is most appropriate for the study.

Test of Research Hypotheses

Table 10 presents the output of the fixed effect regression which is used to interpret model

Table 10 Regression Results

Drisc/Kraay						
tq	Coef.	Std. Err	t	P>|t|	[95% Conf. Interval]	
cr	-0.01911	0.003422	-5.58	0	-0.0268522	-0.01137

cur	-0.00026	0.000343	-0.76	0.466	-0.0010364	0.000514
roa	0.03829	0.015971	2.4	0.04	0.002163	0.074421
de	-0.00124	0.001467	-0.85	0.419	-0.0045625	0.002076
_cons	1.10681	0.073545	15.05	0	0.9404379	1.273176
within R-squared				0.265		
Prob > F				9E-04		
F (4, 9)				12.76		
Number of obs.				400		

Source: STATA 16 Output Results based on study data

The within R^2 of 0.2646 (26.46%) with F statistics of 12.76 and a corresponding Prob.>F of 0.0009 indicated that the model is fit to explain the relationship expressed in the study. The nature and extent of the relationship between the dependent variable and each of the independent variables of the study in terms of coefficients, t values, and p- values are explained further

HO_1: There is no significant relationship between liquidity and value relevance in listed financial companies in Nigeria.

Liquidity (LQ) of the sampled listed financial companies during the study period when proxy with cash ratio has a negative relationship with Tobin's Q as explained by the coefficient of -0.01911 this means that for every unit increase in cash ratio (CR), Tobin's Q decreases by 0.0191 unit. The results also revealed that cash ratio (CR) of the sampled firms has a significant effect on Tobin's q of listed financial companies in Nigeria. This was shown by a P-value of 0.000 which is statistically significant at 5%. As a result, the study rejected the null hypothesis and accepted the alternative hypothesis, resulting in the conclusion that cash ratio has a positive significant effect on Tobin's Q of quoted financial firms in Nigeria. However when proxy with current ratio the findings revealed that liquidity has a negative insignificant effect on value relevance as shown by the co efficient of -0.0003 and a p value of 0.466. Therefore the study conclude that liquidity has a negative effect on value relevance

$H0_2$: There is no significant relationship between profitability and value relevance of listed financial companies in Nigeria.

Profitability (PR) of the sampled listed financial company's proxy with (Return on Asset) during the study period has a positive relationship with Tobin's Q as explained by the coefficient of 0.0383. This means that for every unit increase in return on asset (ROA), Tobin's Q increases by 0.0383 unit. The results also revealed that return on asset of the sampled firms has a significant effect on Tobin's Q of listed financial companies in Nigeria. This was shown by a P-value of 0.040 which is statistically significant at 5%. As a result, the study rejected the null hypothesis resulting in the conclusion that profitability proxy with return on asset has a significant effect on Tobin's Q of quoted financial firms in Nigeria.

DISCUSSION OF FINDINGS

This study examined the effect of Effect of Liquidity and Profitability on Value Relevance Evidence from Listed Financial Companies in Nigeria. Specifically, this study sought to examine the effect of liquidity (cash ratio, current ratio), and profitability (return on asset) on firm value of listed financial firms in Nigeria. The a-priori expectations were that both liquidity and profitability should have a positive and significant effect on firm value. The study found

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out that at the level of significance of 5% (0.05) Liquidity (LIQ) represented with cash ratio and current ratio of the sampled firms has a significant effect on firm value of listed financial companies in Nigeria. This was shown by a P-value of 0.000 which is statistically significant at 5%. As a result, the study rejected the null hypothesis and accepted the alternative hypothesis, resulting in the conclusion that Liquidity has a significant effect on Tobin's Q of quoted financial firms in Nigeria. The results are similar to those of Yusuf et al. (2019) who also found that liquidity has a significant effect on Tobin's Q. Similarly, the study also found that profitability (ROA) of the sampled firms has a significant effect on firm value of listed financial companies in Nigeria. This was shown by a P-value of 0.040 which is statistically significant at 5%. As a result, the study rejected the null hypothesis and accepted the alternative hypothesis resulting in the conclusion that ROA has a significant effect on Tobin's Q of quoted non- financial firms in Nigeria. The study recommends that listed financial companies in Nigeria pay attention to profitability and liquidity as it drives value relevance of companies.

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