

Liquidity and Firm Value

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ABSTRACT

Between 2015 and 2021, the research project examined the effect of liquidity on firm value across a few Nigerian consumer goods industries. business value served as the independent variable with dimensions of liquidity ratio, acid test ratio, and stock multiplier ratio, whilst business value served as the explanatory variable and was proxied by market share price. The goal was to determine if the explanatory and dependent variables have a meaningful connection. The study's methodology was ex-post-facto research design. Twenty-six consumer products businesses listed on the Nigerian Exchange Group make up the population, and five of those companies were chosen as the study's sample. The investigation used a secondary source to gather data. The audited financial statements of the chosen companies between 2015 and 2021 were used to collect data for both the dependent and independent variables. The statistical method for multiple regression was used to examine the given data. The results of the investigation's studies have unmistakably demonstrated that in Nigerian consumer goods businesses, there is a weak link between stock multiplier ratio and market share price and a strong relationship between firm liquidity ratio, acid test ratio, and market share price. Therefore, the study draws the following conclusions: consumer goods companies should maintain a reasonable level of liquidity in order to encourage demand and supply in the stock market; the acid level of the companies should be frequently checked by stakeholders to detect any potential problems; and stock multiplier ratio has immaterial influence on firm market share price in the studied organizations in the country. Because doing so helps investors understand the company's worth. In other words, the P/E ratio depicts market expectations as well as the price that must be paid per unit of either current or future profits, depending on the situation.

1 INTRODUCTION

1.1 Background of the study

Both liquidity and profitability are essential for a company to remain viable. A company's liquidity shouldn't be too high or too low because either would lead to the buildup of current assets, which don't generate income for the company (Ofoegbu, 2018). The availability of cash, whether direct or indirect, and the conversion of some assets into cash to fulfill routine or unexpected demands are the two main indicators of liquidity. The term "liquidity" relates to money and the availability of money, and the money that is accessible to pay for both short-term and long-term capital compensation claims comes from present activities and prior accumulations (Trang, Huu, and Haminder, 2016). Since stock shares are the currency that

command both cash flow and control rights, liquidity is thought to have a significant impact on a company's success. The governance, value, and profitability of businesses are all heavily influenced by this currency's tradability. According to research by Holmstrom and Tirole (1993), liquid markets encourage more effective management and discourage managerial opportunism (Admati Pflleiderer 2009; Palmiter 2002). Additionally, it encourages trading among knowledgeable investors, enhancing investing choices by providing more evidence on share prices (Subrahmanyam & Titman, 2001; Khanna & Sonti, 2004).

Profitability implies profit making ability of a business firm. Profitability is the major reason or focus of every organization and this portrays how valuable the firm will be viewed externally by investors and other stakeholders. Profitability, thus is the major indication of the efficiency and effectiveness of a business enterprise of fulfilling its purpose in making profits. The basic objective of a company endeavor is to make profit. Profit earning is regarded necessary for survival of the firm. Profitability is determined on the basis of investment (Ofoegbu, 2018). Profitability affects the value of the company, bringing a positive response from investors who can make increased stock prices in the market leading to an increase in the value of the company in the eyes of investors Yanti & Darmayanti (Yanti & Darmayanti: 2019)

A company that is highly liquid in order to have enough working capital will have little to invest, investment leads to profitability and growth of the company. On the other hand, if a company embarks on high investment policies in order to increase its major objective, profit making, the firm will be left with less liquid to meet obligations which will result in bad credit image, loss of creditors confidence and even collapse the firm (Trang, Huu & Haminder, 2016; Ofoegbu, 2018).

A business should make sure that it has adequate liquidity and is not excessively liquid. A lack of liquidity might make it difficult for the firm to pay its short-term obligations, which could damage its reputation and lead to unwarranted legal action. A very high level of liquidity is also detrimental since the money is excessively invested in non-generating current assets. Consequently, establishing a balance is essential. Firms need moderate liquidity and moderate investments for it to actually survive and stand the test of time.

1.2 Statement of the problem

Various researchers have conducted research works on high liquidity or low liquidity and on investment (profitability). When the liquid of a firm is high, it can meet up its short and long-term obligations. When the liquidity is low, the firm will be insolvent, also when a firm invest much of its resource, they will get higher profitability. All of these cases above may lead to the closure of the firm because they are both on the extreme. The only solution to this, is a liquidity, profitability mix which has not recorded any work.

1.3 Objectives of the study

The main objective of the study is to ascertain liquidity and firm value. The specific objectives are

1. The effect of liquidity ratio on market share price.
2. The effect of acid test ratio on market share price.
3. The effect of stock **multiplier** ratio on market share price.

1.4 Research questions

1. To what extent does liquidity ratio affect market share price.
2. To what extent does acid test ratio influence market share price.
3. To what extent does stock multiplier ratio affect market share price.

1.5 Research hypothesis

These are the statement that can be tested using null hypothesis. That is, there is no substantial nexus between:

Ho₁: Liquidity ratio and market share price.

Ho₂: Acid test ratio and market share price.

Ho₃: Stock multiplier ratio and market share price.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Liquidity

Liquidity refers to a company's ability to meet its short-term obligations. The availability of cash and cash equivalents is meant. According to Bhunia (2010), liquidity is essential to a commercial firm's efficient operation. A company's liquidity shouldn't be too high or too low because both will lead to an accumulation of current assets that don't generate money for the company. Weak liquidity threatens a firm's profitability and solvency, and it also makes the company appear dangerous and unsound to creditors and investors. Liquid assets are those that can be quickly and easily turned into cash with little to no loss in value. According to Westerfield (1993), the availability of cash, whether direct or indirect, and the conversion of some assets into cash to fulfill routine or unexpected demands upon it are indicators of liquidity. The term "liquidity" refers to a stock's capacity to be bought and sold often and with little effect on its price. Stocks that aren't easily traded may add to a company's losses if the shares can't be sold when they're most urgently needed. The most liquid of all assets is cash.

2.1.2 Types of liquidity ratios

Current ratio

Short-term liquidity is measured by the current ratio. The ability to make interest and principal payments on time is an indication of a company's financial health. Using its present assets as a benchmark, the current ratio estimates the company's solvency for the next twelve months. In small, established companies, a current ratio of 2:1 is preferred.

Short-term confidence in the firm's ability to meet its short-term financial commitments is called into doubt if the current ratio is less than 2:1. A high current ratio is regarded as a sign that the company is more liquid and can pay its short-term creditors when they are due. It will be a margin of safety to the creditors, but from management perspective, it will result in poor planning since an excessive amount of funds are invested in current assets that lie idle.

Formula, current ratio =
$$\frac{\text{current assets}}{\text{Current liabilities}}$$

Acid Test Ratio

It's sometimes called "quick ratio" for short. The quick ratio compares a company's cash on hand to its short-term debts. It is a gauge of the company's present liquidity and position for the near future. An acid test ratio of 1:1 is ideal for a company. A low one will be an index of bad liquidity position.

$$\text{Formula} = \frac{\text{Current asset inventories}}{\text{Current liabilities}}$$

If the acid test ratio is less than 1, it means that the corporation does not have enough assets to immediately liquidate those assets.

Cash ratio (also called cash asset ratio)

This is the proportion of a company's total liabilities to its cash and cash equivalent assets. Quick ratio's refinement, the cash ratio, shows how well current liabilities may be settled with currently available cash. This ratio serves as a gauge for a corporation's liquidity and how readily it can pay short-term obligations and service debt.

$$\text{Cash ratio} = \frac{\text{Cash and cash equivalent}}{\text{Current liabilities}}$$

2.1.3 Stock Multiplier Ratio

The price-to-earnings ratio (P/E ratio), also referred to as the stock ratio (SMR), measures the association between a company's stock price and EPS (Trang, Huu & Haminder, 2016).

$$\text{SMR (P/E ratio)} = \frac{\text{Current stock price}}{\text{Earnings per share}}$$

2.1.4 Market Share Price (MSP)

The MSP of stock, often known as the "share price," is the amount of money that investors are willing to pay for one share of a company's stock at the current time. Hartono (2008) argues that stock prices are set by supply and demand in the stock market and reflect the prevailing sentiment of investors at the time.

Firm Value

According to financial theory, a company's worth is equal to the total value of all its assets. The impression of a company's success rate by investors, which is frequently correlated with stock prices, is known as firm value. High stock prices increase a company's worth, and the more valuable a company is, the more prosperous its owners will be. One of the elements influencing an investor's choice of a company is the firm value. Investors frequently put their money into businesses with strong firm values because these businesses are more likely to pay out dividends and benefit shareholders. A company's brand image, or firm value, influences how the public hears its name (Trang, Huu & Haminder, 2016).

Profitability

Profitability measures how well a company can generate profit from its operations and ensure the continuity of the company as a going concern (Manoppo & Arie;2016). The higher the

profits generated by the company, the more the confidence it will have to provide loans and also increase investor confidence to invest capitals resulting in a good capital structure of the firm. Higher profitability of a company reduces the use of debt. The profits realized by a firm are a signal from management showing the future prospects of the company.

2.2 Theoretical Review

The maximization of shareholder wealth (SWM) serves as the study's theoretical foundation. The maximization of shareholder wealth concept holds that businesses (managers) should act in a way that increases shareholder wealth. A maximum return to shareholders is and should be the goal of every business action, according to the principle of shareholder wealth maximization. The fundamental objective is to maximize the present value of the firm's owners' future cash flows. Common stock sale profits and dividend payments are two examples of such distributions. The present value of a payment or payment stream is its worth at the discount rate in effect at the time of valuation. The discount rate considers the range of possible investment returns over a given time horizon. Long-term gains in cash dividends or share price are less important to investors than immediate gains in cash flow or value. Moreover, when there is a larger level of risk involved in gaining future gains, investors value such advantages less. The wealth of a shareholder is equal to the market value of his or her shares of common stock. The market value of a stock is its current selling price on an exchange like the New York Stock Exchange. Essentially, the concept is that shareholder funds should be invested to generate a larger return than what they might personally get by investing in other assets with comparable risks.

To paraphrase Friedman (1970), "conduct business in accordance with their desires, which will generally be to make as much money as possible while conforming to the basic rules of the society" is the mandate given to managers in their role as shareholders' agents. This therefore implies that, managers (agents), should invest in projects that will create more wealth for the shareholders by comparing the cash inflows and outflows of the project. They should be able to strike a balance between liquidity and investment.

2.3 Empirical Review

The affiliation between stock market liquidity and firm value was investigated by Trang Nguyen et al. (2014), who found that companies with higher stock liquidity also had higher valuations. Using the stock to broker anonymity as an exogenous shock to market liquidity, they also analyzed the resulting shift in company value and found that increased liquidity did, in fact, have a causal impact on increasing firm value.

Trang, Huu, and Haminder (2016) broke the value of a firm down into three components in their analysis of the Australian stock market: operating income to price, leverage, and operating income to assets. Using the sudden drop in market liquidity as an external shock to disable anonymity. It shows how the shock causes a rise in liquidity, which in turn raises the value of the firm. Their research suggests that higher stock prices, rather than better operating performance, are the primary driver of rising firm value for liquid equities.

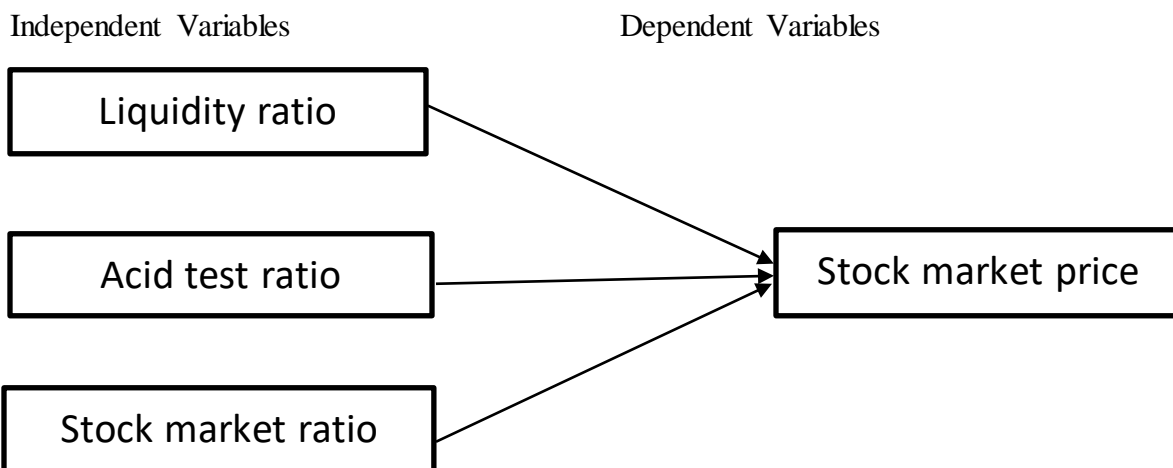
Stock liquidity and firm performance was studied by Tarika et al. (2015). Ten of the major industrial businesses listed on the Indian Stock Exchange between 2005 and 2014 were used as a sample for the research. using both the general linear model and the conventional least-squares model in Gretl and SPSS. Positive relationships between return and age and the

dependent variable Tobin's Q were found. As researchers dug deeper into the link between stock market liquidity and firm success, they found that the latter was positively correlated with the former.

Ofoegbu (2018) conducted research on the effect of liquidity ratios on the financial efficiency of Nigerian pharmaceutical businesses with quoted corporations on the stock exchange. She made use of the debt to receivables and sales growth ratios. A regression study revealed a strong and favorable association between the firms' profitability and liquidity ratio. Debt ratio and sales growth have a slight but beneficial influence on a company's profitability. Both a negative and insignificant influence is caused by the receivable on the businesses.

From 2007 to 2016, Sarakiri (2020) looked into the impact of company liquidity and size on firm value for 34 listed companies in Nigeria. While market value is used to gauge a company's worth, current asset to current liabilities ratios are used to gauge liquidity and firm size. Despite the negative association, their findings indicate a considerable impact on company market value.

Figure 1: Conceptual Framework of the Study



Source: *Conceptualized by the Researcher, 2023*

3 METHODOLOGY

3.1 Research design

It is very necessary for every research work to have a clear method that will respond to the intentions of undergoing the research. On the basis of this study, an ex-post facto research design was adopted to describe the connection between dependent and independent variables.

3.2 Population/Sample of the study

The population of this study constitutes twenty-six consumer goods companies listed in the NGX. of this number, five companies were purposively selected as sample of the study based on availability of data. These are Unilever Nig. Plc, Cadbury Nig. Plc, UAC foods Nig. Plc, Nestle Nig Plc and Flour Mills Nig Plc .

3.3 Data collection and method of data analysis

The researcher employed the use of secondary source of data collection. Data of both the explained and explanatory variables were collected from the audited financial statements of the said companies in the NGX bulletin for 7years (2015-2021). The data collected was analyzed using the multiple regression statistical tool (with the aid of SPSS version 20).

Model specification

The model by Ohlson (1995) is adopted to examine the value of relevance or degree of association between the stated variables.

$$MSP_{it} = f(LIR + SMR + ATR)$$

$$MSP_{it} = B_0 + B_1 LIR + B_2 SMR + B_3 ATR + e$$

Where,

MSP_{it} = Market stock price for firm I at the end of year t.

LIR = Liquidity ratio for firm I at the end of year t.

SMR = Stock multiple ratio for firm I at the end of year t.

ATR = Acid test ratio for firm I at the end of year t.

E = Error term.

B_0 = The intercept

B_1 = Coefficient of liquidity ratio (LIR)

B_2 = Coefficient of stock multiple ratio (SMR)

B_3 = Coefficient of acid test ratio (ATR)

4 RESULTS AND DISCUSSION

4.0 Introduction

Summaries of post-estimation statistics (variance inflation factor, heteroscedasticity, Ramsey regression equation specification error test, and Cameron and Trivedi's decomposition of information matrix test), inferential statistics (multiple regression, fixed and random effects regression, and Hausman sp. test), and descriptive statistics were presented in this section. Variables of interests include the dependent variable (firm value measured via market stock price) and the independent variable (ratios of liquidity, acid test and stock multiple). The analyses were carried out in the following order: Pre-Estimation Statistics (descriptive results), Post-Estimation Statistics, and Inferential Statistics. The final section dealt with the test of research hypotheses; the test of research hypotheses were carried out using the results of the fixed and random effects regression.

4.1 Pre-Estimation Statistics

Table 4.1: Summary of Descriptive Statistics

stats	lmsp	lir	atr	smr
mean	1.626347	1.288	.8008571	23.54371
sd	.7933163	.5172199	.5193682	31.70944
min	.860338	.61	.21	-64.3
max	3.192149	2.5	2.13	135
skewness	1.235943	.8790765	1.223152	1.155695
kurtosis	2.884529	2.754669	3.544051	7.712798
N	34	35	35	35

Source: Researcher's Computation via STATA 13.0

Table 4.1 showed the mean (average) for the variables and their standard deviation (degree of dispersion) for the sampled consumer goods companies in Nigeria from 2015-2021; the result shed light on the nature of the selected consumer goods companies in Nigeria in terms of their liquidity ratios (liquidity, acid test and stock multiple ratios) and firm value (market share price, which was logged using natural logarithm in order to avoid scaling problem since the independent variables were expressed as ratio).

The mean stock market price (LMSP) was lower than the stock multiple ratio (SMR) (in terms of liquidity ratio), which indicated a value of 23.5437. Standard deviation values ranged from a high of 31.7094 for SMR to a low of 0.5172 for LIR, indicating that sampled consumer goods companies' liquidity management in Nigeria is similar. This is indicative of a correlation between changes in liquidity management and firm value.

Second, market stock price (LMSP), liquidity ratio (LIR), and acid test ratio (ATR) showed averages of 1.6263, 1.2880, and 0.8008 respectively. The high mean value for MSP is a clear indication that the sampled consumer goods companies had on the average, a market stock price of 1.6263 while SMR is the most significant amplified liquidity ratio compared to LIR

(1.288) and ATR (0.8008). Additionally, the market stock prices of the chosen consumer goods companies ranged from 0.8603 to 3.1921 because the minimum value for LMSP is 0.8603 and the maximum value is 3.1921. This indicates, among other things, that the sampled consumer goods companies had market stock prices between 0.8603 and 3.1921.

Since a current ratio of 2:1 is thought to be ideal, the minimum liquidity ratio (LIR) was 0.61 and the maximum value was 2.5. This shows that while some consumer goods companies are unable to have a sound liquidity base (0.61: 1), there are few others that had a sound liquidity base (2.5: 1). On the other hand, the ATR had a minimum value of 0.21 while the maximum value is 2.13. An indication that while some consumer goods companies are unable to have adequate assets that can be instantly liquidated by the companies (0.21 : 1), there are few others that have adequate assets that can be instantly liquidated by the companies (2.13 : 1); the reason being that an acid test ratio of 1:1 is considered ideal for companies. The minimum stock multiple ratio (SMR) is -64.3 while the maximum value is 135; an indication that while some consumer goods companies will be unable to generate future earnings (given the negative value attached to the minimum value), there are few others that would be able to generate future earnings up to ₦135 per unit of stock.

The skewness value for LMSP (-1.2359), LIR (0.8780), ATR (1.2231) and SMR (1.1556) are positive; indicating that all the liquidity ratios (LIR, ATR and SMR) moved in the same direction with firm value (LMSP). The kurtosis value for LMSP (2.8845) and LIR, (2.7546) are < 3 (Mesokurtic – a standard normal distribution), implying that LMSP and LIR would result in increased tremendous positive events (liquidity) while the other variables ATR (3.5440) and SMR (7.7127) are > 3 (leptokurtic), indicating that these variables would result in a greater chance of extreme negative events (liquidity) for the sampled consumer goods companies in Nigeria.

Table 4.2: Pearson Correlation Matrix

	lmsp	lir	atr	smr
lmsp	1.0000			
lir	-0.4140	1.0000		
atr	-0.2039	0.9049	1.0000	
smr	0.2773	-0.2363	-0.0622	1.0000

Source: Researcher's Computation via STATA 13.0

Table 4.2 showed the Pearson correlation result for dependent and independent variables for the sampled consumer goods companies in Nigeria and it was shown that SMR is positively correlated with firm value (LMSP) except LIR and ATR that were negatively correlated with LMSP. This implies that there is a positive relationship between stock multiple ratio (SMR) and firm value (LMSP) while there is a negative relationship between ATR, LIR and LMSP. Also, the Pearson correlation matrix revealed that no two independent variables of the study were perfectly correlated, since none of the Pearson correlation coefficients exceeded 0.9. Thus, there is no suspected case of multicollinearity problems in the empirical models of the study; however, this was confirmed by the post-estimation results (variance inflation factor).

4.2 Post-Estimation Statistics

Table 4.3: Variance Inflation Factor

Variable	VIF	1/VIF
lir	6.73	0.148644
atr	6.38	0.156826
smr	1.22	0.817257
Mean VIF	4.78	

Source: STATA 13.0

Table 4.3 showed the multicollinearity results for the aggregate panel data of the sampled Firms in Nigeria. The VIF is = 4.78 and is not greater than the accepted VIF level of 10.0, indicating that there is the nonexistence of multicollinearity problems in the empirical model of liquidity management and firm value. Thus, the panel dataset is exceptionally reliable for conducting statistical inferences.

Table 4.4: Heteroscedasticity Test

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of lmsp

chi2(1)      =      6.38
Prob > chi2  =      0.0115
```

Source: STATA 13.0

Table 4.4 showed the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity for the aggregate panel data of the sampled companies in Nigeria. Heteroskedasticity according to Gujarati (2003) is a situation where the variance of the residuals is unequal over an array of measured variables. The Breusch-Pagan/Cook Weisberg $\chi^2(1)$ is = 6.38, Prob. χ^2 is = 0.0115 and is not greater than 0.05% significance level indicating the nonexistence of heteroskedasticity problem in the variables of the study. Thus, the result implies that the sample used in the panel data regression does not contain unequal variance and as such, there is evidence that the results are valid.

Table 4.5: Ramsey RESET Test

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Ramsey RESET test using powers of the fitted values of lmsp
Ho: model has no omitted variables

F(3, 27) =      3.02
Prob > F =      0.0469
```

Source: Researcher's Computation via STATA 13.0

Table 4.5 displayed the fitted values of the response variables (dependent variables - LMSP) as well as the results of the RESET for missing data. Since $F(3, 27) = 3.02$ and Prob. $F = 0.0469$, it may be concluded that the null hypothesis is correct while the alternative hypothesis is false. Since the liquidity management and firm value empirical model is not vulnerable to omitted variable problems or functional form misspecification, this finding suggests that the powers of the fitted values do not have a relationship that serves to explain the response variables.

Table 4.6: Cameron & Trivedi's Decomposition of IM-Test

Source	chi2	df	p
Heteroskedasticity	15.33	9	0.0822
Skewness	8.88	3	0.0309
Kurtosis	1.64	1	0.1998
Total	25.86	13	0.0178

Source: STATA 13.0

Information matrix (IM) test was carried out to ensure that the empirical models of liquidity management and firm value are not violating any of the assumptions of the panel data regression model for us to make good inferences about the dataset of the study. The heteroskedasticity result is (Chi2 = 25.86; p-value = 0.0178 < 0.05), that on the overall, results are statistically significant, indicating that the proposition was rejected while the alternate hypothesis was accepted that the empirical models of liquidity management and firm value do not violate the assumptions of panel data regression. Remarkably, the datasets satisfy all four (4) basic assumptions of panel data regression (normality, multicollinearity, heteroscedasticity and information decomposition tests).

Table 4.7: Panel Least Square (PLS) Regression for Liquidity Management and Firm Value

Source	SS	df	MS	Number of obs =	34
Model	6.93291148	3	2.31097049	F(3, 30) =	5.01
Residual	13.8356633	30	.461188778	Prob > F =	0.0062
Total	20.7685748	33	.629350752	R-squared =	0.3338
				Adj R-squared =	0.2672
				Root MSE =	.67911

lmsp	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
lir	-1.846541	.5840554	-3.16	0.004	-3.039341 - .6537404
atr	1.369754	.5697712	2.40	0.023	.206126 2.533382
smr	.0011044	.0040672	0.27	0.788	-.0072019 .0094108
_cons	2.867456	.4394079	6.53	0.000	1.970065 3.764846

Source: STATA 13.0

In Table 4.7, we presented the panel least square (PLS) regression result for liquidity management (LIR, ATR and SMR) and firm value (LMSP) of the sampled firms in Nigeria. It was found that the values of R-squared and adjusted R-squared were 0.3338% and 0.2762% respectively. This indicates that all the independent variables (LIR, ATR and SMR) jointly explained about 27.6% of the variations in the explained factor. The small R-squared showed among others that there are more excluded variables that drive the explained variable (LMSP). The F-statistics (df=3, 30, f-ratio=5.01) with a p-value of 0.006, revealed that the result is substantial at 5 percent level which means that the liquidity management

significantly affects firm value. Also, ATR (t=240), and SMR (t=0.27) are positively affects firm value (LSMP), LIR (t= -3.16), negatively affects LMSP.

4.4 Test of Research Hypotheses

In this study, three (3) research hypotheses were formulated and tested using the results of the fixed and random effects regression; the hypotheses and results are presented as follows that there is no link between:

Ho1: Liquidity ratio and market share price of consumer goods companies.

Ho2: Acid test ratio and market share price of consumer goods companies.

Ho3: Stock multiplier ratio and market share price of consumer goods companies.

Table 4.8a: Fixed Effect Regression for Liquidity Management and Firm Value

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Fixed-effects (within) regression      Number of obs      =      34
Group variable: year                  Number of groups   =      7

R-sq:  within = 0.4543                  Obs per group: min =      4
      between = 0.1962                      avg =      4.9
      overall = 0.3288                      max =      5

corr(u_i, Xb) = -0.5694                  F(3,24)            =      6.66
                                          Prob > F           =      0.0020
    
```

lmsp	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
lir	-2.673768	.6889446	-3.88	0.001	-4.09568	-1.251856
atr	1.887123	.6175365	3.06	0.005	.6125904	3.161656
smr	-.0005027	.0044206	-0.11	0.910	-.0096263	.008621
_cons	3.551497	.5343606	6.65	0.000	2.448631	4.654363
sigma_u	.37261					
sigma_e	.68349308					
rho	.22910559	(fraction of variance due to u_i)				

F test that all u_i=0: F(6, 24) = 0.94 Prob > F = 0.4876

Table 4.8b: Random Effect Regression for Liquidity Management and Firm Value

Random-effects GLS regression	Number of obs	=	34
Group variable: year	Number of groups	=	7
R-sq: within = 0.4453	Obs per group: min	=	4
between = 0.2310	avg	=	4.9
overall = 0.3338	max	=	5
	Wald chi2(3)	=	15.03
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0018

lmsp	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lir	-1.846541	.5840554	-3.16	0.002	-2.991268	-.7018131
atr	1.369754	.5697712	2.40	0.016	.253023	2.486485
smr	.0011044	.0040672	0.27	0.786	-.0068672	.0090761
_cons	2.867456	.4394079	6.53	0.000	2.006232	3.728679
sigma_u	0					
sigma_e	.68349308					
rho	0	(fraction of variance due to u_i)				

Table 4.9: Hausman Specification Test for Liquidity Management and Firm

	Coefficients			
	(b) FE	(B) RE	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
lir	-2.673768	-1.846541	-.8272275	.3654093
atr	1.887123	1.369754	.5173691	.238143
smr	-.0005027	.0011044	-.0016071	.0017318

b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$\begin{aligned} \text{chi2}(3) &= (b-B)' [(V_b-V_B)^{-1}] (b-B) \\ &= 5.29 \\ \text{Prob}>\text{chi2} &= 0.1514 \end{aligned}$$

Tables 4.8a-4.8b showed the fixed and random effects panel regression for the liquidity management and firm value of the selected firms in Nigeria. Using the RE result, the coefficients are -1.8465 (LIR), 1.3697 (ATR), and 0.0011 (SMR), suggesting that the sampled companies' liquidity ratios will lead to approximately -18.5-13.7%, and 0.011% changes in firm value (LSMP). Besides, all the liquidity ratios were significant for both FE and RE except SMR that is insignificant. Furthermore, the t-test results showed that the individual liquidity ratios are statistically significant (LIR and ATR) in explaining the influence on the

dependent variable (*LMSP*) except *SMR* that was found to be insignificant since probability value is greater than 0.05 level of significance.

Nevertheless, the overall R^2 is 0.3338 for RE, which is higher than the overall R- for FE (0.3288); impliedly, all the liquidity ratios jointly explained about 33.4% variations in LSMP. In addition, Hausman test was used to differentiate between FE and RE models. The decision rule is that if the probability value of Hausman test is less than 0.05, reject the null hypothesis (RE) and if greater than 0.05, accept the alternate hypothesis (RE). The result of the Hausman test ($\text{Prob} > \text{Chi}^2 = 0.5.29 < 0.05$) suggests that FE is more efficient than RE thus, FE showed that the subjects from which measurements were drawn are random and that the differences between firms in Nigeria are therefore not of interest, thus the subjects and their variances are not identical.

Test of Research Hypothesis 1: Liquidity Ratio and Market Share Price

Decision: The t-value of FE = -3.88 (p-value=0.001 < 0.05) and is significant, providing evidence to discard the proposition and an acceptance of the alternate hypothesis. This result supports the proposition that there is substantial connection between liquidity ratio and market share price of consumer goods companies in Nigeria.

Test of Research Hypothesis 2: Acid Test Ratio and Market Share Price

Decision: The t-value of FE = 3.06 (p-value=0.005 < 0.05) and is significant, providing evidence to discard the proposition and an acceptance of the alternate hypothesis. This result supports the proposition that there is substantial link between acid test ratio and market share price of consumer goods companies in Nigeria.

Test of Research Hypothesis 3: Stock Multiplier Ratio and Market Share Price

Decision: The t-value of FE = -0.11 (p-value=0.910 > 0.05) and is insignificant, providing evidence to reject the alternate hypothesis and an acceptance of the null proposition. This result supports the proposition that there is insignificant connection between stock multiplier ratio and market share price of consumer goods companies in Nigeria.

5 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The following is a summary of the test results of the study.

1. There is substantial connection between liquidity ratio and market share price of consumer goods companies in Nigeria.
2. Significant relationship exists between acid test ratio and market share price of consumer goods companies in Nigeria.
3. Stock multiplier ratio has insignificant relationship with market share price of consumer goods companies in Nigeria.

5.2 Conclusion

The research paper examined the influence of liquidity on firm value among selected manufacturing firms in Nigeria from 2015-2021. Liquidity served as independent variable with dimensions of liquidity ratio, acid test ratio and stock multiplier ratio, while firm value stood as explained variable and was proxied by market share price. The objective was to find out whether a substantial link exists between the explanatory and dependent variables. The analyses of the investigation have clearly shown that a substantial connection exists between firm liquidity ratio, acid test ratio and market share price, and an insignificant correlation exists between stock multiplier ratio and market share price in consumer goods companies Nigeria. The study, therefore, concludes that liquidity ratio and acid test ratio have strong influence on market share, and stock multiplier ratio has immaterial influence on firm market share price in the studied organizations in the country.

5.3 Recommendations

The analytical findings of the study have given birth to the following scholarly suggestions or propositions.

1. Consumer goods companies should maintain a reasonable liquidity level in order to encourage demand and supply in the stock market.
2. The acid level of the companies should be frequently checked by stakeholders to determine the market share price
3. A stock's price should be reasonably related to the company's earnings per share. Because it helps shareholders understand the company's worth. The price-to-earnings ratio (P/E ratio) reflects market expectations and the amount of money investors are willing to spend in exchange for a certain amount of current earnings (or future earnings).

5.4 Limitations of the Study

There are several companies and sectors of the Nigeria business environment, but this study was limited to liquidity and firm value in consumer goods organizations.

5.5 Contributions to Knowledge

The study has contributed to the existing body of knowledge that liquidity ratio and acid-test ratio have significant relationship with market share prices of the consumer goods sector, whereas, stock multiplier ratio or earnings per share does not have material influence on the value of the companies.

This is also a more contemporary study coupled with the conceptual model conceptualized by the researcher.

5.6 Areas for Further Studies

Scholars, researchers, organizations, and government should carry out similar studies in other sectors of the economy

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