

**Impact of Corporate Performance on Stock Prices  
of Consumer good's Firms in Nigeria Stock Exchange  
(A Study of Nestle Food Nigerian Plc)**

**By**

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**Abstract**

*The study examined the impact of corporate performance on stock prices of quoted companies on the floor of Nigeria Stock Exchange. The specific objectives of the study are; to examine the impact of stock prices, earnings per share, dividend per share and profit margin on the performance of market capitalization in Nigeria. Data was sourced from Annual report of Nestle Nigeria Plc from 1991–2018. The population of the study consists 169 listed manufacturing companies in Nigeria Stock Exchange (NSE). The research used purposive sampling techniques in selecting sample size. Furthermore, the data collected from Nestle annual were sorted, processed and analyzed using regression analysis while econometric package (E-view). The finding revealed there is strong positive relationship between stock price and market value. Also, price margin revealed weak positive relationship with market value but significant. Furthermore, dividends per share have positive effect on while earning per share has negative effect on market value respectively. The study therefore concluded that corporate performance has significant impact on stock prices of quoted companies in Nigeria stock Exchange under the study review. The study now recommends that; management of food and beverages companies should endeavor to put more efforts on stock price so as to increase its profitability, companies should work toward building strong fundamentals that may affect stock price positively.*

***Keywords: Corporate Performance, Stock Price, Stock Value, Nigeria Stock Exchange***

## **1.0 Introduction**

A stock market is a public market for the trading of company stock and derivatives at an agreed price. The stocks are listed and traded on stock exchanges. The Nigerian stock exchange (NSE) is the center-point of the Nigerian Capital Market, while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. The Nigerian stock exchange was incorporated on September 15, 1960 and it commenced business on June 5, 1961 as the Lagos stock exchange with 19 securities listed for trading (Godwin, 2010). It is a non-profit making concern and a private company limited by guarantee. Its excess of income over expenditure or its accumulated reserves are not available for distribution as dividend to the company's shareholders, whose liability is limited to the stipulated amount of shares each has undertaken to contribute in the event of winding up (Nwankwo, 2010).

The stock market has become an essential market playing a vital role in economic prosperity by fostering capital formation and sustaining economic growth in most economies across the world. Stock markets are more than a place to trade securities; they operate as facilitator between savers and users of capital by means of pooling of funds, sharing risk, and transferring wealth. Stock markets are essential for economic growth as they ensure the flow of resources to the most productive investment opportunities (Udegbumam & Eriki, 2011).

The primary goal or objective of a firm should be to maximize the value or price of a firm's stock. The success or failure of management decision can be evaluated only in the light of the impact of firm stock prices (Remi, 2015). According to Remi (2015) the firm stock prices has direct purview in the managerial efficiency which is one of the signals of firm performances. One of the components of this firm performance is Earnings Per Share (EPS).

In Nigeria, the relationship between stock prices and EPS is also ambiguous. Some firms are not even in operations, while others are at the bridge of collapse, but their stock prices are increasing (NSEC, 2017).

Prior studies in Nigeria context have examined the influence of firm characteristics on organizational performance in various sectors. However, most of these studies did not include operating efficiency as a proxy of firm attributes despite the strong relationship that has been established in the literature between operating efficiency and firm values of firms by other influential studies (Amarjit, Manjeet, Neil & Harvinder, 2014).

Despite varieties of studies on corporate performance and stock prices of foods and beverages in Nigeria Stock Exchange market little research to the best of my knowledge were conducted regarding foods and beverage firms in Nigeria covering the period of 20 years and measuring share value as the average price of shares as most of the studies only used values as at last day of the years.

Thus, measuring firm performance as the share price at the end of the financial year will not give a true picture of the relationship between firm variables and firm performance. It is on the basis of these that the study is considered essentials attempt to fill these literature gaps by taking the share price as a measure of firm value.

## **2.0 Literature Review**

### **Conceptual Review**

#### **Concept of Stock Price**

The concept of stock prices originated from Random Walk theory in the work of Porterba and Summer (2010). There is evidence suggesting that stock prices do follow a random walk. It was indicated that there are reasons that the random walk behavior of stock prices should hold (Shiller, 2010). Findings by Shiller (2010) support that stock prices are very much uncertain and this may not be true because firms' fundamentals may to a great extent influence stock prices. This argument is supported by early rejection of a random walk theory by Porterba and Summer (2010) who argue that there is little theoretical basis for strong attachment to the null hypothesis that stock prices follow a random walk. Stock prices could be determined by micro and macro-economic factors (Christopher, Rufus & Jimoh, 2015). These factors which include book value of the firm, dividend per share, EPS, price-earnings ratio and dividend cover (Gompers, Ishii & Metrick, 2013).

#### **Nigerian Capital Market**

The Nigerian capital market, which is a member of the Nigerian financial system, is a market that provides an avenue for the mobilization of long term funds. This market serves the needs of industries, the commercial sector, government and local authorities, which are big borrowers of funds. The Nigerian capital market consists of two markets (primary and secondary markets) and some operational institutions. The main institutions in the Capital Market are the Securities and Exchange Commission (SEC), which is at the apex and represents the regulatory authority for the market, the Nigerian Stock Exchange (NSE), the issuing houses and the stock-broking firms. The secondary market in Nigeria is the NSE.

In general, the Nigerian capital market helps to stimulate industrialization and development in the Nigerian economy. It also improves the gearing of domestic corporate sector and helps to reduce dependence on borrowing. Access to finance for new and smaller companies and also the encouragement of institutional development are based on the framework provided by the Nigerian capital market. According to Claessens (2015), the existence of the NSE entails a number of benefits for the Nigerian economy. These benefits are in line with the general role of stock market in the development process. First, the stock market has been a source of capital for the corporate sector.

#### **Corporate Performance**

The subject of corporate performance has received significant attention from scholars in the various areas of business and strategic management (Jat, 2016). It has also been the primary concern of business practitioners (managers and entrepreneurs in all types of organizations because corporate performance is essential as exemplified in high performance organizations which are success stories because of their perceived effectiveness and efficiency in managing their operations and their positive contributions to the well-being of their stakeholders. Whereas, low performance organizations are not, owing to their lack of such essential attributes (Jat, 2016).

Performance is however, a difficult concept, in terms of definition and measurement. It has been defined as the end result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated and the objectives to be achieved through that evaluation (Jat, 2016)

#### **Earnings Per Share and Stock Price**

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direct purview in the managerial efficiency which is one of the signals of firm performances. One of the components of this firm performance is earning per share (EPS). EPS is one of the measures of managerial efficiency as well as firm performance. The debate on whether EPS has any predictive power on stock prices is not very clear in financial literature. Some analysts believe that, EPS has predictive power on stock prices. This argument holds the view that, EPS has influence on stock prices. While the other argument is that, only positive information regarding EPS cause the demand for a stock which result to increase in stock prices. When viewed over long periods the share prices are directly related to EPS of the firm. Over short periods, especially for younger or small firms, the relationship between stock prices and EPS is quite unmatched (NSEC, 2016).

### **Dividend Policy**

The concept of dividend has been defined by many authors and researchers. Bierman (2011) and Baker, Powell and Veit (2012) have described it as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital. According to Olimalade, Ojo and Adewumi (2017), it is seen as cash flows that accrue to equity investors. That is a form of return to shareholders on their investment, and the aim is to increase their confidence in the future of the company in which they have invested.

Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as cash dividend (Adefila, Oladipo & Adeoti, 2013). Dividend payment is a major component of stock return to shareholders. Jo and Pan (2015) assert that dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices.

### **Effect of Firms Size on Share Price**

Dogan (2013) found that firm size and liquidity was positively related to profitability as measured by ROA and leverage and firm age were negatively related to profitability measured by ROA. Rizki (2013) conducted a study on the effect of firm characteristics, financial performance and environmental performance on corporate social responsibility disclosure intensity of manufacturing firms listed in the Indonesia Stock Exchange. The object of this study is the manufacturing companies listed in the Indonesia Stock Exchange during the period 2007-2011. Purposive sampling was used to choose population in this case manufacturing firms. Based on the criteria of determination of samples obtained 16 companies.

Research variables which include firm size, the size of the board of commissioners, Return on Assets (ROA), Earning per Share (EPS), Debt to Equity Ratio (DER), environmental performance, and corporate social responsibility disclosure were estimated using standard formula. Data were analyzed using multiple linear regression analysis. The results showed that the characteristics of the firm (firm size, size of the board of commissioners), the financial performance of the firm (ROA, EPS, leverage) and environmental performance simultaneously influence the corporate social responsibility disclosure intensity. Only three variables (EPS, leverage and environmental performance) that partially affect corporate social responsibility disclosure intensity. Environmental performance is the most dominant variable in affecting the intensity of disclosure implementation of corporate social responsibility.

### **Effect of Leverage on Share Price**

Inyiama and Obeta (2016), this study investigated the effect of company characteristics on the financial leverage of the Agro-allied Firms in Nigeria. The research was an ex post facto research which made use of secondary data covering the period 2005 to 2015. Descriptive statistics and graphical representation was employed to check for the trends, linearity or otherwise of the data. Regression model was applied in determining the extent of the effect exerted on financial

leverage by return on equity, firms listing age and firm's size or total asset of the sampled listed agro-allied firms in Nigeria.

### **Effect of Profit after Tax on Share Price**

Ekwe and Inyama (2014) evaluated the co-integration, magnitude and strength of the relationships between corporate retentions as proxied by retained earnings and some key financial performance indicators, in the Nigeria manufacturing industry using the Brewery subsector as a focal point. The ex- post facto research designed which made use of secondary data obtained from annual reports and accounts of the two market leaders in the sector: Nigeria Breweries Plc and Guinness Nigeria Plc, from year 2000 to 2013.

Umar and Musa (2013) studied the relationship between stock prices and firm earning per share (EPS) from 2005 to 2009 employing a simple linear regression model on a panel of 140 Nigerian firms from a total population of 216 firms' operated in Nigerian Stock Exchange (NSE). The study found that an insignificant relationship exists between stock prices and firm EPS in Nigeria. They emphasized that firm EPS has no predictive power on stock prices and suggested that firm EPS should not be relied upon for the prediction of the behaviour of stock prices in Nigeria.

### **Theoretical Review**

#### **The Fundamental Theory**

The fundamental theory propounded by Graham and Dodd (2015) surmises that, an individual security has an intrinsic value and this intrinsic value can be determined through careful scrutiny of the company's financial statements, taking into consideration the various accounting variables. Also, the intrinsic value of the equity shares is a function of some fundamental variables impacting on the firm and the economy in general. The difference in the intrinsic value and the market price create room for profit. One crucial variable the fundamentalist takes into consideration is earnings, because earnings depends on the relationship between expected sales and cost which are mainly determined by several factors affecting the company both internal and external factors.

#### **The Technical Theory**

According to Foley (2011), the technical theory is also called Chartism. This model states that share prices can be determined by studying trends and the patterns of past share prices to predict the future price in order to recognize the signals of sell or buy. These patterns and trends can be utilized to make gain if one takes notice of it on time. The technician's holds that the use of chart is sufficient enough to predict stock prices movement than relying on the intrinsic value of the industry the company operates. This method is merely used for forecasting the prices of stock by carefully examining the charts of the previous market event taking into consideration the relevant accounting data such as: the prices of security, total volume of security sold and the prevailing interest rate of the security at that period of transaction

### **Empirical Review**

Sharif, Purohit and Pillai (2015) investigated the determinants of stock price of 41 companies listed on the Bahrain Stock Exchange. The empirical findings reveal a positive and significant relationship between return on equity, book value per stock, ratio dividend paid and number of stock outstanding, ratio stock price and earning per stock and market capitalization, suggesting that these factors act as active determinants in shaping the market price of stocks.

However a significant negative relationship was found between dividend yield and stock price. This suggests that dividend decisions are made in order to attract different clienteles. Consistencies

in results have been noticed in both the estimation models. Therefore, a certain group who expects short term and regular return will show their impact as a positive relationship with market price while the group who is unaffected or considers dividends as irrelevant will show an inverse relationship with stock price. Leverage also showed an inverse but insignificant relationship with market price. This can be due to the fact that investors show a general aversion towards heavily indebted companies but at the same time do not consider the inclusion of debt in the capital structure of companies as a determinant of market price.

Selahattin and Aynur (2014) conducted a study on Equity Returns, Firm-Specific Characteristics and Sector Rotation: Evidence from Turkey. The study examines the firm specific characteristics that effect on equity returns depending on sector rotation scheme throughout four financial cycle stages for an important emerging market, Turkey. For this purpose, using panel data for twenty-five nonfinancial equities selected from ISE-100 companies and twenty-six firm-specific characteristics in 2005-2011 it is analysed empirically whether firm-specific factors that effect on equity returns differ among equity groups classified by sector rotation scheme throughout financial cycle stages.

Mirzaei, Moeinnaldin and Heirany (2013) studied information value of fundamental accounting variables in asymmetric information environment. The study investigated the relationship between operating profit and operating cash flow with reaction of investors' under conditions of information asymmetry. The variables adopted included your operating profit changes and cash-flow changes as independent variable and changes in stock price as dependent variable. The study populations were the firms quoted Tehram Stock Exchange and sample consisted of 97 firms that were selected using system deletion method. Applied research and descriptive/correlation research methods were used in terms of objective and performance. Multiple regressions were used for data analysis based on the panel data. The result show that the effect of operating profit and no effect of operating cash flows on investors' reaction.

### **3.0 Methodology**

In carrying out this study, a correlational and ex-post facto research design was used. The population of this study consists of all the foods and beverage firms listed on the Nigerian Stock Exchange and have complete financial records on their websites or Nigerian Stock Exchange for the period of 1990-2017. The sampling techniques adopted for this study was simple random sampling techniques. Two quoted foods and beverages companies were selected using simple sampling techniques. The two quoted manufacturing companies are Nestle Nigeria Plc.

This study used secondary sources of data collection. The data were obtained from the annual reports and accounts of Nestle Nigeria Plc listed in Nigeria Stock Exchange (NSE) for the period 1991 to 2018. To determine the reliability of the instrument, a cronbach alpha of 0.7 is considered to be adequate and optimum if above 0.8. Thus, the closer the reliability result to one the more reliable the result. For the validity, the researcher consulted the supervisor for the validity of the study. The researcher employed used Ordinary Least Square (OLS) regression analysis to test the nature of the effect of the dependent variables on independent variable.

The regression method estimated the coefficient of the linear equation which best predicted the value of the dependent variation. To test the significance of regression model, the study utilized the F-statistics while the t – statistics was used to test significance of regression coefficients. Both the F and t-statistics were tested at 95% confidence level. Also, correlation matrix was used to explain the relationship between variables of corporate performance and stock price of Nestle Plc.

**Model Specification**

In order to achieve the objectives of this study and test of the hypotheses, a functional relationship in form of multiple linear regression model consisting of dependent and independent variables is formulated. The study employed two measures of firm value- Stock price as represented by market value (dependent variables) which are regressed against the explanatory variables that comprise Earnings per share (EPS), Dividend Per Share (DPS), Profit Margin (PM), Stock Price (SP). The two regression models are presented as follows;

$$\log MV = \log \beta_0 + \beta_1 * \log PM + \beta_2 * \log EPS + \beta_3 * \log DPS + \beta_4 * \log SP \dots\dots\dots(i)$$

MV = Market Value

PM = Profit Margin

EPS = Earnings Per Share

DPS = Dividend Per Share

SP = Stock Price

**4.0 Data Presentation and Discussion of Result**

**Table 1: Descriptive analysis of MV, SP, DPS, EPS and PM**

	MV	SP	DPS	EPS	PM
Mean	286134.0	1.136786	18.83429	44.31107	0.099036
Median	143819.5	0.850000	20.15000	24.31500	0.078500
Maximum	1233365.	2.450000	55.00000	149.1000	0.312000
Minimum	12102.00	0.220000	1.040000	2.390000	0.043000
Std. Dev.	372818.7	0.809669	16.09741	43.14149	0.059752
Skewness	1.406514	0.365411	0.499606	0.803791	1.802719
Kurtosis	3.642034	1.527812	2.172481	2.476270	6.689803
Jarque-Bera	9.712884	3.151676	1.963749	3.335045	31.04946
Probability	0.007778	0.206834	0.374608	0.188714	0.000000
Sum	8011753.	31.83000	527.3600	1240.710	2.773000
Sum Sq. Dev.	3.75E+12	17.70021	6996.421	50252.07	0.096399
Observations	28	28	28	28	28

*Source: Author’s Computation 2019*

Table 1 depicts the brief description of the data. The average values of MV, SP, DPS, EPS and PM were as displayed in table above. Other descriptive statistic were also indicated in the table.

**Table 2: Correlation matrix of MV, SP, DPS, EPS and PM**

Correlation Probability	MV	SP	DPS	EPS	PM
MV	1.000000 -----				
SP	0.863591 0.0000	1.000000 -----			
DPS	0.069230 0.7263	-0.218613 0.2637	1.000000 -----		
EPS	-0.346708 0.0707	-0.601345 0.0007	0.866948 0.0000	1.000000 -----	
PM	0.467200 0.0122	0.628008 0.0003	-0.284052 0.1429	-0.436148 0.0203	1.000000 -----

*Source: Author's Computation 2019*

The result as presented in table 2 above shows the relationship that exists between the dependent and the independent variables. The result shows that there is a strong significant relationship between MV and SP with correlation coefficient of 0.8636 (p-value = 0.000). Also, DPS has a very weak relationship with MV with correlation coefficient of 0.0692 (p-value = 0.7263) which shows that the relationship is not significant. In addition, weak negative relationship is observed between EPS and MV with correlation coefficient of -0.3467 and p-value of 0.0707 (the result is not significant). Lastly, PM has weak positive significant relationship with MV with correlation coefficient of 0.4672 and p-value of 0.0122.



**Table 3: Result of the Regression of analysis**

Dependent Variable: LOG(MV)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(SP)	1.165688	0.302411	3.854646	0.0008
LOG(DPS)	0.921795	0.319038	2.889290	0.0083
LOG(EPS)	-0.985410	0.364697	-2.701997	0.0127
LOG(PM)	0.647523	0.318241	2.034696	0.0536
C	14.23586	1.058798	13.44531	0.0000
R-squared	0.947885	Mean dependent var	11.52739	
Adjusted R-squared	0.938821	S.D. dependent var	1.641074	
S.E. of regression	0.405909	Akaike info criterion	1.195059	
Sum squared resid	3.789535	Schwarz criterion	1.432953	
Log likelihood	-11.73082	Hannan-Quinn criter.	1.267785	
F-statistic	104.5821	Durbin-Watson stat	1.556849	
Prob(F-statistic)	0.000000			

*Source: Author's Computation 2019*

The regression analysis in table 3 shows the contribution of each independent variables to the dependent variable. The result indicated that 94.7% variations in MV could be attributed to the joint effect of PM, EPS, DPS and SP.

From, the result the regression coefficient for PM, EPS, DPS and SP are respectively, 0.6475, -0.9854, 0.9218 and 1.1657. Furthermore, their standard deviations are 0.3182, 0.3646, 0.3190 and 0.3024. The t-values are given as, 2.0346, -2.7019, 2.8892 and 3.8546. The respective p-values are given as 0.0536 for PM, 0.0127 for EPS, 0.0083 for DPS and 0.0008 for SP.

The F-value is 104.5821 with p-value of 0.0000 < 0.05 significant level and the Durbin Watson value of 1.5568 suggest absence of autocorrelation of the residuals. More also, the result shows that the model is adequate in relating the dependent and the independent variables.

Hence the model can be specified as:

$$\log MV = 14.2359 + 0.6475 * \log PM - 0.9854 * \log EPS + 0.9218 * \log DPS + 1.1657 * \log SP \quad (1)$$

The model above shows that in the absence of all the independent variables used in this study the MV stands at 14.2359. However, when other independent variables are made constant, a unit increase in PM will result in 64.7% increase in MV. In addition, for unit increase in EPS, there is 98.5% unit decrease in MV. Also, for a unit increase in DPS, there is 92% increase in MV and lastly for a unit increase in SP, will result in 16.6% increase in MV. However, out of the independent variables considered, DPS have much effect than any other variable, followed by PM. However, EPS is having much negative effect on MV.

**Table 4: Breusch-Godfrey result for the analysis**

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.596302	Prob. F(2,21)	0.0983
Obs*R-squared	5.550914	Prob. Chi-Square(2)	0.0623

The result of the Breusch-Godfrey serial correlation test for the residual shows that there is absence of serial correlation in the errors, since the  $p\text{-value} > 0.05$  significant level.

### **Test of Hypotheses**

The following conclusions were made concerning the set hypotheses:

For hypothesis I, it could be observed that SP is having  $p\text{-value} < 0.05$  significant level, hence the alternative hypothesis is accepted and we conclude that SP is having significant effect on MV.

For hypothesis II, the  $p\text{-value}$  for DPS is  $0.0083 < 0.05$  significant level, then the alternative hypothesis will be accepted and we then conclude that DPS has significant effect on MV.

Moreover, for hypothesis III, EPS has  $p\text{-value} < 0.05$  significant level, the alternative

Hypothesis will be accepted and we conclude that EPS has significant effect on MV.

Lastly, hypothesis IV, PM has  $p\text{-value} > 0.05$  significant level, we then conclude by accepting the null hypothesis that PM does not have significant effect on MV.

### **5.0 Conclusion**

The study examined the effect of corporate performance on stock prices of quoted manufacturing companies in the floor of Nigeria stock exchange using Nestle Nigeria as a case study. The study concluded that there exists strong positive relationship between stock prices (SP) and market value (MV) and it is significant. Also, profit margin (PM) shows weak positive relationship with market value (MV) and it is also significant. However earning per share (EPS) and dividend per share (DPS) are not significant with weak relationship with market value (MV). Furthermore, it is observed that stock price, dividend per share have positive effect on market value while earnings per share has negative effect on market value. Earnings per share have much more negative effect on market value than other effects with positive effect.

### **6.0 Recommendations**

In line with the findings of the study, the following recommendations are made:

Firstly, management of food and beverages companies should endeavor to put more efforts on stock price so as to increase its profitability since there exist a strong positive relationship between stock prices and market value.

Secondly, the Securities and Exchange Commission should closely monitor (including risk-based supervision) and carryout surveillance on firms with large market capitalization as well as all trading activities on the floor of the Nigerian Stock Exchange (NSE) to minimize incidence of stock price manipulations, such that they are reflective of the forces of demand and supply.

Thirdly, companies should work toward building strong fundamentals that may affect stock price positively.

Fourthly, the management of companies should intensify their efforts towards profit margin in order to increase their performance since there exist weak positive relationship between profit margin and market value.

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