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Corporate Governance and Movement of Stock Price in Nigerian Quoted Firms.

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ABSTRACT

The broad objective of the study is to examine corporate governance and movement of stock price in Nigerian quoted firms. Specifically, the study examines the impact of Audit committee size, Ownership concentration, Board independence and Managerial ownership on share price movement. The cross-sectional research design is adopted in the methodology of the study. The population consists of all quoted companies in the Nigerian Stock market while a sample of twenty(20) companies was examined for 2008-2012 financial year. Secondary data from financial statement of the sampled companies was used for the study. The data analysis techniques used is regression analysis using the ordinary least squares techniques. Our study found that Audit committee size does not exert any significant impact on share price, Ownership concentration exerts a significant impact on share price, the effect of Board independence on Share price is significant, Managerial ownership does not impact significantly on share price, changes in ownership concentration impacts significantly on share price and changes in managerial ownership exert a significant impact on share price. The study recommends that based on the empirical evidence provided there is the need for stock market players to incorporate corporate governance issues in their models for estimating the fair value of stock price return and evaluating the moderate/or long term performance of managed portfolios.

Introduction Studies on corporate governance are not new. It emanated partly due to the liquidation of major corporate organizations such as Enron, World Com and other numerous firms all over the world. From casual empiricism, the collapse of corporate entities sends signals to the general public which has instantaneous impact on stock prices. Similarly directors who manage the affairs of corporate entities are “servants” employed by shareholders and as such are expected to act in the best interest of the resources owners (the shareholders). When the entity is not managed in the interest of the shareholders, it results to agency costs. Agency cost directly and indirectly affects the stock price of quoted firms since it has the relationship with the overall performance of the business (Krishna, 2008).

The non -performance of quoted firms reduced shareholders wealth and subsequent withdrawal of funds or investment resources by the shareholders. An instance is when there was panic by investors resulting in the massive sudden withdrawal of shares of some banks found to be in a state of insolvency on the announcement by the governor of the Central Bank of Nigeria, Mr. Lamido Sanusi Lamido in the year 2009. This occurrence specifically in the banking industry which negatively affected the stock prices no doubt was necessitated by poor corporate governance mechanisms. Similarly, several researches have been extensively done as regard corporate governance and the performance of firms both in developed countries and in developing countries such as Nigeria. In developed countries we have such studies by Renders, Gaeremynck and Sercu, (2005), Humera, Maryam, Khalid, Sundas and Bilal, (2011), Adgaoud, Zegha and Andalab, (2007), Brown and Caylor, (2004) and in developing countries are studies done by Kojola, (2008), Nwakama, Okereke and Arewa (2010), Joe and Kechi, (2011). The peculiarity of several of these studies has always been the effects of corporate governance practices on the performance of firms. Greater proportion of these studies has actually not examined the effect of corporate governance on companies' stock price, which is one of the most vital areas of company affairs. Uwuigbe (2013) evaluated corporate governance practices and stock price of thirty listed firms in Nigeria using

two corporate governance variables for the period 2007 and 2009 which encompass audit committee and ownership structure. The study yielded mixed finding and was inconclusive; ownership concentration had positive impact on the stock price of the quoted firms. Osaze (2011) theoretically averred that one of the causes of the financial crisis in Nigerian banking sector which resulted to the Stock Market being over heated is the breach of good corporate governance principles by the authorities of the Nigerian Stock Market. Against these back drops, this study examines corporate governance and movement of stock price in Nigerian quoted companies. This paper is divided into five sections. The introduction part constitutes section one, section two covers the review related literatures and previous empirical studies. Section three covers methodology, section four is empirical analysis and discussion of findings while section five includes conclusion recommendations and suggestions for further studies.

Literature Review

In economic theory, the behaviour of a firm is analysed in terms of profit maximisation . Profit maximisation implies that a firm either produces maximum output for a given amount of input, or uses minimum input for producing a given output. According to Pandey (2008), the underlying logic is efficiency. It is assumed that profit maximisation causes the efficient allocation of resources under competitive market conditions and profit is considered as the most appropriate measure of firms' performance (Pandey2008). However, today, profit maximisation objective has been criticized, largely to market imperfections. Agency problem results in agency cost which include the less than optimum share value for shareholders and costs incurred to monitor the actions of managers and control their behavior. Corporate governance practically implies that the board of directors (or management) should act in the best interest of shareholders and other stakeholders in good faith, this should minimise agency cost. Thus, several measures have been advance in theory of finance and strategic management on how best the interest of shareholders could be protected. This includes a re-specification of the objective of

the firm abinitio to be the maximisation of shareholders' wealth. This imply maximising the net present value of a course of action to shareholders, and is more evident in share price appreciation (Pandy, 2008). It is hoped that good corporate governance will impact positively on share price while bad corporate governance will impact negatively on share price. For example, if the board size is unduly large and lacks independence, composed of incompetent individuals, it is expected from casual empiricism shareholders wealth may not be maximised and the price of the company's stock will depreciate.

Corporate scandals, environmental concerns and globalization have all played their part in raising shareholders and public awareness on how companies should be governed or coordinated in order to maximise shareholders wealth. Shareholders' wealth is maximised when there is increase in the market value or price of shares. However, this theoretical assertion is hardly accepted by managers or board of directors who have been entrusted to conscientiously manage the affairs of a company. As rightly observed by Heaps (2010), many listed companies are ignorant of the relationship that subsists between corporate governance structures and their seemingly impressive or unattractive share prices. Most of these companies adopt corporate governance practices without really knowing the resultant effects on share prices (Uwuigbe, 2013). Structured corporate governance mechanisms in any organizations in Nigeria no doubt serve as a veritable tool for influencing investors' confidence and consequently the stock (share) prices. Brown and Caylor (2004) Opined that better corporate governance is related to better firm performance, and their study concluded that better governed firms perform better than poorly governed firms. In the light of this assertion above, it is worthy to note that increase in the stock (share) price of firm is a linear function of the performance. Usually, investors are willing to invest in the shares of high performing firms. Jelinek and Stuerke (2009). argued that share price is a good indicator of firm performance; and they further argued that investors may earn capital gain due to an increase in share price. It is rational from casual empiricism that the performance or non- performance of a

company largely depends on the corporate governance structure responsible for the directing and controlling of affairs of such company. Despite numerous research efforts on corporate governance and company performance in Nigeria, little has been done in investigating the effects of the corporate governance practices of listed Nigerian companies on one of the most obvious aspects of company affairs (Uwuigbe, 2013). In the study two corporate governance variables were employed; vis-a-vis audit committee and ownership structure. Thus, this study is an extension of the above study.

Board independence: Board independence is commonly believed to be the single most important aspects of corporate governance globally. Bhagat and Black (2002) found no relationship between the ratio of outside versus inside board members and stock price. Klein (1998) suggests that the inclusion of outside directors on the board of directors will increase share price and corporate performance but no relation has been found between the overall board independence by way of share price increase. Chan and Li (2008) found evidence that the presence of independent and expert members on the board and committees increase firm value. This view was also supported by Rosenstein and Wyatt (1990), who ascertained the inclusion of outsiders on the board is associated with an abnormal increase stock price. Independent directors are defined as those who have no position in the management team and no direct business or benefit links within the firm (Shiguang, 2009). Board independence as used or operationalised in this study connotes the outside directors in the board of directors in the selected quoted firms. It can be hypothesized that board independence does not have a positive impact on stock price.

Audit committee size: Audit committee size is a part of the required corporate government structure of quoted firms in developed and developing countries. Klein (1998) employed a framework that links audit committee to improved firm performance. Chan and Li (2008) suggest from their research that audit committee increase firm performance. Abbot, Parker and Peters (2003) point out that qualified, committed and independent audit committee is a reliable guardian of the public

interest and public interest is hinged on the performance of firm, consequently on the stock price apperception or decrease. Council (2007) sees the audit committee's role to include the oversight of the company's financial reporting integrity and to oversee the independence of the external auditor. Prior researchers have established a significant inverse relationship between the number of audit committee members and financial reporting quality, the lower numbers of audit committee members, the higher the stock price (Wright 1996; Abbott and Parker 2000, Kelin 2002a; Carcello and Neal 2003a). A study by Kirkpatrick, et al (2009) reveal that independent members on the audit committees contribute to a better share price because independent members do have better understanding of risk appetites of firm, shareholders do value solid risk practices and reward firms with higher share price. Hence we hypothesize that Audit committee does not influence stock prices.

Managerial Share Ownership: Klaus, Dennis, Mueller and Burcin (2008) point out that managers do not hold large fractions of their companies' shares, and thus, do not have the same financial interest in the firm as the shareholders. Shareholders' wealth is maximised when there is consistent business and financial performance; and financial performance influence share price in the absence of macro -economic variables and global financial crisis or melt-down. Jelinek and Stuerke (2009) argued positively in this direction that share price is a good indicator of firm performance. According to Omid, Seyyed, Abbas, Assghar and Akram (2013), the presence of managerial share ownership is significantly and positively effective on performance; and share price, especially increase in share price as opined by Jelinek and Stuerke (2009) is a good indicator of firm performance. Managerial ownership is thought to be associated with incentive effects as well as entrenchment effects (Elizabeth and Alexandra, 2002). Morck, Shleifer & Vishny (1988) investigate the relationship between managerial ownership share of the firm's equity and Tobin's in a cross-section of 371 fortune 500 firms in 1970. They found that Tobin's Q rises as managerial ownership increase from 0% to 5%, as managerial ownership share exceeds 25%. The increasing Tobin's was ascertained to support the incentive effect,

where the decreasing Tobin's q supports the entrenchments hypothesis McConnell & Servaes (1990) confirm the non-linear but with a different form. They found a positive relationship up to a managerial ownership share of 40 to 50 percent, and a negative relationship for higher shares. Himmelberg (1999) investigated the determinants of managerial ownership share and the relationship between managerial ownership and firm performance in a panel regression. Their result indicated that managerial share ownership depends on the contracting environment a firm acts, especially on the riskiness of the firm which determines the managers' ability to cope for moral hazard. Elizabeth & Alexandra (2002) posit that in a risk environment, where monitoring activities by the owners are relatively expensive and the scope for moral hazard for the manager is big, managers must have greater ownership stakes to align the respective functions.

Ownership concentration: Kamran et al (2012) using 100 non-financial firms listed in Karachi Stock Exchange from 2004 to 2010 shows that ownership concentration was negatively correlated with market performance. In a related study, Mohammed (2012) investigated the impact of ownership structure (concentration) on share price volatility of listed companies in Tehran Stock Exchange, it was ascertained that the price of shares of the companies with more percentage held by their greatest shareholders, may have volatility and the more the share price volatility of the companies, then the more percentage of their shares held by individual is lower. This invariably implies that ownership concentration does not influence the stock price of listed firms. This is one of the tentative propositions we intend to investigate in this study.

Methodology: The population of the study is the entire quoted firms in Nigeria in the period under considerations. The sample size of twenty (20) quoted companies is selected from the entire population using the Yamani (1967) formula. Corporate governance data are extracted from the annual reports of the firms. More over the annual financial statements of the company that make up the sample size were randomly selected from the shelf of the Nigerian Stock Exchange library, and the

data extracted. Secondary source of data comprises of the official price list of shares which is readily obtainable from the shelf of the Nigerian Stock Exchange library and from the annual financial reports of the selected companies that make up the sample size.

Mohammed (2012) in order to provide empirical evidence on the impact of corporate governance on bank performance in Nigeria, specified the following random model.

$$FP_{it} = \alpha_1 + \beta AQ_{it} + \delta LDR_{it} + \epsilon_{it} \dots (1)$$

Where;

FP_{it} = Performance of bank i at time

t , measured by return on asset (ROA),

AQ = Asset quality of bank i at time

t measured by non-performing loan to total credit

α = constant term

β and δ are coefficients estimates,

ϵ_{it} = error term for bank at time t .

LDR = Loan to deposit ratio of bank i at time t .

From the above, it is obvious that the researcher used asset quality (AQ) and loan to deposit ratio (LDR) as proxies for corporate governance. However, our study will take a direct approach by measuring all corporate governance variables implicated in our research questions, objectives and hypotheses. Therefore, we shall proceed by adapting and modifying the above model.

The functional form of the model used is specified as;

$$SP = f(BI_{it}, AC_{it}, MSO_{it}, \text{ and } OC_{it}) \dots \dots \dots (2)$$

And its stochastic form:

$$SP_{it} = \alpha_0 + \alpha_1 BI_{it} + \alpha_2 ACS_{it} + \alpha_3 MSO_{it} + \alpha_4 OC_{it} + \epsilon \dots \dots \dots (3)$$

Where

Sp_{it} = stock price of firm i at time t , (our dependent variable)

BI_{it} = board independence of firm i at time t

AC_{it} = Audit committee of firm i at time t

MSO_{it} = managerial share ownership of firm i at time t

OC_{it} = ownership concentration of firm i at time k

α_0 = constant term

α_1 to α_4 = the coefficients of the explanatory variables (corporate governance variables) to be estimated.

ε = error term.

Our a priori expectation of the signs of the coefficient are given as; $\alpha_1, \alpha_2, \alpha_3$, and $\alpha_4 > 0$. Employing the econometric package of E-views version 7.0, the pooled and panel data from 2008-2012, estimates of the multiple regression models were obtained after some preliminary statistical analysis such as descriptive statistics and correlation matrix. Several other tests were performed after the regression analysis which include variance inflation tests (VIFs), Breusch-Godfrey serial correlation LM test, Heteroskedasticity test (ARCH test) and Ramsey specification test. The purpose of these additional tests was to give reasonable assurance that the main findings were robust to the model specification. The robustness test includes tests for multicollinearity, autocorrelation and heteroscedasticity, various regression estimators. Thereafter, the two-stage least squares regression and panel data fixed effects regression analysis were also conducted to control for endogeneity bias and firms' heterogeneity respectively.

The share price as used in this study is the official price of the shares at which one unit of the companies' share is sold. To operationalize this, the share price of the companies on daily basis in the month of December being last month for the year is aggregated for each of the year specifically considered. That is on yearly basis from 2008-2012.

Variables	Operationalization
Board independence	Using proportion of non -executive members divided by total board size. This is express in percentage
Audit committee size	Is derived by adding up the total number of persons in the committee
managerial share ownerships	is derived by adding up the shares own by the respective managers of the firm, other than the shares own by a board of director and dividing it with total shares held by other investors in the company. Thus, the lower the percentage, the lower the managerial share ownership in that company, and vice versa.
ownership concentration	Using the total shares held by top five shareholders who could also be board members, individual and institutional shareholders who own shares against total shares outstanding in the company. This is expressed in percentage such that the higher the percentage, the higher the concentration of ownership in that company

Analysis and Discussion of FindingsThe preliminary analysis of the data is first conducted (descriptive and correlation analysis). Thereafter, the multiple regression analysis is conducted. The regression analysis was conducted using the pooled OLS and the panel Estimated generalized least squares (EGLS) with effects. The results are presented and interpreted below:

Table 1: Descriptive statistics

	SP	AUDC	OWCONT	MGS	BIN
Mean	93.1543	5.790000	52.76120	42.76711	51.08350
Median	104.1050	6.000000	55.49000	19.33000	55.56000
Maximum	164.420	8.000000	89.19000	293.2500	80.00000
Minimum	2.118000	4.000000	5.870000	1.010000	11.11000
Std. Dev.	353.4024	0.714850	23.25515	63.82423	18.68576
Jarque-Bera	1710.970	55.79880	6.089944	352.0058	6.640322
Probability	0.000000	0.000000	0.047598	0.000000	0.036147
Observation	100	100	100	100	100

Source: Researcher's compilation (2014)

Where: SP = Share price, AUDC= Audit committee, OWCOT= Ownership Concentration, MGS= Managerial Share ownership and BIN= Board Independence.

Table 1 above presents the result for the descriptive statistics for the variables. As observed, SP has a mean value of 93.1543 with maximum and minimum values stood at 164.420 and 2.118 respectively. The standard deviation of 353.4024 is high and suggests that the share price across the companies exhibits considerable deviation from the mean. AUDC has a mean value of approximately 6 with maximum and minimum values of 8 and 4 respectively. The standard deviation of 0.714 is minimal suggesting that the deviation in Audit committee across the cross-section of companies from the mean value may is not significant. This may be attributable to the policy on audit committee membership emanating from the 2010 corporate governance code. The mean for OWNCONT measured as the ratio of shares held by top five shareholders to total share is 52% and indicates that on the average some level of concentrated ownership exist for companies in the sample. Our finding is close to that of Uwuigbe (2013) who found a mean of 49.14%. They find that roughly 67% of the sample firms are controlled by at least one large shareholder. Similarly, Faccio and Lang (2002) study the shareholdings of 5,232 listed firms covering 13 Western European countries. They show that ownership structure is concentrated in

around 63% of the firms. The maximum and minimum values are 89.19% and 5.87% respectively.

The standard deviation of 23.255% is indicative of the extent of deviation of OWNCOT for the cross-section of companies from the mean. MGS has a mean value of 42.767% which suggest that about 42% of the total shareholding is owned by Management. Desender, Miguel and Rafel (2008) found managerial average level of ownership to be of 12.5 per cent using a sample of Spanish companies. For the U.S managerial values reported in studies such as Morck et al. (1988), Warfield et al. (1995) and Cho (1998) are 10.6% 17% and 12.14% respectively, although lower than the values reported by Gabrielsen et al. (2002) for Denmark (59 per cent). The standard deviation of 63.824% found in our sample is indicative of the extent of deviation of MGS for the cross-section of companies from the mean. The mean for BIN measured as the proportion of non-executive members to total board size is 51.083%. This is in line with the SEC Code of corporate governance that requires not less than twenty percent (20%) Board members should be independent/external directors but it appears lower than the 75% found by Carcello, Hermanson, Neal and Riley (2000) for the U.S. The maximum and minimum values are 5 and 2 respectively. The standard deviation of 18.686% is indicative of the extent of deviation of BIN for the cross-section of companies from the mean. The Jacque-Bera statistic of the variables indicates that none of the variables satisfies normality.

Table 2 : Pearson Correlation Statistics

	SP	AUDC	OWCONT	MGS	BIN
SP	1				
AUDC	0.019026	1			
OWCONT	0.26252	-0.03778	1		
MGS	-0.12284	-0.62388	-0.36631	1	
BIN	-0.08651	-0.21843	-0.04224	0.246883	1

Source: Researcher's compilation (2014)

Where: SP = Share price, AUDC= Audit committee, OWCOT= Ownership Concentration, MGS= Managerial Share ownership and BIN= Board Independence.

From table 2 above, the correlation coefficients of the variables are examined. However of particular interest to the study is the correlation between share price and the explanatory variables. As observed, a positive correlation exists between SP and AUDC ($r=0.019$), though the coefficient is weak, the direction of correlation suggests that increases in AUDC may be associated with stock price rises. A positive association is observed between SP and OWNCONT ($r=0.263$) and this implies that the level of ownership concentration may be correlated with movements in stock prices. BIN is negatively correlated with SP ($r=-0.123$) and this suggest that the level of board independence may be associated with downward movement in stock prices of the firm. MGS is negatively correlated with SP ($r=-0.122$) indicating that the extent of managerial ownership may also be associated with downward movement in stock prices of the firm. However, the caution is suggested in alluding strict causality using the correlation coefficients between the variables. This is because the correlation analysis does not necessarily imply the existence of a functional relationship but a mere association. The analysis of the correlation coefficients between the independent variables is quite low and this suggests that the potential for multicollinearity is reduced in the model. Specifically, we find a negative correlation between AUDC and OWCONT ($r=-0.0378$), AUDC and MGS ($r=-0.624$), BIN and AUDC ($r=-0.218$). In addition, there is negative correlation between OWCONT and BIN ($r=-0.042$) and OWCONT and MGS ($r=-0.042$). Also, positive correlation exist between MGS and BIN ($r=0.246$).

Table 3: Regression Assumptions Test

Variance inflation test			
Variable	Coefficient Variance		Centered VIF
C	41420.94		NA
AUDC	838.7315		1.900272
OWCONT	0.556626		1.334644
MGS	0.123081		2.222936
BIN	0.693316		1.073288
Breusch-Godfrey Serial Correlation LM Test			
F-statistic	2.05094	Prob. F(2,91)	0.1345
Obs*R-squared	4.27001	Prob. Chi-Square(2)	11.82
Heteroskedasticity Test: ARCH			
F-statistic	1.158123	Prob. F(1,96)	0.2846
Obs*R-squared	1.168158	Prob. Chi-Square(1)	0.2798
Ramsey Specification test			
t- statistics	1.294825	Df= 92	0.1986
f- statistics	1.676571	Prob. F(1,92)	0.1986

Source: Researcher's Compilation (2014)

Table 3 above shows the regression assumptions test for model 1. As observed, the variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 are seen as a cause of concern (Landau and Everitt, 2003). As observed, none of the variables have VIF's values exceeding 10 and hence none give serious indication of multicollinearity. The ARCH test for heteroscedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which leads us to reject the presence of heteroscedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-

Square) were greater than 0.05. The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

Table 4: Regression Result

Variable	Pooled OLS (A)	2Stage Least Squares (B)	Fixed effects (C)	Pooled OLS (D)	Pooled OLS (E)
C		170.826* (0.000)	2.057* (0.000)	-599.605 (399.408) {0.143}	-143.698 (367.711) (0.697)
AUDC	9.635 (29.138) {0.742}	12.219 (62.539) {0.846}	13.400 (9.048) {0.144}	107.2669 (75.333) {0.165}	38.244 (63.434) {0.549}
OWCONT	-0.197 (0.755) {0.795}	3.379* (1.560) {0.034}	0.262* (0.063) {0.000}	0.900* (0.353) {0.016}	1.8969* (0.113) {0.000}
MGS	-0.631 (0.362) {0.085}	0.619 (0.596) {0.302}	-0.057 (0.458) {0.901}	-0.487* (0.068) {0.000}	0.1860 (0.3017) {0.540}
BIN	-0.421 (0.887) {0.637}	-2.119* (0.994) {0.036}	-0.363 (0.240) {0.137}	0.993 (0.716) {0.175}	-0.2114 (0.5071) {0.2352}
AR(1)	0.559* (0.091) (0.000)		-0.203 (0.103) {0.053}	0.7 (0.000)	0.574* (0.1023) {0.000}
MGS(-1)				1.085* (0.107) {0.000}	
MGS(-2)				1.085* (0.107) {0.000}	
OWCONT(-1)				1.9728* (0.3065) {0.000}	
OWCONT(2)				-0.4037* (0.1388) {0.007}	
D(MGS)					-0.932* (0.325) {0.006}

D(OWCONT)					-2.118* (0.512) {0.000}
D(BIN)					-0.609 (0.507) {0.235}
R ²	0.289	0.207	0.715	0.472	0.484
ADJ R ²	0.25	0.165	0.590	0.313	403
F-Stat	7.561		5.749	2.97	5.984
P(f-stat)	0.000		0.00	0.011	0.000
D.W	2.179	1.7	2.29	1.8	2.3
J-stat		0.610			

Source: Eviews 7.0 result* significant at 5%. () standard error, {}p-values

Where: SP = Share price, AUDC= Audit committee, OWCOT= Ownership Concentration, MGS= Managerial Share ownership and BIN= Board Independence.

Table 4above, shows the result which examines the effect of Audit committee size, Ownership Concentration, Managerial Ownership and Board Independence on stock price. The techniques adopted in estimation of the regression are precipitated by theoretical views in this research area of corporate governance and stock price responses. Firstly, prior studies (Himmelberg, Hubbrad & Palia, 1999;McConnell, Servaes, & Lins, 2008) argue that much of variation in empirical results arise from failure to reflect firm heterogeneity and problem of endogeneity with specific governance mechanism e.g ownership concentration. Wintoki (2007) and Hermalin and Weisbach (1998) have also expressed similar concerns. To address the concern on endogeneity, we adopt the 2-stage least squares approach to control for endogeneity bias in the model as the OLS coefficients tend to be biased. One prominent way to address these problems is through the instrumental variable approach using the generalized method of moments (GMM) framework. We can add instruments by assuming past values of explanatory variables or dependent variables are uncorrelated with the error term (Catrinescu et al 2006; Aggarwal et al 2006 and Anyanwu 2010).

The use of instruments allows parameters to be estimated consistently in models which include endogenous right hand side variables and potentially allows consistent estimation even when measurement errors are present. To address the concerns on heterogeneity, we consider the fixed effects estimations using panel regression. From table above, we observe that using the pooled OLS estimation (Panel A) which is the baseline model, the R^2 is 0.289 which suggests a 28.9% explanatory ability of the model for the systematic variations in the dependent variable with an adjusted value of 0.250. The F-stat (7.561.00) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level while the D. W statistics of 2.2 indicates the absence of serial correlation of the residuals in the model. Commenting on the performance of the corporate governance variables, we observe that AUDC appears to have a positive (9.635) effect on SP which was however not statistically significant ($p=0.742$) at 5% level. OWCONT appeared to have a negative (-0.197) effect on SP though not significant at 5% ($p=0.795$). MGS appeared to have a negative (-0.631) impact on SP but not statistically significant at 5% ($p=0.085$). The effect of BIN also appeared negative (-0.421) and not also statistically significant at 5% ($p=0.637$). Using the GMM two stage least squares in estimating the baseline model (Panel B) we observe that the R^2 is 0.207 which suggests that Audit committee size, Ownership Concentration, Managerial Ownership and Board Independence is able to explain about 20.7% of the systematic variations in SP with an adjusted value of 0.165.

The D. W statistics of 1.7 indicates the likely presence of serial correlation of the residuals in the model. The Hansen J test of over-identifying restrictions accepts the joint null hypothesis that the instruments are uncorrelated with the error term and that excluded instruments are correctly excluded from the estimated equation. Commenting on the performance of the Corporate governance variables, we observe that AUDC appears to have a negative (-12.219) effect on SP though not statistically significant ($p=0.846$) at 5% level. OWCONT impacts positively (3.379) on SP and is

also significant at 5% ($p=0.034$). MGS appeared to have a positive (0.619) impact on SP though not statistically significant at 5% ($p=0.302$). The effect of BIN on SP appeared negative (-2.119) and also statistically significant at 5% ($p=0.036$). With the fixed effects Panel estimation for the baseline model (Panel C) the R^2 is 0.715 which suggests that Audit committee size, Ownership Concentration, Managerial Ownership and Board Independence explains about 72% of systematic variations in SP with an adjusted value of 0.590.

The F-stat (5.749) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level while the D.W statistics of 2.29 indicates that the presence of serial correlation in the residuals is unlikely. Commenting on the performance of the variables, we observe that AUDC appears to have a positive (13.400) effect on SP which was however not statistically significant ($p=0.144$) at 5% level. OWCONT has a negative (262) effect on SP which is also significant at 5% ($p=0.000$). MGS appeared has a negative (-0.057) impact on SP though not statistically significant at 5% ($p=0.458$). The effect of BIN also appeared negative (-0.363) though not statistically significant at 5% ($p=0.137$). In line with Himmelberg, Hubbard and Palia (1999) which suggests that focusing the dynamics of ownership (ownership concentration and managerial ownership) would be useful to understand the relation between share price and ownership which have been neglected in the recent literature, we exploit the dynamic relation between ownership changes and changes in share price.

In estimating Panel E, we re-estimate the baseline model to capture changes in managerial and ownership concentration and board independence. The result shows that the R^2 is 0.484 which suggests that corporate governance variables used in this study is able to explain about 48.4% of the systematic variations in SP. The F-stat (5.984) and p-value (0.000) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. Commenting on the performance of the variables, AUDC appears to have a

positive (38.244) effect on SP which is not statistically significant ($p=0.549$) at 5% level. OWCONT appeared to have a positive (0.186) effect on SP and also statistically significant at 5% ($p=0.000$). MGS has a positive (0.186) impact on SP though statistically significant at 5% ($p=0.540$). The effect of BIN appeared negative (-0.211) but not statistically significant at 5% ($p=0.808$). A change in the level of BIN (Δ BIN) has a negative (-0.609) but not significant ($P=0.235$) effect on SP. A change in the level of MGS (Δ MGS) has a negative (-0.932) and significant ($P=0.006$) effect on SP. A change in the level of OWCONT (Δ OWCONT) has a negative (-2.118) and significant ($P=0.000$) effect on SP. Estimating the model with lags of managerial ownership and ownership concentration we observe that the R^2 is 0.472 which suggests a 47.2% explanatory ability of the model for the systematic variations in the dependent variable with an adjusted value of 0.313. The F-stat (2.97) and p-value (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level while the D. W statistics of 1.8 indicates the absence of serial correlation of the residuals in the model. Commenting on the performance of the corporate governance variables, we observe that AUDC maintains its positive sign (107.2669) but is statistically significant ($p=0.165$) at 5% level. OWCONT maintains its negative sign (-0.900) and remains significant at 5% ($p=0.017$). MGS appeared to have a negative (-0.057) impact on SP and is statistically significant at 1% ($p=0.000$). The effect of BIN also appeared positive (0.993) and not also statistically significant at 5% ($p=0.175$). One period lag of MGS (MGS_{t-1}) has a positive (1.085) impact on SP which is significant at 1% ($p=0.000$). Two period lag of MGS (MGS_{t-2}) has a positive (0.091) impact on SP though not significant at 5% (0.501). One period lag of OWCONT ($OWCONT_{t-1}$) has a positive (1.9728) impact on SP which is significant at 1% ($p=0.000$). Two period lag of OWCONT ($OWCONT_{t-2}$) has a negative (-0.4037) impact on SP which is significant at 5% (0.007).

Discussion of Findings In this section we shall discuss the regression result on the impact of Audit committee size, Ownership Concentration, Managerial

Ownership and Board Independence on Share price in Nigeria.

Audit committee size: The evaluation of the regression result in table shows that Audit committee size though with a positive slope coefficient does not have any significant impact on Share price irrespective of the estimation method used. Specifically, in the two stage least square estimation we observe that AUDC appears to have a negative (-12.219) effect on SP though not statistically significant ($p=0.846$) at 5% level. With the fixed effects Panel estimation (Panel C) AUDC appears to have a positive (13.400) effect on SP which was however not statistically significant ($p=0.144$) at 5% level. Consequently, we accept the hypothesis H_1 of no significant relationship between Audit committee size and stock price in Nigeria. The empirical evidence regarding the effect of audit committee size is still quite foggy due to inadequate focused attention on the relation. However, the study finding is in tandem with Uwuigbe (2013) that found a similar result using quoted companies in Nigeria. The influence of audit committee size was also positive but not statistically significant. The study is also in line with Chan and li (2008). Several studies (Abbot & Parker 2000; Kelin 2002; Carcello and Neal 2003) examine the impact of audit committee size on stock price through the effect of the former on financial reporting quality. Again, the findings in this regards have been quite inconclusive.

Ownership concentration: The evaluation of the regression result in table 4.2.4 shows that ownership concentration has a negative and significant impact on Share price. Specifically, from the two stage least squares estimation (Panel B) we observe that OWCONT impacts positively (3.379) on SP and is also significant at 5% ($p=0.034$). With the fixed effects Panel estimation (Panel C) OWCONT has a negative (0.262) effect on SP which is also significant at 5% ($p=0.000$). Consequently, we reject the hypothesis H_2 of no significant relationship between ownership concentration and stock price in Nigeria. In line with the study finding, Grossman and Hart (1980) contend that concentrated ownership is expected to alleviate the free-rider problem by giving shareholders with substantial ownership

incentives to effectively control firm activities. In a similar vein, Demsetz (1983) and Shleifer and Vishny (1986) argue that the existence of large shareholders leads to the better monitoring of incumbent managers and thus curbs the extraction of private benefits. Thus, controlling shareholders may be reluctant to indulge in opportunistic rent-seeking activities to preserve their reputation. Therefore, large shareholders have incentives to pursue value-increasing activities since stock prices make their efforts observable to outsiders through public trading. The study finding is in tandem with Brockman and Yan (2009) using U.S firms and finds that ownership concentration encourages the incorporation of firm-specific information into stock prices and price increases. Similar results are found for Chinese firms by Gul et al. (2010).

However, the finding is at variance with Kamran et al (2012) using 100 non-financial firms listed in the Karachi stock exchange for 2004-2010. Using data from the USA for period 1976 to 1980, Demsetz & Lehn, (1985) found no any link between ownership concentration and stock performance. Lehmann and Weigand (2000) confirm the benefits of large shareholders in Germany, but only in the case of banks. In addition, Kaplan and Minton (1994) and in Morck, Nakamura and Shivdasani (2000), confirm the positive effects of ownership concentration on stock price through the monitoring and disciplinary role played by large shareholders in Japan. Demsetz & Villalonga, (2001) find no relation between ownership and performance after controlling for the endogeneity of ownership. They argue that even if there is a systematic relation between ownership structure and firm performance, it should not survive for longer periods. Considering the monitoring and expropriation effects, Gedajlovic and Shapiro (1998) show evidence of a non-linear relationship between ownership concentration and profitability in US and German firms. Nevertheless, no relationship between concentration and profitability was found in the UK, France and Canada. Investigating the dynamic relationship between ownership concentration and share price, we estimate the model with changes and period lags of ownership concentration (Panel D and E). Consequently,

A change in the level of OWCONT (∂ OWCONT) has a negative (-2.118) and significant ($P=0.000$) effect on SP. This implies that changes in ownership concentration are a significant determinant of share price movements. Specifically, a decrease in ownership concentration resulting from a sale of shares by a major shareholder for example, will cause a decline in share prices and this is consistent with the findings of Lambert, Larcker and Verrecchia (1991). One period lag of OWCONT (OWCONT₋₁) has a positive (1.9728) impact on SP which is significant at 1% ($p=0.000$). Two period lag of OWCONT (OWCONT₋₂) has a negative (-0.4037) impact on SP which is also significant at 5% (0.007). This suggests that previous levels of ownership concentration impacts on current stock prices of firms.

Managerial ownership:

The evaluation of the regression result in table above shows that managerial ownership concentration has a negative and significant impact on Share price. Specifically, from the two stage least squares estimation (Panel B) MGS appeared to have a positive (0.619) impact on SP though not statistically significant at 5% ($p=0.302$). With the fixed effects Panel estimation MGS appeared has a negative (-0.057) impact on SP though not statistically significant at 5% ($p=0.458$). Consequently, we accept the hypothesis H_3 of no significant relationship between managerial ownership and stock price in Nigeria. There is a considerable literature devoted to understanding the impact of managerial ownership on firm value. Much of that research draws its inspiration from the agency literature (e.g., Jensen and Meckling (1976), Morck, Shleifer and Vishny (1988), and Stulz (1988). In that literature, greater managerial ownership benefits shareholders because it increases managers' incentives to increase firm value. But when managerial ownership becomes too large, it enables managers to entrench themselves, so that firm value falls as managerial ownership increases beyond a certain point. These countervailing forces suggest two critical implications for the managerial ownership-share price relation; (i) the relation may not be monotonic and (ii) there is an optimal level of ownership. The finding in this study is in tandem with several studies point that the

link is not so obvious due to endogeneity of ownership and unobserved firm heterogeneity e.g. (Demsetz & Lehn, 1985). Similarly, mixed evidence are literature studying link between managerial ownership and share price. Gorton & Schmidt (2000) find a positive and non-linear relation in Germany while Thomsen, Pedersen, & Kvist (2006) found a negative relation in Continental Europe. The finding is at variance with that of McConnell, Servaes and Lins (2006). Gompers et al. (2003); Cremers and Nair (2005); Bebchuk et al. (2009) as these studies have found managerial ownership to significantly influence share prices. Investigating the dynamic relationship between ownership concentration and share price, we find that a change in the level of MGS (Δ MGS) has a negative (-0.932) and significant ($P=0.006$) effect on SP. This implies that a change in the level of managerial ownership will impact significantly on share prices. One period lag of MGS (MGS_{-1}) has a positive (1.085) impact on SP which is significant at 1% ($p=0.000$). Two period lag of MGS (MGS_{-2}) has a positive (0.091) impact on SP though not significant at 5% (0.501). This suggests that the market reacts to previous levels of managerial ownership especially the immediate preceding period.

Board independence: The evaluation of the regression result in table above shows that managerial ownership concentration has a negative and significant impact on Share price. Specifically, from the two stage least squares estimation controlling for endogeneity, the effect of BIN on SP appeared negative (-2.119) and also statistically significant at 5% ($p=0.036$). Consequently, we reject the hypothesis H_4 of no significant relationship between Board independence and stock price in Nigeria. The study finding is in tandem with several studies such as Agrawal and Knoeber, (1996) Daily and Johnson (1997) and Weir and Laing, (2001) which found a significant impact of board independence on share price but with a negative coefficient. In contrast, Weisbach, (1988) Fosberg, (1989), Hermalin and Weisbach, (1991) Mehran, (1995), Yermack, (1996), John and Senbet (1998) Bhagat and Black, (2001) provide empirical evidence that properly constituted boards with the right mix of non-executive directors tend to contribute more to firms market value than

boards with a predominance of inside directors with a positive coefficient of board independence variable. Some studies (Hayes et al. 2004; Hermalin and Weisbach, 1991; and Bhagat and Black, 2000) report no significant relationship between the fraction of outside directors serving on a committee and the firm market value.

Conclusion

An important body of research in empirical finance has been the behaviour of stock prices and especially the forces that influence the stock price movements. Stock prices and indeed asset prices in general are commonly believed to respond to information about a wide variety of anticipated and unanticipated events and that some events have a more pervasive effect on asset prices than do others. Thus there has been some level of curiosity about what could explain considerably the pattern of stock market returns. The aim of this study is to provide greater insight into how corporate governance mechanisms may influence stock price of companies quoted on the Nigerian Stock Exchange. An important novelty of this study that unlike most studies that ignored the possibility of endogeneity in the direction of causality, the study controls for potential endogeneity and examines certain corporate governance dynamics. Following the agency perspective, we argue that corporate governance leads to higher better long-term performance; and increase in stock price because managers are better supervised and agency costs are decreased. To assess our arguments, we examine if Audit committee size, Ownership concentration, Board independence, Managerial ownership Changes in ownership concentration impacts significantly on share price. Our study found the following; that Audit committee size does not exert any significant impact on share price, Ownership concentration exerts a significant impact on share price, the effect of Board independence on Share price is significant., Managerial ownership does not impact significantly on share price, changes in ownership concentration impacts significantly on share price and changes in managerial ownership exert a significant impact on share price.

Recommendations

The following recommendations are suggested;

1. The result from the study also opens up possible recommendations with regards to the level of market efficiency that exist in the Nigerian stock market. This is because the extent to which stock prices will respond to general news on corporate governance is determined by the level of market efficiency. Thus it is recommended that the regulators of the capital market should take steps to improve the information efficiency of the market.
2. For investors, fund managers and other stock market players interested in formulating the short and long run expectation regarding stock returns, the study recommends that based on the empirical evidence provided there is the need for these stock market players to incorporate corporate governance issues in their models for estimating the fair value of stock price return and evaluating the moderate/or long term performance of managed portfolios.
3. Thirdly, the tendency for stock market bubbles when it occurs has the potential to cause severe economic damage. This has necessitated the growing interest in governments (typically through their central banks) playing a more interventionist role in controlling asset price bubble. The study recommends that understanding the behaviour of corporate governance will be fundamental to minimizing the occurrence and where it is avoidable, the effect of market bubbles. The issue of corporate governance has recently been a subject of intense interest by academic researchers and management practitioners both at the national and International level. Consequently, there is a need to strictly enforce the Nigerian Securities and Exchange Commission (SEC) “code of corporate governance best practices” issued in November 2003 and also updated in 2007 and 2010. In addition, the study recommends that there may be a need to carefully consider firm specific factors in determining the corporate governance regulation as a “one size fits all” approach may not be optimal. This is because the literature indicates mixed evidence for corporate governance and firm performance when specific factors as firm size, complexity, industry of operation are controlled for

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