**THE IMPACT OF CORPORATE STRATEGY ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTIONS LISTED ON THE NIGERIA STOCK EXCHANGE**

**Abstract**

This study examines corporate strategy and financial performance of financial institutions listed on the Nigeria Stock Exchange. Financial performance is an important concept that relates to the way and manner in which human, material and financial resources available to an organization and is judiciously applied to achieve the overall corporate objectives. The main objective of the study is to examine the significant relationship between corporate strategies. The total population for the study is 200 staff of selected banks in Benin City, Edo State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resources managers, accountants, marketers and customer care officers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies.

 **CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Corporate strategy is part of managerial economics that described the scope and direction of an organization over a long period of time. Corporate strategy is the process of the overall scope and direction of a corporation and the way in which its various business operations work to achieve their goals. This project is concerned about the responsibility among different participants in different organization such as the board, managers, shareholders, and other stakeholder and spells out the rules and procedures for making decisions on corporate affairs. Financial performance is an important concept that relates to the way and manner in which human, material and financial resources available to an organization and is judiciously applied to achieve the overall corporate objectives (Young, 2003).Since the 1970, a growing number of studies have been going on linking corporate polices and performance with governance. The reason being that, allegations were not tested using the corporate governance variables and performance indices. Corporate scandals around the world in recent years contributed to raising awareness among managers, investors and regulators and in many countries to produce quantitative measures on governance, and estimate their impact on the decision-making process of firms. Hence, financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, European and Nigeria such as Adelphia, Enron, world’s corn, commerce banks and recently shaken investor’s confidence in the capital markets and the efficiency or existing corporate strategy practices in promoting transparency and accountability. This has revealed the need for practice of good corporate strategy and governance.

**1.2 STATEMENT OF THE PROBLEM**

Strictly speaking, corporate governance rest with the board which is expected to exhibit ethics, integrity and probity in ensuring that corporate affairs are in line with the corporate objectives. But what appears to be the thing is that financial institutions in developing countries are characterized by instability, tenure of office, ineptitude, share incompetence; inter personal disagreement and hostilities within the board which often lead to polarization of rank and file of staff (Kyereboad, 2007). More so, board members and top management staff often take advantage of this scenario and engage in arbitrage opportunities and rent seeking activities rather than planning for high corporate performance and survival strategies all of which are systematically involved in negative effect on the organization.

**1.3 OBJECTIVE OF THE STUDY**

The objective of the study is to examine corporate strategy and financial performance of financial institutions listed on the Nigerian stock exchange and the specific objective includes:

* To examine the significant relationship between corporate strategy and the financial performance.
* To ascertain the significant relationship between corporate strategy and financial institution.
* To determine the significant relationship between audit committee and investors.

**1.4 STATEMENT OF HYPOTHESES**

**Hypothesis One**

**HO:**There is no significant relationship between corporate strategy and the financial performance.

**HI:**There is significant relationship between corporate strategy and financial performance.

**Hypothesis Two**

**HO:**   There is no significant relationship exists between corporate strategy and financial institution.

**HI:**  There is significant relationship corporate strategy and financial institution.

**Hypothesis Three**

**HO:**There is no significant relationship between audit committee and investors.

**HI:**   There is significant relationship between audit committee and investors.

**1.5 SIGNIFICANCE OF THE STUDY**

Companies draw up financial plan to efficiently direct the change of an economy. The study is thus significant in the following ways;

**Firm:** This also help firms set themselves up for making sure corporate strategists seize market opportunities that emerge in the short and long terms without a sound, focused financial strategy, the financial institution may lack the occupational framework needed to motivate employees and improve their productivity importance.

**Security Exchange:**Securities exchange players keep across on company’s financial performance and corporate strategy takes an in-depth look at how accounting manager prepares financial statement, making sure the report adhere to regulatory guidelines in the Nigeria stock exchange

**1.6 SCOPE AND LIMITATION OF THE STUDY**

This scope of this study is to cover the sufficient evidence of relationship between corporate strategy and financial performance as a corner stone of an effective corporate strategy system in the Nigerian stock exchange. They go hand in hand although both concepts are distinct. The corporate strategy affect how senior leadership raise operating funds and spends corporate cash, decision that have ultimate impacts of the company’s profitability. Benin City, Edo State was used as the geographical location, using a time frame of 5 years (2009 – 2013). However, a sample size of 72 was used to yield effective result. Gary (2002) coined the term strategy convergence to explain the limitation of the strategic being used by rivals in greatly differing circumstances, he lamented that successful strategies are limited by firms that do not understand the strategy for the specific of each situation. But in the world where strategies must be implemented, the factors are interdependent means that are likely to determine end as end are to determine means. These factors are:

* Time frame as a result of the very short period, it has a difficult task in combining activities with going to the field to collect materials for the research work.
* Smallness in sample size.
* Inability to get a complete random sampling.
* Respondents might not disclose true fact about their organization.
* Finally was dearth of materials getting up to date, (i.e. materials for the research were a very big task.

**1.7 DEFINITION OF TERMS**

**1.     Corporate Strategy:**this is the overall scope and direction of a corporation and the way in which its various business operations work together to achieves particular goals.

**2.     Strategy:**This is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resource within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations.

**3.     Financial Performance:**This is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization, in keeps the organization in business and creates a greater prospect for future opportunities.

**4.     Corporate Governance:**This is the process affected by a set of legislative, regulatory, legal, market mechanisms, listing standard, best practices and effort of all corporate participants including auditors and financial advisors which create a system of checks and balance with the goals of creating and enhancing and sustainable value while protecting the interest of external environment.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

 **CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 INTRODUCTION**

The word governance is synonymous with the exercise of authority, direction and control. Zingales (1998) defined corporate governance as a group of mechanism that stakeholders use to guarantee that directors effectively manage corporate resources, a task that include the way in which quassi rents are developed and distributed. Metrick and Ishil (2002) see corporate governance from the investors’ perspective as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investments.” Grevning and Bratonovic (1999) stress the partnership approach to corporate governance in which each player has a defined accountability for specific dimension of every responsibility area. This extends to identification and allocation of task as part of corporate governance process. They identify six key players in the corporate governance to include the market regulations/supervisors, shareholders, board of directors, executive managements, audit committee, external auditors and the public/ consumers. Yermack (1996), in a review of the earlier work of Monks and Mino (1995), argues that large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change. A second reason for the support for small board size is that directors rarely criticize the policies of top managers and this problem tends to increase with the number of directors (Yermack, 1996; Lipton and Lorsch, 1992). Yermack (1996) examines the relation between board size and firm performance, concluding that the smaller the board size the better the performance, and proposing an optimal board size of ten or fewer. John and Senbet (1998) maintain that the findings of Yermack have important implications, not least because they may call for the need to depend on forces outside the market system in order to determine the size of the board. Oyejide and Soyibo (200l) review the corporate governance legislation In Nigeria focusing on the financial performance. Adams and Mehram (2002) study on a sample of bank holding, they examine the effect of “boardsize and "board composition” as measure of corporate governance on value. Their results explain the absence of robust relationship between board composition and value and a positive relationship between board size and value in contract with the abundant existing literature for non- financial firms. The result of Adams and Mehram (2002) indicates the inherent complexity of monitoring and advising financial entities. Two recent studies by Beltratti and Stulz (2010) and Fahlenbrach and Stulz (2011) analyze the influence of corporate governance on bank performance during the credit crisis. However, both studies rely on variables that have been used in the literature to analyze the relation between corporate governance and firm value of non-financial institutions. Specifically, Fahlenbrach and Stulz (2011) analyze the influence of CEO incentives and share ownership on bank performance and find no evidence for a better performance of banks in which the incentives provided by the CEO‟s pay package are stronger (i.e., the fraction of equity-based compensation is higher). In fact, their evidence rather points to banks providing stronger incentives to CEOs performing worse in the crisis. A possible explanation for this finding is that CEOs may have focused on the interests of shareholders in the build-up to the crisis and took actions that they believed the market would welcome. Ex-post, however, these actions were costly to their banks and their shareholders when the results turned out to be poor. Moreover, their results indicate that option-based compensation had no negative influence on bank performance, that bank CEOs did not reduce their stock holdings in anticipation of the crisis, and that CEOs did not hedge their holdings. Hence, their results suggest that bank CEOs did not anticipate the crisis and the resulting poor performance of the banks as they suffered huge losses themselves. Erkens, Hung, and Matos (2010) use an international sample of 296 financial firms from 30 countries. Consistent with Beltratti and Stulz (2010), they find that firms with more independent boards and higher institutional ownership experienced worse stock returns during the crisis. They argue that firms with higher institutional ownership took more risk prior to the crisis which resulted in larger shareholder losses during the crisis period. Moreover, firms with more independent boards raised more equity capital during the crisis, which led to a wealth transfer from existing shareholders to debt holders.

 **2.2 THEORETICAL FRAMEWORK**

The key paradigms that under pin the subject matter includes: the agency theory the stakeholder and the stewardship theories. The years attached to these theories appear extant, but they are very relevant in terms of their contributions to this study. Their contributions are hereby taken in turn.

**2.2.1 AGENCY THEORY**

Florackis and Ozkan, (2004) have acknowledged the fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on the modern corporation and private property of Berle and Means (1932). According to this thesis, the fundamental agency problem in modern firms is primarily due to the separation between finance and management. Firth, Fung and Rui, (2002) assert that modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who cannot be held accountable by dispersed shareholders. In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory? The principals are confronted with two main problems. Apart from facing an adverse selection problem because they are faced with selecting the most capable managers, they are also confronted with a moral hazard problem; they must give agents (managers) the right incentives to make decisions aligned with shareholder interests. In further discussion of agency relationships and cost Jensen and Meckling, (1976), described agency relationship as a contract under which “one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent”. In this scenario, there exist a conflict of interest between managers or controlling shareholders, and outside or minority shareholders leading to the tendency that the former may extract “perquisite” (or perks) out of a firm’s resource and be less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interest between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. Hardwick, Philip, Adams, Mike Zou and Hong, (2003). To increase firm value, one must therefore reduce agency costs. The following represent the key issues towards addressing opportunistic behavior from managers within the agency theory: (1) composition of board of directors: The board of directors is expected to be made up of more non executive directors for effective control. It is argued that this reduces conflict of interest and ensures a board’s independence in monitoring and passing fair and unbiased judgment on management. (2) Chief Executive Officer (CEO) duality: it is expected also that different individual occupy the positions of CEO and board chairperson as this reduces the concentration of power in one individual and thus greatly reduces undue influence of particular management and board members.

**2.2.2 STAKEHOLDER THEORY**

According to Donaldson and Preston, (1995), the concept of agency theory is narrow. This is because they identify shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, Mitchel, Wood and Agle, (1997) argue that, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholder in order to ensure that each interest’s constituency receives some degree of satisfaction. In separate contribution, Elkington, (2002) corroborate the fact that stakeholder theory therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituent; employees, banks, governance, relevant stakeholders. Related to the above discussion, Freeman and Evan, (1990) provide a comprehensive review of the stakeholders’ theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, Savage, Nix, Whitehead and Blair, (1991) proposed that companies are no longer the instrument of shareholder alone but exist within society and therefore, have responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and corporate to improve everyone’s position (Freeman, 2004). Friedman and Miles (2006) criticized the stakeholder theory for assuming a single-valued objective (gains that accrue to a firm’s constituencies). The argument of Friedman and Miles (2006) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other issues such as flow of information from senior management to lower ranks, inter personal relations, working environment, are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlighten stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Roberts and Mahoney, 2004).

**2.2.3 STEWARDSHIP THEORY**

This theory, arguing against the agency theory posits that managerial opportunism is not relevant (Donaldson, (1990a), Zahra and Pearce, (1989), Esienhardt, 1989,). According to the stewardship theory, a manager’s need of achievement and success are satisfied when the firm is performing well. One key distinguishing feature of the theory of stewardship is that it replaces the lack of trust to which agency theory refers with respect for authority and inclination to ethical behavior. Other contributors in this perspective include:

* Rechner and Dalton, (1988). According to them on the issue of Board of Directors, the involvement of non-executive directors is viewed as critical to enhance the effectiveness of the board’s activities because executive directors have full knowledge of the firm’s operations. Thus, it is believed that the appointment of non-executive directors will enhance decision-making and ensure the sustainability of the business.
* Leadership: contrary to the agency theory, the stewardship theory stipulates that the position of chief executive officer and board chair should be concentrated in the same individual, Williamson, (1985). The reason being that it affords the chief executive officer the opportunity to carry through decision quickly without the hindrance of undue bureaucracy. We must rather point out that this position has been found to create higher agency costs. The argument is that when governance structures are effectively working, there should not be undue bureaucratic delays in any decision making.
* Finally, Sullivan, (1988) argued that small board sizes should be encouraged to promote effective communication and decision-making. However, the theory does not stipulate a role for determining the optimal board size and for that matter what constitutes small?

**2.3 CONCEPT AND NATURE OF CORPORATE GOVERNANCE**

According to Rogers (2008), corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. Rogers (2008) further opined that, corporate governance is about how to build trust and sustain confidence among the various groups that make up an organization. There is no generally accepted definition of corporate governance which enjoys consensus of opinion in all settings and countries of the world. The concept is thus defined and understood differently in different parts of the world, depending on the relative power of owners, managers and providers of capital. In other words, a number of scholars have viewed corporate governance differently (Rediker, Seth, 1995; Shleifer, Vishny, 1997; and Cai, Keasey, Short, 2006). Maher, Anderson (1999) view corporate governance from two contrasting angles that is, the shareholder and the stakeholder model. Corporate governance in its narrowest sense (i.e. shareholder model) is used to describe the formal system of stewardship of the board to the shareholders. In contrast, in its widest sense (i.e. stakeholder model) CG is used to describe the network of relationships between an organization and its various stakeholders. However, it can be argued that there is no need for such a distinction since both the models have identified corporate governance as a network of relationships between a company and its public through which the board is held accountable. Similarly, the Cadbury Committee (1992) (as cited in Alexandra, Reed, Lajoux, 2005) defines corporate governance as the system by which companies are directed and controlled. The nature of corporate governance, therefore, going by this definition consists of two dimensions: direction and control. The direction side of corporate governance emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control side of the definition, on the other hand, emphasizes the responsibility of the board to oversee the executive management of the company in the execution of the plans and strategies

**2.4 CORPORATE GOVERNANCE IN NIGERIA**

Nigeria has a legal framework derived from British Common Law and similar commercial codes to deal with shareholders rights and minority protection. (Sam, Vimal, Artivor, 2003). The main corporate code is the Companies and Allied Matters Act of 2004 which requires, among other things, that directors of every company must prepare and present financial statements (e.g. fiveyear summaries, balance sheets, profit and loss accounts) on an annual basis. It further gives outlines of various disclosure requirements like the disclosure of director’s emoluments and any interest the directors have in transactions with the company.

**2.5 THE STATE OF CORPORATE GOVERNANCE FOR BANKS IN NIGERIA**

In Nigeria, there is a number of corporate governance provisions that every company is required to abide by. Specific provisions were made for the guidance of the operations of banks in Nigeria. In the banking sector, listed bank must with the provision of the Companies and Allied Matters Act (CAMA) 2004, the Banks and Other Financial Institutions Act (BOFIA) 1991, the Investment and Securities Act (ISA) of 1999, the Nigerian Deposit Insurance Corporation (NDIC) Act 1988, the CBN Act of 1991, the various prudential guidelines issued by the CBN, the listing requirements of the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission (SEC) Rules and SEC Code of Corporate Governance, 2004. In 2006, the Central Bank of Nigeria (CBN) produced the code of corporate governance for banks in Nigeria’s post consolidation era which banks must also abide by Wilson, (2007), similarly, accounting Standards (SASs) and is to comply with the requirements of the relevant company laws. Each of these statutes imposes strict requirements on a bank to establish or identify, document, test, and monitor the internal control processes. The main regulators for listed banks are the CBN, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Corporate Affairs Commission (CAC) and the National Insurance Commission (NICON) of Nigeria. The SEC code of corporate governance 2004 for Publicly Listed Firms in Nigeria, produced by the Atedo Peterside led committee, precedes the CBN code of corporate governance for banks and other financial institutions 2003. The Code made provisions for best practices to be followed by publicly quoted companies registered in Nigeria. It is meant to exercise power over the direction of the enterprise; the supervision of executive action; the transparency and accountability in governance of the companies within the regulatory framework and market; and for other purposes connected therewith. Similarly, the Code made provisions covering the responsibilities of the board of directors and its composition; the positions of the Board chairman and Chief Executive Officer; proceedings and frequency of meetings; Board duties, the positions of the Executive Directors and Non-Executive Directors; compensation of board members, reporting and control, shareholders‟ rights and privileges. Others are institutional shareholders; the audit committee, its composition, qualification and experience of its members, its terms of reference and conduct of meetings. Thus, it is clear that the component of corporate governance that enjoys greater coverage by the Code is the Audit Committee. The following provisions as contained in the code of corporate governance of 2004 issued by the SEC for listed companies in Nigeria are found relevant to this study:

**2.6 CODES OF CORPORATE GOVERNANCE**

Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country’s governance systems by recommending a set of norms aimed at improving transparency and accountability among top managers and directors. (Hamid, 2009) In most legal systems, codes of good governance have no specific legal basis, and are not legally binding (Wymeersch, 2006). Thus, enforcement is generally left to the board of directors and external market forces. It is only in a few countries (e.g. Nigeria- in the case of the corporate governance for banks, Germany and the Netherlands in Europe) that the law attaches explicit legal consequences to the codes. Even if, compliance with code recommendations is traditionally voluntary (i.e. based on the “comply or explain” rule), empirical evidence shows that publicly quoted companies tend to comply with the codes more than non-quoted firms (Comyon, Mallin 1997; and Gregory, Simmelkjaer, 2002). Consequently, Fernandez-Rodriquez et al. (2004)” study suggests that the market reacts positively to announcements of compliance with the codes. The content of codes has been strongly influenced by corporate governance studies and practices. This is because, they touch fundamental governance issues such as fairness to all shareholders, accountability by directors and managers, transparency in financial and non-financial reporting, the composition and structure of boards, the responsibility for stakeholders‟ interests, and compliance with the law (Gregory, Simmelkjaer, 2002). Since, the core of codes of good governance lies in the recommendations on the board of directors. However, following the dominant agency theory (Fama, Jensen, 1983) governance codes encourage the board of directors to play an active and independent role in controlling the behavior of top management. In particular, scholars and practitioners (Lorsch, Maclver, 1989; Demb, Neubauer, 1992; Charan 1998; and Conger, Lawler III, Finegold, 2001) recommend for increasing number of nonexecutive and independent directors; the splitting of Chairman and CEO roles; the creation of board committees (audit, credit and risk management, financial and general committees) made up of non-executive independent directors; and the development an evolution procedure for the board. The introduction of these practices is considered necessary factors in order to avoid governance problems, and to increase board and firm performance. In the next section, effort is made to explain the state of corporate governance in the Nigerian banking industry with a view to highlighting the efforts made by the regulatory authorities to ensure that best practice prevails in the industry.

**2.7 RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FIRM’S FINANCIAL PERFORMANCE**

Findings from various studies examined show that as cited in Hamid (2009) include those of Dalton, Ellstran, Johnson (1998) who carried out a metal-analysis of 54 empirical studies of board composition and 31 empirical studies of board leadership structure to ascertain their relationship with firm’s performance. Consequently, the study found little evidence of a relationship between board composition and leadership structure on one hand, and firm financial performance on the other. Furthermore, in a study of 526 Korean firms by black, Jang, Kim (2003), an attempt was made to find whether there is a significant relationship between corporate governance and share prices. The findings of the study show that there is a significant relationship between corporate governance and share prices, i.e. firms with better corporate governance structure. This is similar to the findings made by Gompers, Ishii, metric (2003), that firms with sound corporate governance practices enjoy higher valuations, higher profits and higher sales growth. In Nigeria, Hamid (2009), assesses the relationship between corporate governance and internal control system in the Nigerian banking industry, by relating activities at the level of the board with those at the level of management, with a view to understanding how the effectiveness of control mechanism can be enhanced, corporate scandals, frauds, and failures minimized, different risk exposure of banks mitigated, shareholders‟ wealth maximized, assets of depositors, shareholders and creditors protected and the value of banks enhanced. The study found out that a significant relationship exists between power separation and internal control system of bank in Nigeria. Sanda, Mikailu, Garba (2004) obtained data from 101 firms listed on the Nigerian stock exchange from the 1999 database of a Lagos-based stock broking firm and the Fact Book of the NSE for 2000 and used the correlation and regression analysis to examine the relationship between director shareholding, board size and firm financial performance in Nigeria. However, the evidence from the study suggested no significant relationship between director equity ownership and firm performance and a negative relationship between board size and firm performance. Other are those of Musa (2006), who uses the ordinary least squares with data obtained from 11 out of the 28 banks listed on the NSE as at December, 2003, examined the impact of corporate governance on the performance and value of banks in Nigeria. Accordingly, the evidence from the study suggested that corporate governance has a significant impact on the performance of banks in Nigeria, as measured by return on equity. The findings also suggested that power separation has a significantly positive impact on performance while board composition and board size have a significantly negative impact on performance. Kajola (2008) examines the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of twenty Nigerian listed firms between 2000 and 2006. The findings show that significant relationship exists between corporate governance and firm’s performance. The review of the empirical literature on corporate governance reveals that there is the need for separation of power between the position of the board chairman and the CEO in order to enhance independence of the board to serve as an effective monitoring device. Evidence from empirical studies on board size produced both positive relationships with the quality of managerial decisions, and the relation between board committees and board effectiveness and efficiency also produced mixed results. Similarly, findings have generally shown that the greater the stock of insider top management, the smaller the incentive to indulge in management fraud and hence the smaller the possibility of fraud. It can therefore be concluded that the relationship between corporate governance and firm’s specific variables is not absolute but relative. The chapter also concludes that even though there are a number of corporate governance provisions that every bank in Nigeria is required to abide by this include among others: CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Corporate Affairs Commission (CAC) and the National Insurance Commission (NICON) of Nigeria, SEC code of corporate governance 2004 and code of corporate governance for banks 2006 post consolidation. The result of the weakness in corporate governance before has been the need for greater regulatory functions. The policy initiation and management cannot be conceive by single person, hence the need of separation of power. The custody of a complete transaction is essential in avoiding fraud and other losses and risk exposure of banks. Similarly, the presence of good corporate governance in organization is likely to ensure that sound and effective assets protection. The major objective of the reforms in the Nigerian banking industry over the last decades was to enhance the safety of deposits with a view to sustaining the confidence of depositors and other stakeholders and to enable Nigerian banks to become native domestic and global players in financial market. Greater oversight function is needed from regulators for the attainment of the reforms objectives. Corporate fraud in the Nigerian banking sector has remained high despite greater surveillance by the supervisory authorities. This in essence signals the sheer weaknesses in corporate governance practices on one hand and the deteriorating worker moral values on the other hand.

**2.8 MEASURING FIRM PERFORMANCE**

Firm performance is studied and measured by different researchers (Shah et al., 2011; Matolcsy & Wright, 2011;Yasser et al., 2011) using different measures. Matolcsy & Wright (2011) measured firm performance by ROA (Return on Assets= EBIT / Average total Assets in book value -), ROE (Return on Equity=net profit / equity -in book value -), Change in market value of equity, Change in market value of equity, adjusted for dividends and risk). Yasser et al. (2011) used return on equity (ROE) and profit margin (PM) for the measurement of firm performance. Market based measures of companies’ performance were done by Shah et al. (2011) by Market value of equity divided by book value of equity and Tobin’s Q (market value of equity + book value of debt/total of assets - in book value -), whereas financial reporting perspective was measured by ROE and Return on investment (net result + interest) / (equity +total debt). Bhagat & Black (1999) measured dependent variable firm performance by Tobin's Q, Return on assets (Operating income/Assets), Turnover ratio (Sales/Assets), Operating margin (Operating income/Sales), Sales per employee and also by Growth of Assets, Sales, Operating income, Employees and Cash flows. The study was focus on those measures that are strategically important for the success of the company. In that direction, the study would measure the financial performance of the companies by looking at profitability (Return on Assets, Return on Equity and Dividend Yield)

**2.9 BOARD COMPOSITION AND FIRM PERFORMANCE**

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors (Shah et al., 2011). At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring. Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasly, 1996).A board composed of members who are not executives of a company, nor shareholders, nor blood relatives or in law of the family (Gallo, 2005). An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a company. Dalton,Daily, Ellstrand, & Johnson (1998) saw Jacobs (1985) stating that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers).

 **2.10 BOARD SIZE AND FIRM PERFORMANCE**

Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. They argued that when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities. Vafeas (2000) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Echoing the above findings, Mak and Yuanto (2003) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consists of five members. Bennedsen, Kongsted and Nielsen (2004), in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more. Bhagat and Black (2002), found no solid evidence on the relationship between board size and performance. In an attempt to compare the effects of board structure on firm performance between Japanese and Australian firms, Bonn, Yokishawa and Phan (2004) found that board size and performance (measured by market-to-book ratio and return on assets) was negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms the ratios of outside directors and female directors to total board numbers have a positive impact in the Australian sample (Bonn, 2004). Contrary to the above findings, a positive impact on performance was recorded with larger board size by Mak and Li (2001) and Adams and Mehran (2005); however, in examining 147 Singaporean firms from 1995 data, Mak and Li (2001) support the argument that board structure is endogenously determined when the results of their OLS indicate that board size, leadership structure and firm size have a positive impact on firm performance but their 2SLS regressions do not support this result. Adams and Mehran (2005) found a positive relationship between board size and performance (measured by Tobin’s Q) in the U.S banking industry. Adam and Mehrans results suggest that such performance relationship may be industry specific, indicating that larger boards works well for certain type of firms depending on their organizational structures.

 **CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to impact of corporate strategy on financial performance of financial institutions listed on the Nigeria stock exchange

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information impact of corporate strategy on financial performance of financial institutions listed on the Nigeria stock exchange. 200 staff of selected banks in Benin City was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | HRMs | 37 | 27.8 | 27.8 | 27.8 |
| Accountants  | 50 | 37.6 | 37.6 | 65.4 |
| Customer care officers  | 23 | 17.3 | 17.3 | 82.7 |
| marketers  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 The above tables shown that 37 respondents which represents27.8% of the respondents are human resource managers 50 respondents which represents 37.6 % are accountants 23 respondents which represents 17.3% of the respondents are customer care officers, while 23 respondents which represent 17.3% of the respondents are marketers

**TEST OF HYPOTHESES**

There is no significant relationship exists between corporate strategy and financial institution.

 **Table III**

|  |
| --- |
| **There is no significant relationship exists between corporate strategy and financial institution.** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | There is no significant relationship exists between corporate strategy and financial institution.  |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis that there is no significant relationship exists between corporate strategy and financial institution as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that there is significant relationship exists between corporate strategy and financial institution.

**TEST OF HYPOTHESIS TWO**

 There is no significant relationship exists between corporate strategy and financial institution

Table V

|  |
| --- |
|  **There is no significant relationship exists between corporate strategy and financial institution** |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | There is no significant relationship exists between corporate strategy and financial institution  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state there is no significant relationship exists between corporate strategy and financial institution as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state  there is significant relationship exists between corporate strategy and financial institution

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain impact of corporate strategy on financial performance of financial institutions listed on the Nigeria stock exchange

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges impact of corporate strategy on financial performance of financial institutions listed on the Nigeria stock exchange

**5.2 Summary**

This study was impact of corporate strategy on financial performance of financial institutions listed on the Nigeria stock exchange. Three objectives were raised which included: to examine the significant relationship between corporate strategy and the financial performance, to ascertain the significant relationship between corporate strategy and financial institution, to determine the significant relationship between audit committee and investors. In line with these objectives, three research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of selected banks in Benin City, Edo State. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resources managers, accountants, marketers and customer care officers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**5.3 Conclusion**

The study thus concludes that composition of the board positively influence the financial performance of companies listed to a great extent. From the findings on effects of CEO duality on the financial performance of listed firms, the study found that various aspect of CEO duality positively influenced the financial performance of firms listed to great extent. Thus the study concludes that separation of the role of CEO and Chair positively influenced the financial performance of firms listed to great extent. From the findings on effects of Leverage on the financial performance of listed firms, the study established that leverage of the firm positively influenced the financial performance of firms listed.

**5.4 Recommendation**

Based on the conclusions, this study recommends as follows:

* Shareholders of banks operating in Nigeria should ensure that their banks‟ boards of directors comply with the provisions of the CBN codes of corporate governance, as well as other statutes. Although, the code of corporate governance 2006 allowed banks in Nigeria to have a board size of up to a maximum of seven (7) directors, microfinance banks should be cautious in unnecessarily enlarging the size of their boards beyond the optimum level, since optimum is relative but not absolute. A board size of 5 members, subject to the maximum of 7, as allowed by the code of corporate governance 2006, is recommended.
* Corporate governance should be used as a tool to help stem the tide of distress, as it entails conformity with prudential guideline of the government.
* Even though a lot of researches have been undertaken on this area, the relationship between corporate governance and financial performance in other sectors of this Nigerian economy requires more research effort. There the need to conduct of same research using a different source of data, employing similar or different corporate governance and financial performance proxies, and using similar or different scales of measuring variables and techniques for data analysis. Further research in these areas can complement this study and as well bring about improvement in corporate governance practices and better financial performance measures in the Nigerian microfinance banking industry.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A {male} { }

B {female} { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }
16. Others…………………..
17. How long have your company been registered as a financial institution?
18. 0-2 years { }
19. 3-5 years { }
20. 6-11 years { }
21. 11 years and above……….
22. Occupational position of respondents
23. Manager { }
24. Senior staff { }
25. Junior staff { }
26. Others { }
27. How long have you been working with the financial institution?
28. 0-2 years { }
29. 3-5 years { }
30. 6-11 years { }
31. 11 years and above……….

SECTION B

1. Corporate strategy has no impact on financial performance
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is no significant relationship between corporate strategy and financial institution?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. There is no relationship exists between audit committee and investors?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Corporate strategy on financial performance have effect on Nigeria stock exchange
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Corporate strategy does not improve financial institution
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Corporate strategy improve others institution
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. Corporate strategy plan for the future of any financial institution
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }
36. Corporate strategy measure the financial strength of any financial institution
37. Agreed { }
38. Strongly agreed { }
39. Disagreed { }
40. Strongly disagreed { }
41. There is relationship between strategic planning and financial performance
42. Agreed { }
43. Strongly agreed { }
44. Disagreed { }
45. Strongly disagreed { }
46. Lack of financial planning affect financial institution
47. Agreed
48. Strongly agreed
49. Disagreed
50. Strongly disagreed
51. Financial institution depends on corporate strategy planning
52. Agreed
53. Strongly agreed
54. Disagreed
55. Strongly disagreed
56. Lack of corporate strategy in financial institution effect Nigeria economy
57. Agreed
58. Strongly agreed
59. Disagreed
60. Strongly disagreed
61. Investors depends on financial institution
62. Agreed
63. Strongly agreed
64. Disagreed
65. Strongly disagreed.