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Effects of Corporate Governance Attributes on Chief Executive Officer Compensation among Selected Nigerian Banks

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Abstract

CEO remuneration has attracted the attention of investors, the press, regulators, analysts, and academics in recent years. This is especially true given the assumption that CEOs have amassed wealth. Concurrently, their companies' fortunes continue to decline. Due to mounting concerns about the excessive spending and reckless lifestyles of many bank executives, the question of CEO compensation has become a recurring topic of discourse among many researchers, especially as previous empirical studies have remained inconsistent and inconclusive. This study extends prior research by examining the influence of corporate governance practices on executive compensation by listed companies in Nigeria. The study examines the impact of corporate governance attributes and firm performance on the CEO compensation of *publicly traded Nigerian banks between 2011 and 2020*. The *corporate governance attributes were proxied by CEO age, CEO tenure, and board size, while firm performance was measured by return on equity (ROE) and return on capital employed (ROCE). The fixed-effect regression technique was used to investigate the association between the independent and dependent variables. A sample size of 9 banks was chosen from a population of 22 commercial banks. The findings showed that ROE and board size significantly positively influences CEO remuneration. Furthermore, CEO age and tenure have no significant effect on CEO compensation. This study recommends that the board size be maintained* at a *manageable size for effective and efficient business operations. This is because a larger size may lead to ineffective decisions due to poor communication and coordination.*

Keywords: Firm Performance; Return on Assets; CEO Age; CEO tenure; Board Size; fixed effect regression

Introduction

The amount of remuneration and the degree to which chief executive officers (CEOs) are compensated based on financial performance have been the subject of substantial debate in both the academic and business worlds. Those who were critical of CEO pay practices said that since the board of directors is influenced by the CEO, the board does not arrange the CEO's remuneration package in a way that best serves the interests of the investors.

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In today's global economy, corporate governance is a hot topic because it puts a company in a strong position to attract investors due to its ability to ensure long-term viability and market dominance. To achieve this, the board's structure and compensation, especially for the Chief Executive (CEO), are critical. CEO pay must be structured so the organisation can strategically attract the most qualified individuals to manage the company's affairs. Reliable and accurate market data is essential for determining a compensation plan that aligns with the company's goals and competitive advantage. When shareholders have access to reliable and accurate data, they can compel directors to act in their best interests, mitigate agency issues, and gain critical insight into the various options available for meeting their board of directors' compensation expectations (Otekunrin et al., 2018).

According to agency theory, the separation of ownership and management power in publicly traded firms often permits managers to engage in opportunistic behaviour (Raithatha & Komera, 2016). The "agency problem" emerges when managers prioritise their interests above the interests of the company's stockholders (Adjei- Mensah et al., 2015).

Several studies within the context of agency theory have argued that to curb managers' excesses, shareholders' interests should be aligned with managers' interests via a well-structured compensation plan that links managers' pay to performance (Olalekan & Bodunde, 2015; Al-najjar, 2017). Consequently, empirical studies have highlighted the significance of chief executive officer (CEO) compensation as an internal mechanism of corporate governance in publicly traded companies, intending to align the interests of shareholders with those of the CEO (Tosi, Werner, Katz, & Gomez-Mejia, 2000; Kim & Gu, 2005).

For decades, the question of how much remuneration should be paid to top management to attract, motivate, and retain them to maintain the firm's competitive edge and assist it in achieving its shareholders' wealth maximisation objective has been the subject of debate (Ogbeide & Akanji, 2016). The Nigerian corporate governance code does not outline executive pay strategies, methodologies, or the justification for executive compensation determinations. This void has enabled publicly traded firms' compensation committees to seem readily persuaded by board members to determine the amount of compensation that suits them. Most of the time, this is done without regard to the stockholders. Individuals are fighting for board membership positions at any cost due to the enormous compensation packages provided to CEOs and board members,

as well as the immense influence bestowed on them by their respective firms (Aroh et al., 2018; Edeh, 2020).

Research Problem

Several African governments, such as Kenya, Nigeria, and Zambia, have identified good corporate governance as a precondition for economic growth. Using firm-level data on corporate governance ranking across 14 developing nations, including South Africa, Klapper and Love (2004) demonstrated that greater corporate governance standards were strongly connected with higher market value and organizational performance.

The Nigerian banking sector experienced some accounting scandals in 2009 (for instance, at Oceanic Bank, Afri Bank, Union Bank, Fin Bank, and Spring Bank). This was due to the board of directors' lack of vigilance in their oversight tasks, the board ceding authority to corporate managers who pursue their own self-interests, and the board being negligent in its responsibility to stakeholders (Ozegbe, 2017). These financial scandals prompted Nigeria's Securities and Exchange Commission (SEC) to set up a national committee in September 2008 to review Nigeria's 2003 Code of Corporate Governance for Public Companies, enhance the enforcement system, and fix code flaws (SEC, 2011).

The issue of how much senior executives should be paid to recruit, motivate, and retain them to maintain the firm's competitiveness and maximise shareholder value has remained controversial. Hence, scholars in developing nations have given little consideration to CEO compensation based on firms' performance (Hengartner, 2006; Ismail et al., 2014). In recent years, the increase in CEO remuneration has garnered considerable attention, particularly in the wake of the corporate failures that characterised American corporate giants such as Enron, Tyco, and WorldCom. The growing attention is a consequence of the view that CEO pay is unrelated to company performance and that the board of directors is ineffective at overseeing executives (Bebchuk et al., 2006; van Essen et al., 2015).

Previously published empirical studies on the association between CEO compensation and business performance in Nigeria have been inconclusive. For example, Omoye and Ogiedu (2016), Edeh (2020) and Saidu and Lawal (2020) reported a significant positive effect of executive compensation on firm performance. Conversely, Olaniyan (2015), Olaniyi and Obembe (2017), and Ibeawuchi and Onuora (2021)

reported significant negative effects. Yet Aroh, Aroh and Odum (2018), Omotola and Akrawah (2019) and Omoregie and Kelikume (2019) reported insignificant effects.

As a result of these contradicting findings, it has become necessary to revisit this area of interest to determine the effect of CEO characteristics, board size, and firm performance on CEO compensation of publicly traded Nigerian banks.

Research Objectives

This study aims to determine the Corporate Governance Attributes and Firm Performance on Chief Executive Officer (CEO) Compensation of selected Nigerian Banks. The specific objectives are as follows:

a) To examine the effect of firm performance on the CEO compensation of publicly traded Nigerian banks.
b) To explore the influence of board size on the CEO compensation of publicly traded Nigerian banks.
c) To investigate the impact of CEO age on the CEO compensation of publicly traded Nigerian banks
d) To examine the effect of CEO tenure on the CEO compensation of publicly traded Nigerian banks

Literature Review

The study is based on the agency theory. Over time, the agency theory has gained significance in describing the relationship structure that occurs in the ownership and administration of organisations in which shareholders (principals) hire executives (agents) to manage the business's activities (Erick et al., 2014; Olalekan & Bodunde, 2015; Adams & Jiang, 2016). The agency theory is based on the relationship and the difficulty that arises between both sides. Even though both shareholders and executives share the aim of maximising wealth, their goals may not align, which can cause a conflict of interest (Fong et al., 2010; Ozkan, 2011). In accordance with Eisenhardt (1989), Mitnick (2011) classified agency problems into three categories: the principal's problem of getting agents to act to accomplish its goal, the agent's problem of deciding whether to act in the principal's interest, his own interest, or in the direction of a compromise in the event of a conflict, and mechanisms and incentives for monitoring agents' discretionary behaviour.

Jensen and Meckling (1976), Eisenhardt (1989), Jensen and Murphy (1990), Cuevas-Rodríguez et al. (2012), and Bosse and Phillips (2016) posited that the agency theory aims to balance shareholder and executive interests via incentives and oversight. A persistent challenge is determining an effective

mechanism for establishing incentives for executives to guarantee that they operate in the shareholders' best interests and increase business performance.

Empirical Review

Abed, Suwaidan and Slimani (2014) used Ordinary Least Squares (OLS) to examine the factors that influence CEO remuneration for a sample of 266 industrial companies listed on the Amman Stock Exchange from 2005 to 2010. They found a significant positive relationship between CEO tenure and compensation for CEOs. They also discovered a significant negative correlation between CEO age and CEO remuneration. However, board size and performance, as measured by ROA, have no significant effect on CEO remuneration.

Al-najjar (2017) examined the influence of board structures and CEO attributes on CEO remuneration for a sample of 260 publicly traded UK travel and leisure firms using the fixed-effects model. The findings demonstrated a significant positive correlation between CEO age and compensation. Additionally, the study discovered a significant negative link between the size of the board of directors and CEO compensation. However, CEO tenure does not affect CEO compensation.

Olaniyi and Obembe (2017) investigated the drivers of CEO pay at 11 publicly traded Nigerian banks from 2005 to 2012, using a dynamic panel generalized method of moments (GMM). The findings indicate that board size and CEO age have no significant influence on CEO remuneration. Additionally, research showed a significant positive association between CEO tenure and CEO pay. However, they discovered a significant negative association between CEO compensation and bank performance as measured by earnings per share (EPS).

Khaled (2020) used the fixed-effect model to investigate the relationship between CEO pay and the financial performance of 25 industrial companies listed on the Amman Stock Exchange (ASE) from 2010 to 2017. The findings showed a positive and statistically significant correlation between CEO age and CEO compensation. Additionally, results revealed a significant negative association between CEO compensation and financial performance as evaluated by ROA and EPS.

Patnaik and Suar (2020) estimated the influence of corporate governance on CEO salary for a sample of 282 Indian manufacturing enterprises from 2013–14 to 2018–19. The results showed a significant negative association between board size and CEO pay. Furthermore, they found that financial performance measured by ROA does not impact CEO pay.

Methodology

The study employed secondary data. The data were obtained from the selected firms' annual financial statements and accounts. We chose nine (9) commercial banks listed on the Nigerian Exchange Group (NGX) for our research based on data availability from 2011 to 2020.

Model Specification

Following Kurawa and Saidu's (2014) research. The panel multiple regression model with an error term (μ) is as follows:

$CCO_{it} = \gamma_0 + \gamma_1 PFM_{it} + \gamma_2 SIZ_{it} + \gamma_3 AGE_{it} + \gamma_4 TEN_{it} + \gamma_5 FSI_{it} + \mu_{it}$

Where:

CCO = CEO compensation

PFM = Firm Performance,

SIZ = board size

AGE = CEO age

TEN= CEO age

FSI = firm size (control variable)

μt = error term

γ_0, γ_1, γ_2, γ_3 and γ_4 = Parameters

Measurement of Variables

Variable	**Measurement**	**Sources**
Independent Variable		
CEO Compensation (CCO)	The chief executive officer's annual salary	Olaniyi and Obembe (2017) Omoregie and Kelikume (2019)
Dependent Variables		
Firm Performance **(**PFM)		
ROE	Net income over shareholder equity	Akinwunmi (2020), Saidu and Lawal (2020) and Olaniyi et al. (2017)
ROCE	EBIT/average assets	Guy (2000) Balafas and Florackis (2014)
Corporate Governance		
Board Size (SIZ)	The total number of directors on the board	Ogbeide and Akanji (2016) and Olaniyi and Obembe (2017)
CEO Age (AGE)	Chief Executive Officer's age	Abed et al. (2014) Al-najjar (2017)
CEO Tenure (TEN)	The number of years that the CEO has been in his current position as CEO	Kevin Sigler (2011) Abed et al. (2014)
Control Variables		
Firm Size (FSI)	Total assets of the companies.	Kurawa and Saidu (2014) and Olaniyi and Obembe (2017)

Results and Discussions

Descriptive statistics for the ten commercial banks

The sample consists of 9 commercial banks listed on the NGX from 2011 to 2020.

Table One: Descriptive statistics of Variables

Variables	Mean	Median	Min	Max
Dependent variable				
Compensation (#000)	117,000	102,000	8538	400,000
Independent variables				
ROE	6.9615	11.6233	- 394.3182	32.0796
ROCE	6.52184	4.11945	-19.4459	48.0914
Board Size	14.2889	14.0000	6.0000	21.0000
CEO Age	51.7667	52.0000	39.0000	59.0000
CEO Tenure	4.3111	4.0000	1.0000	12.0000
Control variable				
Firm Size	28.32560	28.3773	26.12214	29.79201

According to Table one, the average CEO remuneration is N117,000,000. Additionally, the maximum pay for CEOs is N400,000,000, while the lowest is N8,538,000. The average annual salary for the CEO of a Nigerian bank is N171,000,000. The return on equity (ROE) has a maximum value of 32.0796 and the lowest value of -394.3182. The average ROE is 6.9615. The return on capital employed (ROCE) has a maximum value of 48.0914 and the lowest value of -19.4459. ROCE has a mean value of 6.52184. The average board size of Nigerian banks is 14, while the maximum board size is 21. The average CEO age in Nigerian banks is 52 years old, with a minimum age of 39 and a maximum age of 59 years. The average term of a CEO in Nigerian banks is four years, with the smallest tenure being one year and the maximum tenure being twelve years.

Correlation Analysis

Correlation analysis is used to determine the presence of correlation between the independent variables. Table two shows the correlation matrix of independent and control variables. The highest correlation coefficient is found between company size and return on equity (ROE), which indicates that there seems to be no multicollinearity among the independent variables.

Table Two: The Correlation Matrix

	ROE	ROCE	BDS	CEO Age	CEO Tenure	Firm Size
ROE	1.0000	0.3312	0.14359	-0.0344	0.0297	0.4026
ROCE	0.3312	1.0000	0.0710	-0.2351	0.0470	0.2326
Board size	0.1436	0.0710	1.0000	-0.1201	0.1771	0.1097
CEO Age	-0.0344	-0.2351	-0.1201	1.000	0.1517	0.0706
CEO Tenure	0.0297	0.0470	0.1771	0.1517	1.000	-0.1666
Firm size	0.4026	0.2326	0.1097	0.0706	-0.1666	1.0000

Hausman Test

The Hausman test was used to select the most acceptable model between random-effect and fixed-effect. The rule of thumb for the Hausman test is that if the P-value is less than 0.05, the fixed-effect result is to be used, and random-effect if otherwise. Based on table three, the random-effect regression result is more appropriate, as shown by a P-value of 0.6127, which is greater than the 5% significance level.

Table Three: The Hausman test.

Test Summary	Chi-Sq. Statistic	P-value
Cross-section random	4.474886	0.6127

Econometric Analysis

This segment discusses the result from the panel estimation based on random regression.

Table Four: Fixed Effect Result

Variable	Coefficient	T-Stat	P-value
Constant	2.9878	1.0157	0.3127
ROE	0.0050	4.976329	0.0000
ROCE	-0.0182	-2.7788	0.0067
Board Size	0.0630	3.2063	0.0019
CEO Age	0.0166	1.0029	0.3188
CEO Tenure	0.0029	0.1796	0.8579
Firm Size	0.4840	4.1489	0.0001
R-squared	0.558103		
F-statistic Prob(F-statistic)	17.4711 0.0000		

The multivariate analysis results in table four indicate that the F-statistics is positive and statistically significant at the 5% level. It implies that the coefficients of the four independent variables will account for considerable variance in the CEO compensation of the selected Nigerian banks. The R^2 value of 56%; suggests that the four independent factors may explain at least 56% of the variability in the CEO salary of the studied Nigerian banks.

Return on Equity (ROE): The findings show a significant positive link between ROE and CEO remuneration of Nigerian listed commercial banks, as shown by a coefficient of 0.0050 with a P-value of 0.0000 at the 5% significance level. This result is supported by Omoye and Ogiedu (2016), Edeh (2020) and Saidu and Lawal (2020) 's findings. They reported a significant positive relationship between executive compensation and firm performance. However, The positive relationship contradicts the findings of Olaniyan (2015), Olaniyi and Obembe (2017) and Ibeawuchi and Onuora (2021). They reported a significant negative relationship between executive compensation and firm performance.

Return on Capital Employed (ROCE): The correlation coefficient between the ROCE and CEO compensation is negative (-0.0182) and is significant at 5%. This result is supported by Radav's (2017) and Hall and Coetzee's (2020) findings. Radav (2017) found a negative association between ROCE and female director remuneration in a sample of 407 firms listed on the Bombay Stock Exchange. Moreover, Hall and Coetzee (2020) showed a negative relationship between ROCE and CEO remuneration in a sample of 30 companies listed on the Johannesburg Stock Exchange (JSE). This result, however, contradicts Keše's (2014) finding of a positive, significant association between ROCE and CEO pay for a sample of 100 publicly traded Czech firms.

Board Size (SIZ**):** The correlation coefficient between the SIZ and CEO compensation is positive (0.0630), indicating a positive relationship between the BDS and CEO compensation. The relationship between the SIZ and CEO compensation is significant at 5%. This positive relationship is consistent with the findings of Core et al. (1999), who also found a significant positive relationship between board size and CEO compensation. However, the results contradict the findings of Al-najjar (2017) discovered a significant negative link between the size of the board of directors and CEO salary.

CEO Age (AGE): The correlation coefficient between CEO age and CEO compensation is positive (0.0166) but insignificant at 5%. This result is reinforced by the findings of Laing and Weir (1999). They found an insignificant association between CEO age and CEO remuneration for a sample of 125 of the top British corporations. However, this result contradicts Abed et al.'s (2014) finding of a negative, significant association between CEO age and CEO pay for a sample of 266 publicly traded Jordanian firms.

CEO Tenure (TEN): The correlation coefficient between CEO tenure and CEO compensation is positive (0.0029) but insignificant at 5%. This insignificant relationship is consistent with the findings of Henderson and Fredrickson (1996) and Laing and Weir (1999). They found an insignificant association between CEO tenure and CEO remuneration for a sample of 189 US-listed firms. However, this result contradicts Abed et al. (2014) finding of a positive, significant association between CEO age and CEO pay for a sample of 266 publicly traded Jordanian firms.

Conclusions and Recommendations

The research design used in this study was ex post facto. The twenty-two (22) commercial banks listed on the NGX as of December 31, 2021, formed the study's population. Because of the data availability, the researchers used a sample size of nine (9) publicly traded commercial banks. The data were gathered from the sample banks' annual reports and financial statements. Panel estimation technique Random-effect was used to test the hypotheses.

From the findings of this study, the size of the board of directors of publicly-traded commercial banks in Nigeria has a significant positive effect on CEO compensation. When the number of board members exceeds seven or eight, they are less likely to work effectively and are more susceptible to being dominated by the CEO (Jensen, 1993; Rahman & Mustafa, 2018). The research also found that the financial performance (return on equity) of listed commercial banks in Nigeria positively and significantly impacted CEO compensation. Accordingly, in Nigeria's financial industry, firm performance is a major factor in determining the remuneration of top executives. Similarly, the research findings demonstrated that financial performance (ROCE) had a negative and statistically significant impact on the salaries of CEOs of Nigerian-listed commercial banks.

Additionally, the research found no correlation between CEO age and remuneration. The age of the CEO does not influence the compensation paid to the CEOs of listed commercial banks in Nigeria. Lastly, the study found an insignificant relationship between CEO tenure and CEO compensation.

This study recommends that the board size be maintained at a manageable size for effective and efficient business operations. This is because a larger size may lead to ineffective decisions due to poor communication and coordination. Furthermore, the board of directors should develop pay systems that emphasise long-term rather than short-term incentives (e.g., stock options) to maximise the company's long-term worth.

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