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EFFECT OF EXECUTIVE COMPENSATION ON ACCOUNTING AND PRICE PERFORMANCE: EVIDENCE FROM NIGERIA FINANCIAL INSTITUTIONS

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Abstract: The goal of the study was to determine the relationship between executive compensation and performance of financial institutions in Nigeria between 2013 and 2024. Purposive sampling method was adopted to gather data for the study. The study proxied executive compensation as chairman pay and executive directors' pay. Hausman test was adopted for selection of model and Multiple Regression was used to determine nature of relationship. Post estimation tests were carried out including test of stability for Regression. The study found significant positive relation between Chairman's pay and all performance variables ROCE, Net profit margin, market price and Tobin Q. Study also found insignificant relationship of directors pay with ROCE and Net profit margin and a significant relation of Directors pay on Tobin and Market price implying that reverse causality among directors pay on accounting and market performance. Board independence exerted significant moderating role while firm size contributed to improved Chief executive pay. Bigger firms are likely to use increase Chief Executive pay which in turn improves performance, The implication of finding is that theoretically the chairman is a good steward acting in the interest of the firm utilizing skills and knowledge to drive performance while additional pay helps to align executive functions with corporate goal mitigating agency conflicts and increasing performance thus aligning theoretically with agency, stewardship, Resource dependency and knowledge-based theories. The study also simultaneously rejects tournament and managerial power theory. The study recommends Increased regulatory monitoring and corporate governance oversight to prevent use of Executive pay in asset expropriation.

Keywords: *Chairman's Pay, Executive Directors Pay, ROCE, Market Price, Tobin Q, Net Profit Margin.*

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Introduction

Businesses exist to make profit and create wealth. These goals are sometimes not achieved. Separation of ownership from control implied that businesses that were hitherto managed by owners are ceded to employees who then managed the business on behalf of equity holders. Executives could deviate from the original goals of the business to pursue self-interested motives at variance with organizational objectives with dire consequences of sub-optimal decisions and business failure. Jensen and Meckling (1976) revealed that agency problem and managerial opportunism created by misalignment of interest originated this lacuna. The problem is exacerbated by collapses of many businesses traceable to managerial and executive misbehavior corporate governance has been fingered as possible panacea to this anomaly. Executive pay has long been associated with corporate governance that can mitigate the malaise of business failure and managerial opportunism. According to Jensen and Meckings (1976) and Jensen and Fama (1983) these problems can be mitigated through increase pay to executive management to force align shareholders and management interest pursuant to the firm's objective. The crucial role of executive management in the running and survival of the firms cannot be overlooked as these strata of management provide the governance and leadership which propel businesses to success.

Pundits (Hall & Liebman, 1998; Bebchuk & Fried, 2004) in support of increase in executive pay argue that properly arranged pay such as equity-based compensation can propel increased performance and align shareholder and managerial interests. Prior empirical studies(Yahaya ,2025; Akhata and Ahmad ,2025; Kayani and Gan ,2022; Kweh et.al, 2022, Ahamed ,2022) return a positive association between executive pay and increased performance. Contrastingly, some scholars (Mohammed, Ibrahim and Maitala ,2023; Hassan ,2021; Boakye, Ahinful, G., & Nsor-Ambala ,2020) found a negative association between executive pay and performance. Yet, some other studies (Rousseau et al. ,2023) found no relationship between performance and pay to executive.

Performance involves evaluation of the ability of the firm to utilize its resources in achieving the stated objectives and in determining the health of the entity. Many dimensions and yardsticks are deployed to evaluate the well being of a firm. Some studies (Core, Holthausen, & Larcker, 1999; Yahaya ,2025) focused on accounting measures of performance in determining correlation of pay and performance. Accounting measures of performance are financial statements reflect past events. This study adopts a mix of financial and market yardstick to circumvent this problem. Thus, the study evaluates from a market perspective effect of pay on market value using Tobin Q and market price of

shares. Also, some other studies (Yahaya ,2025) X rays the pay performance issue from asset perspective in terms of impacts of pay on ability of assets to generate returns. However, this study is looking at the construct of returns on capital motivated by pay increase to executives in the firms hence the use of Returns on capital employed

In Nigeria however firms are facing declining performance. This is revealed by weaking profit, low profitability outcomes, poor market valuations and persistent stock price decline and earnings volatility. However, prior studies (Okoye, Evbuomwan, & Achugamonu, 2016; Iyoha & Oyerinde, 2010) anchored their arguments on poor firm governance, lack of transparency and accountability, poor incentives and low staff morale.

From agency theory perspective CEO, pay is supposed to enforce alignment of interests between shareholders and managers, enhance profitability and increase performance (Jensen & Murphy, 1990 .Core, Holthausen, & Larcker, 1999; Ozkan, 2011) However, the operating environment in Nigeria occasioned by persistent lack of infrastructures, galloping inflation, weak currency, poor corporate governance in firms, concentrated ownership, weak enforcement of laws and double taxation, this proposition by agency theory has become a subject of debate. Further fueling the debate, the argument has been enthused that poor pay is one of the factors hampering increased performance by firms. Prior empirical studies Yahaya ,2025; Akhata and Ahmad ,2025; Kayani and Gan ,2022; Kweh et.al, 2022, Ahamed ,2022 Mohammed, Ibrahim and Maitala ,2023; Hassan ,2021; Boakye, Ahinful, and Nsor-Ambala ,2020 ; Rousseau et al. ,2023 on the subject of pay and performance produced mixed results and no consensus. These loopholes exacerbate the debate on the subject and creates gap for further empirical works. Based on this dilemma, this study examines the pay performance nexus of financial institutions in Nigeria firms.

Conceptual Framework

Executive Compensation

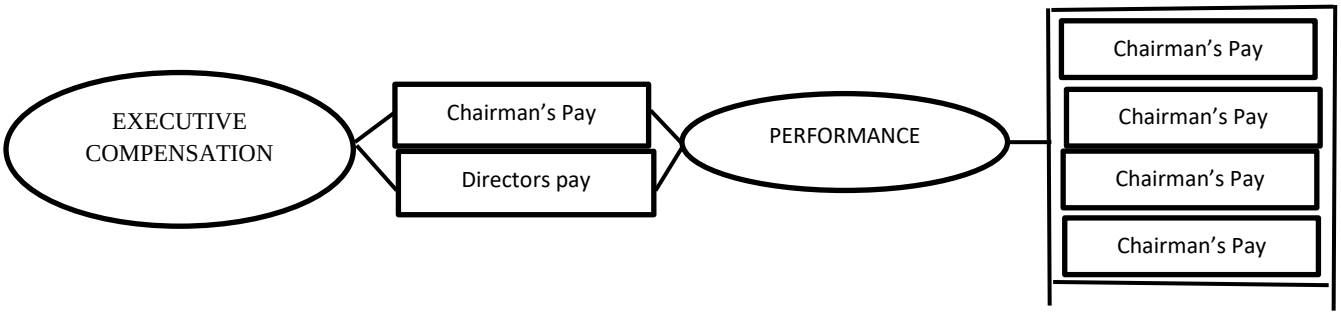
Executive compensation, or executive pay, is the summation of all emoluments, salary, bonuses, stock options, and benefits offered to senior management employees in exchange for their services. Frequently it is arranged to incentives to align with company performance and shareholder value, often involving high monetary value and equity to attract valuable and talented employees

Performance

Company performance measures the effectiveness and efficiency of deployment of company resources which includes assets, liabilities, and equity in achieving revenue, profitability and value creation for stakeholders. Performance measurement is a scorecard metric for business overall financial health, operational efficiency, and profitability over a specific period

Conceptual Figure

According to Creswell (2003) categorization, mapping and description of concepts and inter relationships amongst variable of study can be achieved through conceptual framework. The framework assists the researcher to establish the research, scope, identify gaps in literature and establish relationships among the concepts of study. For this study, the conceptualized framework of Executive compensation and Performance is depicted below



Theoretical Underpinning

Many theoretical perspectives drive the study of pay performance study. Each of the propositions is relevant to this study. Theoretically, from one perspective pay is a reward for performance of assigned task and from another perspective it is viewed as a strategy for deterring management misbehavior. Stewardship theory (Donaldson and Davis, 1989), postulates that managers act as good stewards of business assets, prioritizing long-term success of the entity without selfish motives and align their actions with organizational goals. The theory suggests that managers identify with the firm through shared goals, are empowered, motivated by desire to preserve their reputation and career advancement. Therefore, increased pay is a reward and not meant to control or force a buy-in to organizational objectives. Therefore, causality runs from performance to pay and not vice-versa. Resource dependence theory (Pfeffer & Salancik, 1978) aligning with Stewardship theory explains that since executive management are saddled with strategic decision making, they are invaluable assets which assist the organization in securing outside resources thereby enforcing legitimacy of the firm in its environment of operation. Thus, increased compensation is a well-thought-out strategic deployment of resources by firms for retention of skills, connections and enhancement of organizational reputation which strategically creates enabling environment for increased success.

The Knowledge-Based theory (Grant ,1996) suggests that knowledge is a crucial, strategic, and scarce resource for achieving sustainable competitive advantage. Superior firm performance comes from efficiently creating, integrating, and applying knowledge assets especially tacit knowledge rather than just managing tangible assets. Thus, Intellectual capital (expertise, routines, and learning) primarily drives of performance. Thus, firms integrate specialized knowledge of employees to improve productivity and efficiency. Under this view, executive compensation is structured to attract, retain, and incentivize leaders in possession of superior knowledge or can generate this unique, firm-specific intellectual capacity. Executives with higher levels of

firm-specific knowledge, which is difficult for competitors to imitate, are paid higher compensation as they are critical to sustainable performance.

Higher needs for knowledge coordination among top management teams lead to larger executive compensation gaps, as organizations compensate top leaders for successfully integrating dispersed knowledge to drive innovation. Research indicates that communication patterns (e.g., in conference calls) reveal the location of knowledge within a management team. CEOs who communicate more often, signaling greater knowledge and decision-making influence, receive higher pay. Compensation packages are designed to encourage executives to invest in and apply their knowledge to drive long-term strategic results rather than just short-term gains. Thus, increased pay is compensation for increased knowledge.

Contrastingly, agency theory (Jensen and Mackling, 1976) highlights conflicts arise when agents prioritize personal utility over maximizing firm value. This misalignment of interests between that of the principal (shareholders) and agents (managers), creates agency conflicts and costs like monitoring by owners and bonding by agents. The theory further argues monitoring and supervision will mitigate the conflicts whilst equity ownership will reduce managerial opportunism. Thus. theoretically from agency perspective increased pay is a control measure to force align managerial interest with shareholders objective to increase performance

The managerial power theory **(**Bebchuk and Fried, 2004**)** of compensation argues that top executive pay is often excessive and not directly correlated to performance, stemming from executives using their influence to affect compensation committees. It challenges the "optimal contracting" view, suggesting weak governance allows managers to set their own pay, resulting in higher pay levels and less pay-at-risk. Executive power thrives in companies with poor oversight, such as combined CEO/Chair positions or less independent boards. It is further suggested that rather than aligning interests, compensation acts as a mechanism for managers to extract "rents" (excess pay) from the firm. Executives with significant influence can shape compensation packages in their favor, often focusing on firm size over actual performance. Thus, High pay does not necessarily reflect high performance but rather high managerial power, creating a disconnect between compensation and actual value creation

Managerial Tournament theory (Lazear and Rosen,1981) explains that high executive compensation acts as a "prize" for winning an internal competition to reach top positions, motivating employee effort throughout an organization. According to the theory, compensation is based on rank-order relative performance rather than just absolute output, creating a convex pay structure with a steep jump to the CEO level. Large pay gaps between organizational levels motivate lower-level managers to work harder to attain the top spots thereby increasing overall organizational performance. The difference in compensation between levels grows higher up the hierarchy, with the largest gap existing between the CEO and the next highest-paid manager (the "final prize").it further opine that in environments with high uncertainty, ranking employees (like tournament contestants) is more efficient than determining marginal performance, lowering monitoring cos and often, a higher pay dispersion (wider gap) within the team is positively correlated with superior firm performance, as it encourages intense competition for promotion.

Empirical Review

Akhata and Ahmad (2025) examines effect of compensation on performance using data from Fintech firms listed on the Chinese stock market between 2009 and 2022. Result confirmed increased employees pay increases firm's profit (sales-growth). The study also found that executive compensation improves profit (sales-growth) while non-executive compensation plays a less effective role in improving profit (sales-growth). On further splitting the compensation into the compensation of Top-1 and Top-3 employees, we found that increasing the compensation of the top most (Top-1) employees is harmful to the firms. The findings are also confirmed using several performance measures, including ROE, ROA and Tobin's Q. The findings implied that raising overall executive compensation is in the good interest of the firm and can be used as a management tool to improve performance. Yahaya (2025) investigates relationship between CEO pay and firm performance, addressing concerns over pay-performance sensitivity and agency conflicts in corporate governance. CEO pay is disaggregated into fixed (salary) and variable (bonus, stock options) components to determine their differential effects on performance. Empirical results reveal a positive and significant relationship between variable pay and firm performance, indicating that performance-contingent compensation aligns managerial incentives with shareholder value creation. However, fixed pay shows no significant effect. The study also finds evidence of diminishing marginal returns to excessive pay, suggesting a threshold beyond which additional compensation yields no performance benefit.

Rousseau et al. (2023) focused their research on determining whether CEO financial incentives predict firm financial performance and financial restatement due to misreporting. The result showed that bonuses show no predictive effect on the following year's market-related metrics but do affect ROA. Stock Options had no effect on next year's ROA on Market-to-Book Value or Stock Return, indicating no predictive effect for Stock Options on either accounting or market-related performance. The outcome further revealed the overall effect size for CEO compensation does not support a direct relationship between CEO financial incentives and Restatement. Mohammed, Ibrahim and Maitala (2023**)** examined effect of executive compensation on the financial performance of listed non-financial firms in Nigeria. The study found salary emoluments, bonuses and stock-based compensation, as measures of executive compensation, have negative impact on the return on equity while executive pension claims have a positive impact on return on equity.

Kayani and Gan (2022) examined the relationship between executive compensation and firm performance in the Asia Pacific firms throughout 2007–2019. The proxy included total salary paid to chief executive officers and equivalent, the total compensation paid to the CEO, and the equivalent and total salaries and bonuses paid to the CEO and equivalent as a measure of executive compensation. For the firm performance, both accounting measure (ROA) and market measure Tobin's (TQ), and various control variables were used. Study found that a firm performance has a positive relationship with total compensation paid to CEO and total salaries and bonuses paid to the CEO. Our results support the agency theory by confirming that higher CEO compensation will

lead towards higher firm performance by motivating executives to maximize shareholder benefits. However, the total salary does not have any significant relationship. Kweh et.al (2022) examine how financial constraints affect the relationship between firm performance and the CEO compensation of U.S. listed corporations during the period 1996–2018. Results indicate that financial constraints negatively moderate the positive relationships between firm performance and CEO compensation. That is, financially constrained firms that perform well financially will increase their CEO compensation at a smaller rate than their counterparts because financially constrained firms tend to hoard cash to save cost and safeguard for future investment, liquidity and leverage policies. However, the negative impact of financial constraints on positive pay-performance sensitivity is more pronounced in the bonus sample. That is, financially constrained firms control bonus increments to control costs even when their firm performance improves. The result also indicates minimal influence of CEO bonuses and no effect of stock options on the accounting performance metric ROA. conversely bonuses and stock options revealed nil effect on market metrics. CEO incentives also are unrelated to Financial Restatement. Ahamed (2022) study analyzed the relation between chief executive officer compensation and bank performance in Bangladesh for 2020-2020. The study examined return on equity, CEO salaries, bonuses, housing allowance and foreign trips. Results revealed the compensation package of CEOs positively and significantly influence performance indicating increasing pay motivates the executive to higher performance thereby reducing agency conflicts

Hassan (2021) tried to determine the relationship between CEO incentives and firm performance in the presence of CEO dominance to examine how incentive compensation improves firm performance by reducing agency conflicts between shareholders and managers. Findings indicate high CPS and PPS improve firm performance but lower CPS reduces PPS. Rehman et.al (2021) investigate the relationship between the CEO, Director and executives' compensation on firm performance from sample data collected from PSE 100 index non-financial list over 2014-2019. From 75 non-financial firm and final sample of 69 firms the outcome revealed, Directors, and chief executives' compensation have a significant relation with firm performance while, R&D show that insignificant relation with CEO/directors and Executives compensation Boakye, Ahinful, G., & Nsor-Ambala (2020) investigates the relationship between executive compensation and financial performance for Alternative Investment Market (AIM)-listed firms in the UK from 2011 to 2016. Findings from the study revealed chief executive officer (CEO) remuneration impact both accounting- and market-based measures of financial performance. It also revealed performance-based incentives bonus and other long-term incentives have positive impacts while salary, a cash-based non-performance-related compensation negatively affects performance. In terms of causality, study further revealed a two-way directional influence of performance and compensation

Methodology

Research Design

The study adopts cross sectional ex-post facto design to examine financial institutions in Nigeria with the goal of determining effect of executive compensation on performance of money deposit banks in Nigeria. A cross section of money deposit banks consisting of commercial banks was examined. Purposive sampling method was adopted to examine twenty-two commercial banks in Nigeria which formed the population of the study. The Sampling size was determined based on availability of data, asset base and profitability and eighteen financial institutions out of the population of twenty-two fell within the sample size. Secondary data for the study was obtained from financial statements of the institutions and information from Nigeria stock exchange and firms' website for the period 2013 to 2024. Multiple Regression analysis using e-views software was used to establish the relationship between executive compensation variables and performance

Variables of the Study

Independent variables

a) **Chairman's pay**

Following Kun and Xing (2012) and Nubia and Obiora (2022) we proxy

Chairman pay as chairman's total pay divide by staff cost

$$\frac{\text{Chairman total pay}}{\text{Staff cost}}$$

a) Directors Pay

Following kun and Xing (2012), Nwaogu, Odesa and Nzoegbu (2019), Ifurueze et al (2019)

we proxy Director's pay as Director's total pay divided by Operating expenses

$$\frac{\text{Director's total pay}}{\text{Operating Expenses}}$$

Dependent variable

The dependent variables for this study are:

i) Tobin Q

Tobin Q (TQ) = ratio expresses the relationship between market value of a firm and the cost of replacing the asset.

We adopt Chung and Pruitt's approximating formulation of Tobin's Q = MVE + PS +DEBT/TA

Where:

- MVE = Firm's stock price multiplied by number of outstanding equity shares.
- PS = Value of a firm's outstanding preferred stock on liquidation
- Debt = Sum of short-term liabilities minus short term assets plus the book value of long term-debt;
- TA = Total book value of all assets.

ii) Return on Capital Employed

Following Ahsen et al. (2012); Sayeda (2011), Amal et al. (2012) and Khalaf (2013) we adopt Returns on capital employed as a proxy for financial performance. The ratio is expressed as earnings before interest and taxes divided by capital employed

Return on Equity (ROCE) is expressed mathematically thus:

Return on Equity (ROCE) = Earnings before interest and Taxes

Capital employed

iii) **Net Profit margin =** Sales revenue minus operating expenses, interest, amortization, depreciation and taxes

Market price per share = Price per share as published by Nigeria Stock Exchange on daily price equity list

Moderating variables

The moderating variables used in this study are Audit committee independence, firm size, leverage, Chief executive Duality (Jiang et al., 2010; Liu & Tian, 2012; Qian& Yeung, 2015), Board independence, firm size is measured as the logarithm of the assets owned by the company (Wijaya et al., 2011), large company size, helps to increase its performances (William & Sanjaya, 2017). Chief executive duality (Jiang et al., 2010; Liu & Tian, 2012; Qian & Yeung, 2015) is a dummy variable assigned value of 0 when the chief executive is the Chairman of the Board as well as the Managing director and 1 when it is different persons occupying the position. In summary we have

SIZE *i, t* = Natural logarithm of total Sale of firm *i*in year *t* as a proxy of the size of the firm.

GRW*i, t* = Change in total asset divided by total asset of firm *i*in year *t* as a proxy of growth of the firm.

Board Independence = Number of non-executive and independent directors divided by Total number of directors on the board

Board Size = Number of directors sitting on the board

Chief Executive Duality = Dummy variable assigned zero when there chairman is not also the MD and zero when there is duality as Chairman and MD

Audit Committee Financial Expertise = Number of directors with Financial expertise sitting on the audit committee.

Measurement of Variables summarized on Table 3.1 below:

Independent Variable	**Measurement**	**Expected Sign**
Directors Pay	Directors total annual pay divide by operating Expenses. kun and Xing (2012), Nwaogu, Odesa and Nzoegbu (2019), Ifurueze et al (2019)	Negative
Chairman's Pay	Chairman's total annual salary and bonuses divided by Staff cost Kun and Xing (2012) and Nubia and Obiora (2022	Negative
Dependent		
Net Profit Margin	Sales revenue minus operating expenses, interest, amortization, depreciation and taxes	Negative
ROCE	Earnings before Interest and Taxes / Shareholders' Equity	Negative
TOBIN Q	Market value of Equity + MV of debt / Total assets	Negative
Market price per share	Price of quoted share as published by NSE daily	Negative
Moderating Variables:		
Firm size	Natural log of Total assets	Positive
Growth	change in total asset / Total assets year 1	Positive
Board Independence	Number of independent directors divide by total number of Directors	positive
Board size	Number of directors on the board	Positive
CEO Duality	Dummy variable assigned zero when there chairman is not also the MD and zero when there is duality as Chairman and MD	Negative

Model Specification

The estimation for this study is as stated below:

$ROCE = \beta_0 + \beta_1 CHMP + \beta_2 DIRP + \beta_6 BID + \beta_4 LOGFIS + \beta_5 BDS + \beta_6 CED \quad U_1, t \ldots\ldots. (i)$

$NTPM = \beta_0 + \beta_1 CHMP + \beta_2 DIRP + \beta_6 BID + \beta_4 LOGFIS + \beta_5 BDS + \beta_6 CED + U_2, t \quad (ii)$

$MARP == \beta_0 + \beta_1 CHMP + \beta_2 DIRP + \beta_6 BID + \beta_4 LOGFIS + \beta_5 BDS + \beta_6 CED + U_3, t \ (iii)$

$TBNQ = = \beta_0 + \beta_1 CHMP + \beta_2 DIRP + \beta_6 BID + \beta_4 LOGFIS + \beta_5 BDS + \beta_6 CED + U_4, t. \ (iv)$

Results

Descriptive Statistics

Table 1 presents annualized mean, annualized standard deviation and other summary statistics on the financial performances of the selected firms and the other variables in Nigeria. The descriptive statistics show that, for the performance variables, average Tobin's Q for the banks is 6.58, suggesting relatively low performance of the selected firms in terms of significance in the market. The Table also shows that certain firms had very low Tobin's Q ratios for certain years, while some other firms had values up to 14.76 percentage points. Average NTMP is lower than average ROCE for the firms, although the standard deviation of ROE is quite high at 3.23 which shows that there were wide variations in the performance of ROE among the firms or over the years. This is also confirmed by the high skewness value of 4.39, which suggests a very positive skewness among the data and show that much of the ROCE values for the firms actually lie below the reported average value in the Table.

Table 4.1: Descriptive Statistics of the Data

	Mean	Med	Max.	Min.	S.D.	Skew	Kurt	J-B	Prob.
TOBINQ	6.58	6.57	14.76	-0.47	2.35	0.20	7.20	75.58	0.00
NTPM	0.09	0.07	0.38	-0.30	0.11	-0.25	3.92	4.64	0.10
ROCE	0.27	0.21	3.23	-0.50	0.49	4.39	27.25	2827.12	0.00
MARP	9.93	10.10	15.13	4.15	2.75	-0.05	2.25	2.41	0.30
BID	0.54	0.57	1.50	0.19	0.18	1.31	10.23	251.30	0.00
SIZE	3.11	3.06	5.93	-0.94	1.78	-0.22	2.17	3.72	0.16
BDS	1.59	1.40	11.70	-2.19	1.42	4.57	31.32	3763.04	0.00
CED	0.27	0.21	6.99	-1.66	0.81	5.96	49.25	9692.95	0.00
DIRP	1.74	1.07	56.57	0.07	5.54	9.65	95.94	38297.13	0.00
CHMP	0.15	0.11	0.85	-0.26	0.17	1.77	9.22	217.89	0.00

Average MARPP is 9.93. For the moderating variables, average board independence is 0.54, which shows that board independence played a significant corporate governance role in influencing performance. The standard deviation of 0.18 is relatively low, suggesting that the board independence of the firms is evenly distributed, though the skewness value of 1.31 shows slight leaning towards lower values of the mean reported. Average growth in size is positive at 3.11, while average BDS for the firms is not too high at 1.59. Average CED ratio is 0.27, which is relatively low, DIRP is 1.74 on average (suggesting highly DIRP for the firms). CHMP for the firms is also low at 0.15, although certain firms have a chairman's pay of up to 0.85 for some years and the standard deviation is slightly higher than the mean value.

The J-B tests for each of the categories are high and easily passed the significance tests at the 1 percent level indicating that the datasets are non-normally distributed. These show clear cases of heterogeneity in the data sets across the firms. Essentially, the non-normal distribution shows that there are strong firm-specific influences on the outcome of each of the performance and determinant datasets reported in the Table.

The correlation Table for the financial performance variables in the study is shown below. From the Table, it is seen that, positive correlations exist among all the performance variables in the study. This shows that when each of the performance indicators among the companies are increasing, the other indicators are also increasing. Thus, all performance indicators move in the same direction. Moreover, the correlations among the variables are significant (at least at the 5 percent level).

Table 4.2: Correlation Matrix for performance variables

	TOBINQ	NTMP	ROCE
NTMP	0.22		
	0.03		
ROCE	0.13	0.25	
	0.19	0.01	
	0.01	0.01	0.03
MARP	0.79	0.30	0.14
	0.00	0.00	0.16

The correlations among the executive compensation and financial performances among the firms are also presented in this section. This correlation analysis helps to present the initial patterns of relationship among the independent variables and also to consider the level of multicollinearity among the explanatory variables. It should be noted the multicollinearity may occur in estimates where the correlations among independent variables are very high, thereby rendering the estimated coefficients highly inefficient and biased. From the correlation matrix in Table 4.3, it can be seen that the correlations among each of the variables are very low, with the highest coefficients being -0.43 (between board independence and chairman's total pay) and 0.31 (between board size and Chairman's total pay. This shows that Chairman's total pay has stronger relationships with other compensation factors than any other variables in the study. More importantly, the low correlation among the variables shows that the problem of multicollinearity among the variables would not arise since all the variables are shown to exhibit less relationships among each other.

Table 4.2: Correlation Matrix for determinants variables

	BID	FMS	GRW	BDS	CED	DIRP	CHMP
SIZE	0.09						
	0.38						
GRW	0.12	0.23					
	0.23	0.02					
BDS	-0.17	-0.09	0.03				
	0.09	0.37	0.75				
CED	0.02	-0.12	0.01	-0.05			
	0.86	0.24	0.88	0.64			
	0.60	0.17	0.65	0.98	0.71		
DIRP	-0.05	-0.17	-0.10	-0.01	0.00		
	0.65	0.08	0.32	0.96	0.97		
CHMP	-0.43	0.07	-0.05	0.31	0.02	-0.03	
	0.00	0.51	0.59	0.00	0.82	0.73	
	0.87	0.89	0.49	0.11	0.83	0.31	0.64

In general, the correlation matrix shows that BID (Board independence) has a negative correlation with other variables except SIZE, GRW and CHMP (chairman's total pay), while firm size (FMS) also has a mostly negative correlation with other variables. In the same vein, it can be seen that more variables have negative correlations with other variables than positive correlation. Some important positive correlations among the variables include between board size (BDS) and Chairman's total pay, and between firm size and Chairman's total pay (CHMP), which show that when size is high in a firm, Chairman's total pay is also high. Moreover, it shows that bigger firms have more growth prospects and bigger firms also exhibit higher Chairman's pay.

Cross-section Dependence Test

The issue of dependence across the companies is investigated by implementing the most commonly used test for cross section dependency (Pesaran, 2004 and 2007). Given that the number of cross-sectional units in this study is greater than the time period (n =18 and T=12), the standard Breusch and Pagan (1980) LM test for cross-equation correlation is also appropriate for testing cross-sectional dependence in a panel data model (Baltagi, Feng & Kao, 2012). Thus, for this study, adopt the cross-sectional dependence (CD) test developed by Pesaran (2004) which uses a pair-wise average of a sample correlation to test the existence of cross-sectional dependence

Table 4.3: Cross-section Dependence Test Results

Variable series tested	**Pesaran CD**	**P-value**	**Breusch-Pagan LM**	**P-value**
TBQR equation	7.63	0.00	300.8	0.00
NTPM equation	3.28	0.00	275.4	0.00
ROCE equation	3.04	0.01	277.6	0.00
MARP equation	9.39	0.00	337.6	0.00

The results of cross-section dependence test are reported in Table 4.4. From the result, it is seen that the Peseran CD test and Breusch-Pagan LM test for each of the equations on firm performance pass the significance test at the 5 percent level, suggesting the absence of cross-sectional dependence for the estimation structure. The absence of cross-sectional dependence implies that the estimations are efficient even with heterogeneous operational structures among the firms in the sample. Apparently, the test above rejects the null of presence of cross-section dependence.

Empirical Results on the Panel Analysis

The standard test for the method of panel analysis to adopt is the Hausman test for random effects. The results of the Hausman test presented in Table 4.7 indicates that the null hypothesis is rejected for both the each of the Equations. From the Hausman test results, the statistic provides little evidence against the null hypothesis that there is no misspecification when the fixed effect model is employed for the performance Equations. Hence, the best method to apply is the Fixed-effect strategy.

Table 4.4: Hausman Test for Cross-Section Random Effects

Model	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Tobin's Q	12.41	8	0.019
NTPM equation	12.25	8	0.016
ROCE equation	13.47	8	0.00
MARP equation	13.37		0.00

Panel Estimation Analysis

The result of the fixed effects model for firm performance (using Tobin's Q ratio as indicator) are presented in table 4.5 below. The goodness of fit statistics is impressive for the results. The adjusted R-squared value shows that about 98 percent of systematic variations in Tobin's Q is captured in the models with control and without control. This also shows that the model has high explanatory power.

Table 4.5: Executive Compensation and financial performance (Dependent variable is *Tobin's Q)*

Variable	Coeff.	t-Stat.	Prob.
C	9.37	37.95	0.00
BID	0.25	0.53	0.60
SIZE	-0.90	-48.03	0.00
BDS	-0.02	-1.58	0.12
CED	-0.10	-5.25	0.00
DIRP	0.00	2.73	0.03
CHMP	0.90	2.40	0.02
Adj. R-sq.	0.98		
F-statistic	149.22		

The particular effect of the explanatory variables on Tobin's Q ratio is determined by observing the coefficients of the estimates in terms of signs and significance. From the result of the estimates with control, it can be seen that the coefficients firm size and Chief executive duality passed the significance test at the 1 percent level (prob < 0.01), while those of directors pay and chairman pay passed the test at the 5 percent level ($p < 0.05$). This shows that for the selected firms, the size of a firm and the Chief executive duality have very strong negative impacts on its market performance based on the Tobin's Q ratio. Also, Chairman's total pay has significant positive impact on Tobin's Q ratio implying that when these variables increase in a firm, the market performance of the firms will also increase. The coefficients of independence of director's and firm size do not have any significant impact on firms' Tobin's Q ratio among the firms.

Table 4.6 shows the result of the effects of executive compensation on firms' Net profit margin (operational performances). From the result, it can be seen that the diagnostic statistics are all high and impressive. The adjusted R-squared statistic is very high at 0.958, suggesting that over 95 percent of the variations in net profit margin was captured in the model. The individual contributions of the explanatory variables to the performance of Net profit margin in the model is demonstrated by the coefficients of the explanatory variables. From the results in Table 4.6, it can be seen that only the coefficients of firm size and chief executive total pay passed the significance test at the 1 percent and 5 percent levels. This result shows that among the main variables of the study, only firm size, and chairman's total pay are relevant influencers of Net profit margin. Bigger firms and those with higher growth prospects tend to perform better in terms of Net profit margin in Nigeria. In the same vein, higher Chairman's total pay among the firms also leads to better Net profit margin, which indicates that companies that have higher Chief Chairman's total pay also work better with Chief executive duality. It should be noted that between the compensation indicators of Tobin's Q and Net profit margin, both firm size and chairman's total pay appeared as strong factors. This suggests that the higher the size of a firm and Chairman's total pay the higher the performance and therefore are very important factors that contribute to over financial performance of firms in Nigeria. All the other variables in the model, including board independence, Chief executive Duality, board size and Directors pay all fail the significance test even at the 5 percent level. This implies that these variables are not important factors that influence of Net profit margin for firms in Nigeria.

Table 4.6: Executive Compensation and financial performance (Dependent variable is NTPM*)*

Variable	Coefficient	t-Statistic	Prob.
C	-0.034	-1.025	0.309
BID	0.004	0.110	0.913
SIZE	0.003	3.886	0.000
BDS	-0.010	-0.561	0.577
CED	-0.001	-1.169	0.246
DIRP	0.000	1.436	0.155
CHMP	0.798	15.786	0.000
Adjusted R-squared	0.958		0.168
F-statistic	79.03		1.324355

The result for ROCE is also shown in Table 4.7 below and it suggests an impressive goodness of fit statistics for the model. The adjusted R-squared value of 0.917 is very high. It shows that the model exhibits are very high explanatory power and the main compensation factors affecting of ROCE has been captured in the model. The F-statistic value of 38.79 is also highly significant at the 1 percent level, which shows

that the model has impressive overall significance. Indeed, the result of the F-test shows that a significant relationship exists between ROCE and all the independent variables combined.

Table 4.7: Executive Compensation and performance (Dependent variable is ROCE*)*

Variable	Coefficient	t-Statistic	Prob.
C	-0.194	-2.169	0.033
BID	0.629	6.038	0.000
SIZE	0.011	1.897	0.062
BDS	0.000	-0.158	0.875
CED	-0.003	-0.802	0.425
DIRP	0.004	1.515	0.134
CHMP	0.595	3.853	0.000
Adjusted R-squared	0.917		
F-statistic	38.789		

A close examination of the individual coefficients of the explanatory variables reveals that the coefficients of B independence, chairman pay and directors' pay all passed the significance test at the 1 percent level, while those of the other variables fail the significance test even at the 5 percent level. This shows that the main factors that influence ROCE among the firms are independence of the board and Chairman's pay. The other factors are not important determinants of ROCE among the firms. The result also shows that board independence and Chairman's total pay have positive impacts on ROCE. The result therefore shows that Chairman's total pay are very important factors that influence both Net profit margin and ROCE among the firms in Nigeria. On the other hand, firm size is shown to be unimportant in explaining the behavior of ROCE among the firms, even though size was an important factor in the determination of both Tobin's Q ratio and NTPM.

Finally, the result for MARP is also shown in Table 4.9 below and it also suggests an impressive goodness of fit statistics for the model. The adjusted R-squared value of 0.996 is very high. It shows that the model exhibits are very high explanatory power and the main determinants of MARP have been captured in the model. The F-statistic value of 775.9 is also highly significant at the 1 percent level, which shows that the model has impressive overall significance. Indeed, the result of the F-test shows that a significant relationship exists between MARP and all the independent variables combined.

Table 4.9: Executive Compensation and financial performance (Dependent variable is MARP*)*

Variable	Coefficient	t-Statistic	Prob.
C	9.945	43.271	0.000
BID	0.061	0.176	0.861
SIZE	0.030	3.193	0.002
BDS	0.011	0.649	0.518
CED	0.088	9.393	0.000
DIRP	0.002	2.313	0.040
CHMP	0.350	0.878	0.383
Adjusted R-squared	0.995		
F-statistic	775.97		

For the effect of compensation and governance on Market price, the coefficients of the explanatory variables are considered in terms of signs and significance. It is seen that the coefficients of SIZE and Chief executive Duality pass the significance test at the 1 percent level, while the coefficients of, DIRP pass the significance test at the 5 percent level. Thus, the result show that the factor of MARP is firm size, chief executive duality, directors pay. In particular, the result shows that the size of firms, chief executive duality and directors pay all tend to promote MARP in the firms. Bigger firms that have better growth prospects tend to perform better in terms of MCP among the firms.

Results

Test of Hypotheses

- **HO_1: There is no significant effect of Directors pay and chairman's pay on Returns on Capital employed of Money Deposit Banks in Nigeria**

From the result on table 4.7, the following inferences are made. Chairman's total pay has a positive co-efficient of 0.595 and p-value 0.000<0.05 implying significant positive relationship. We reject that the hypotheses which says that chairman's total pay does not have a significant relationship with Returns on capital employed. From the result, increased pay to the Chairman of the

board improves performance of the firms measured by Returns on capital employed.

- **H02: There is no significant effect of Directors pay on Returns on Capital employed of Money Deposit Banks in Nigeria**

From table 4.7, directors pay has a positive coefficient of 0.004 and p-value of 0.134>0.05 implying an insignificant relationship. Therefore, we accept the hypothesis which states that there is no significant relationship between directors' shareholding and returns on capital employed

- **HO_3: There is no significant effect of chairman's pay on Net Profit margin of Money Deposit banks in Nigeria**

From table 4.6, Chairman's total pay has a positive co-efficient of 0.798 and p-value 0.000<0.05 implying significant positive relationship. We reject that the sub hypotheses which says that chairman's total pay does not have a significant relationship with Net profit margin. Increase in Chairman's pay increases the performance of the financial institutions in Nigeria

- **HO_4: There is no significant effect of Directors pay on Net Profit margin of Money Deposit banks in Nigeria**

From Table 4.6, Directors pay has a positive coefficient of 0.000 and p-value of 0.155>0.05 implying an insignificant relationship. Therefore, we accept the hypothesis which states that there is no significant relationship between directors' pay and Net profit margin

- **HO_5: There is no significant effect of chairman's pay on Tobin Q of Deposit Money banks in Nigeria**

Chairman's total pay has a positive co-efficient of 0.09 and p-value 0.002<0.05 implying significant positive relationship. We reject that the sub hypotheses which says that chairman's total pay does not have a significant relationship with Tobin Q

- **HO_6: There is no significant effect of Directors pay on Tobin Q of Money Deposit banks in Nigeria**

From table 4.5, directors pay has a positive coefficient of 0.000 and p-value of 0.002<0.05 implying a significant relationship. Therefore, we reject the hypothesis which states that there is no significant relationship between directors' pay and Tobin Q

- **HO_7: There is no significant effect of chairman's pay on Market price of shares of Money Deposit banks in Nigeria**

From Table 4.9, Chairman's total pay has a positive co-efficient of 0.350 and p-value 0.383>0.05 implying insignificant positive relationship. We accept that the sub hypotheses which says that chairman's total pay does not have a significant relationship with Market price

- **HO_8: There is no significant effect of Directors pay on Market price of shares of Money Deposit banks in Nigeria**

Directors pay has a positive coefficient of 0.002 and p-value of 0.040<0.05 implying a significant relationship. Therefore, we reject the hypothesis which states that there is no significant relationship between directors' shareholding and Market price. Increase in directors pay increases market price

Discussion of Findings

The goal of the research is to examine the nature of relationship between Executive compensation and financial performance of Financial Institutions in Nigeria. chairman's total pay and Directors pay were selected as variables for executive compensation while four performance proxies (Tobin Q, returns on capital employed, Market price and Net profit margin) representing various strands of performance were also selected.

The result of our study reveals a positive significant association of chairman's pay with Tobin Q (which represents market valuation), returns on capital employed and Net profit margin and conversely have an insignificant relationship with Market price. The implication of this finding is that the higher the chairman's pay the higher the firm value measured by Tobin Q and higher the accounting performance measured by returns on capital employed and net profit margin of the firm. It also signifies that the market reaction (measured by market price) is weak and therefore chairman pay is a weak driver of market price. Nubia and Obiora (2018) investigated the effect of executive pay on firm performance of quoted companies in Nigeria. The results show that for the Nigerian listed consumer goods firms, the explanatory variables; Chairman's pay has negative significant effect on performance measured by asset utilization; whereas Board of director's pay is positive and has no significant impact on the asset utilization. The study of Takao and Cheryl (2005) evaluate executive compensation, firm performance and corporate governance in of listed firms in shanghai stock exchange between 1998 and 2002. The findings reveal that executive compensation positively affects sales growth. Kun and Xing (2012) examine controlling shareholder tunneling and executive compensation of 6,670 quoted firms from China between 1999 and 2005. The finding shows that if director's incentives scheme is adopted, controlling shareholders who obtain private benefit from companies will have less incentive to do so. The findings of this research reveal Chairman's total pay has a positive co-efficient of 0.798 and p-value 0.000<0.05 implying significant positive relationship. This contrasts with the studies of Nubia and Obiora (2018); Mohammed, Ibrahim and Maitala (2023; Kweh et.al (2022) who found negative results but agrees with the study of Annah, Ogbodo and Isaac (2022); Kayani and Gan (2022); Yahaya (2025); and Akhata and Ahmad (2025. This study further discovered insignificant positive relationship (positive coefficient of 0.000 and p-value of 0.155>0.05) of directors pay with performance which contrasts with the study of Nubia and Obiora (2018) who found a negative significant relationship of executive pay with performance. Further negating the result of our study are studies by Mohammed, Ibrahim and Maitala (2023; Kweh et.al (2022). Our study confirms that the bigger the size of the firm the higher the pay which consequently improve performance. Our study also highlights the moderating role of board independence. Chief executive duality significantly moderates performance in respect of market measures but fail to replicate this feat in accounting measures indicating that the market reacts differently to Chief executive duality in function. Firm size also indicates that the bigger firms, the bigger the chairman's pay and the higher the performance thus indicating economies of scale advantage and increasing influence of pay vis a viz performance

Conclusion

The goal of the study was to determine the relationship between executive compensation and performance of financial institutions in Nigeria. Th study found significant positive relation between Chairman's pay and all performance variables ROCE, Net profit margin, market price and Tobin Q. The study concludes that increased compensation to Chief executive motivates them to higher performance. However, executive directors; pay was found to have weak influence on performance metrics used in this study. In terms of governance, board independence exerted significant moderating role while firm size contributed to higher Chief Executive pay and higher performance. Chief executive duality revealed reverse significant causality on Tobin Q and market price whilst simultaneously and weakly influencing accounting performance of the financial institutions.

Recommendations

From the findings of the study, it is recommended that shareholders should pay particular attention to Chairman total pay as it influences performance while also formulating policies that will enhance directors' remuneration and improve their contribution to performance of the firms. Corporate governance factors such as board independence should be enhanced to facilitate the oversight functions of the firms towards enhancing performance

Implication of the Study for Theory

Many theoretical predictions were discussed in the earlier part of this paper in the course of examining the nexus of executive compensation with performance. The study found a positive significant relationship of chairman's pay with performance. Stewardship theory (Donaldson and Davis, 1989) earlier explained that executives will prioritize long term business over and work towards improved firm performance while Resource dependence theory (Pfeffer & Salancik, 1978) asserts that executives are assets which help in securing outside resources thereby enforcing legitimacy of the firm in its environment of operation and increased compensation is strategic decision for retention of skills, connections and enhancement of performance. Also, Knowledge-Based theory (Grant ,1996) suggests that knowledge is a crucial, strategic, and scarce resource for achieving sustainable competitive advantage thus higher executive pay is payment for higher levels of firm-specific knowledge, which is difficult for competitors to imitate are necessary for sustained performance. The findings of the study align with stewardship ship, resources dependency theory and knowledge-based theory while contrasting agency theory. Secondly, this theoretical perspective is reinforced by the findings of the study that increased directors pay has a weak influence on performance thereby emphasizing that increased pay failed to enact the proposition envisaged by agency theory that improved performance will curtail management misbehavior and increase performance. From the findings of the study of a weak association of directors increased pay to performance the result of the study negates management tournament theory which proposes that large pay gaps between organizational levels motivate lower-level managers to work harder to attain the top spots thereby increasing overall organizational performance. The result of this study further challenges the managerial power theory which states that top executive pay is often excessive and not directly correlated to performance, stemming from executives using their influence to affect compensation committees. The study found positive correlation of chairman pay with performance while managerial power theory suggested the reverse

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