Audit Committee Structure and Executive Compensation of Agricultural Companies in Nigerian Exchange Group

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Abstract:
This study examined the effect of audit committee structure on executive compensation of agricultural companies listed on the Nigerian Exchange Group (NGX). Specifically, the study examined the effect of audit committee size, audit committee independence, and audit committee meeting frequency on executive compensation. The study adopted an ex-post facto research design. The population consisted of five agricultural companies listed on the NGX, and the entire population was used as the sample through the census sampling technique. Secondary data were obtained from the annual reports and financial statements of the selected companies covering the period 2021 to 2025. The data were analysed using descriptive statistics and ordinary least squares regression analysis. The regression results revealed that audit committee size had a positive and statistically significant effect on executive compensation. Audit committee independence had a negative and statistically significant effect on executive compensation. However, audit committee meeting frequency had a negative but statistically insignificant effect on executive compensation. The study concluded that audit committee size and independence were significant determinants of executive compensation, whereas meeting frequency had no significant influence. The study recommended maintaining an optimal audit committee size, strengthening committee independence, and improving the effectiveness of audit committee deliberations to promote transparent and accountable executive compensation practices.

keywords: *Audit Committee Structure, Size, Independence, Meeting Frequency, Executive Compensation*

1. Introduction

Corporate governance has increasingly attracted scholarly and regulatory attention worldwide due to its pivotal role in fostering transparency, accountability, and sustainable business practices (Tricker, 2023). Central to effective corporate governance is the audit committee, a sub-committee of the board of directors tasked with overseeing financial reporting, compliance, and risk management (OECD, 2022). The role of audit committees has evolved beyond mere oversight of financial statements to encompass broader governance responsibilities that influence critical managerial decisions, including executive compensation (Khan *et al*., 2023). This expanded mandate reflects the global recognition that governance structures directly impact organizational performance and stakeholder confidence. Executive compensation, often viewed as a mechanism

to align management interests with those of shareholders, remains a contentious issue within corporate governance discourse (Bebchuk & Fried, 2021). While competitive remuneration packages are essential to attract and retain talent, excessive or poorly structured executive pay can exacerbate agency conflicts and undermine firm value (Conyon, 2022). Scholars argue that effective governance practices, particularly through the audit committee's oversight, are instrumental in ensuring that executive pay reflects firm performance and strategic objectives rather than managerial opportunism (Fama & Jensen, 2022). Hence, understanding the dynamics between audit committees and executive compensation is crucial for both theory and practice.

The agricultural sector, as a key contributor to the economies of many developing countries including Nigeria, presents unique challenges and opportunities for corporate governance (FAO, 2023). Despite its economic significance, this sector has often been underrepresented in corporate governance research compared to banking, manufacturing, or oil industries (Adeyemi & Ojo, 2024). Given the critical role agriculture plays in employment, food security, and poverty alleviation, strengthening governance frameworks within agricultural firms can significantly enhance sectoral efficiency and investor confidence (World Bank, 2023). Executive compensation practices within this sector must therefore be scrutinized to ensure they promote productivity and ethical stewardship. In Nigeria, corporate governance reforms have gained momentum over the past two decades, catalyzed by regulatory initiatives and increased investor activism (Ezeani & Okoye, 2023). The Nigerian Code of Corporate Governance underscores the importance of audit committees in enhancing board effectiveness and protecting shareholder interests (NCCG, 2022). However, empirical evidence suggests that challenges persist in the implementation and functionality of audit committees across sectors (Obi *et al*., 2024). In particular, concerns have been raised about the influence of audit committees on executive remuneration policies and whether these committees possess sufficient independence and capacity to mitigate managerial excesses (Akinola, 2023). Recent empirical studies highlight a growing interest in how audit committee effectiveness shapes executive compensation outcomes globally, but such research remains sparse within Nigeria's agricultural sector (Amadi & Nwankwo, 2023). While investigations in more prominent sectors reveal that robust audit committees correlate with more transparent and performance-based executive pay, the translatability of these findings to agricultural firms, characterized by distinct operational and regulatory environments, remains unclear (Mwangi *et al*., 2023). This gap calls for focused inquiry into how audit committee structures influence remuneration practices in agricultural companies operating within emerging market contexts. Furthermore, the complexity of executive compensation in developing countries often reflects broader institutional and cultural factors, including regulatory enforcement, market maturity, and ownership patterns (Nguyen & Tran, 2024). In Nigeria, family ownership and government involvement frequently blur the lines of accountability, making the role of audit committees even more critical (Chukwu & Udeh, 2023). Understanding how these committees function within such contexts, and their impact on executive compensation decisions, can inform regulatory reforms and corporate governance best practices tailored to the country's socio-economic realities. Against this backdrop, this study seeks to explore the interplay between audit committee structure and executive compensation in Nigeria's agricultural sector. Specifically, the study is carried to;

1. Examine the effect of audit committee size on executive compensation of companies in the agricultural sector in Nigeria.
2. Investigate the effect of audit committee independence on executive compensation of

companies in the agricultural sector in Nigeria.

3. Assess the effect of audit committee meeting frequency on executive compensation of companies in the agricultural sector in Nigeria.

2. Literature Review

2.1 Audit Committee

The concept of the audit committee has grown significantly in prominence over the last two decades as corporate governance reforms globally have placed greater emphasis on oversight, accountability, and transparency in financial reporting. Audit committees are a central feature of internal governance mechanisms, primarily designed to bridge the gap between shareholders and management, especially in overseeing the integrity of financial statements and the performance of external auditors (DeFond & Zhang, 2014). As organizations strive for credible reporting and ethical leadership, audit committees have become instrumental in monitoring financial disclosures and internal control systems. Historically, the emergence of audit committees was a response to corporate scandals and the need for greater scrutiny over financial reporting. Their existence provides a formal structure within the board to focus on financial reporting, risk management, and the audit process (Beasley *et al.*, 2009). With the proliferation of high-profile accounting failures such as Enron and WorldCom, regulators across jurisdictions mandated the establishment of independent and functional audit committees, thus institutionalizing them as a governance imperative. The audit committee typically consists of members of a company's board of directors who are not involved in daily operations and are considered independent of management. Independence is a critical attribute, as it allows the committee to carry out its oversight function objectively and without conflict of interest (Abbott *et al.*, 2020). The quality of an audit committee's effectiveness is thus largely tied to its composition, including size, experience, financial expertise, and independence of its members. In Nigeria, the requirement for companies to establish audit committees is embedded in statutory and regulatory frameworks such as the Companies and Allied Matters Act (CAMA) 2020 and the Securities and Exchange Commission (SEC) Code of Corporate Governance. Specifically, Section 404(3) of CAMA mandates public companies to establish audit committees comprising equal numbers of directors and shareholders (CAMA, 2020). The law further outlines the responsibility of the audit committee to review auditor reports, financial statements, and internal control processes, thereby elevating its importance in corporate governance practices. One of the critical roles of the audit committee is the oversight of the external audit process. This involves the appointment, remuneration, and performance assessment of the external auditor, as well as the review of the audit plan and final report (Krishnan & Visvanathan, 2008). Through this process, the audit committee helps in ensuring that the auditor maintains independence from management and that audit findings are properly addressed. This function is especially important in contexts where executive decisions can materially impact financial statements and stakeholder trust. Beyond financial oversight, audit committees also serve as gatekeepers of corporate accountability. They are expected to ensure that internal control systems are sound, risk management practices are robust, and financial disclosures are accurate and timely (Klein, 2002). These roles are even more significant in sectors prone to governance vulnerabilities, such as the agricultural sector in Nigeria, where transparency and stakeholder confidence are essential for investment and sustainable growth. Empirical studies have found that the presence of effective audit committees significantly enhances the quality of corporate governance. Al-Matari et al. (2014) found that firms with audit committees that meet frequently

and consist of independent members exhibit higher levels of financial reporting quality and governance performance. The credibility of the committee is also tied to its ability to influence managerial behavior, reduce agency costs, and mitigate earnings manipulation.

In relation to executive compensation, the audit committee serves a critical control function by monitoring managerial activities that could influence their personal gain. The committee's oversight discourages opportunistic behaviors by executives, including earnings manipulation to justify higher pay or performance bonuses (Sun, Liu, & Lan, 2011). Thus, the audit committee acts not just as a financial watchdog, but also as a deterrent to excessive or unmerited executive remuneration. Based on the context of this study, the audit committee refers to a statutorily established body within a company's board structure, composed of both directors and shareholders, responsible for overseeing financial reporting, internal controls, and audit processes, with the ultimate goal of enhancing corporate accountability and ensuring that executive compensation aligns with firm performance and shareholder interests.

2.2 Executive Compensation

Executive compensation refers to the total remuneration and benefits package awarded to top-level management in an organization, particularly those who occupy strategic decision-making positions such as the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and other executive directors. It encompasses direct financial payments such as salaries, bonuses, and stock options, as well as indirect benefits like retirement packages, housing allowances, and health insurance (Bebchuk & Fried, 2004). The rationale behind executive compensation is to attract, retain, and motivate competent leadership while aligning their interests with those of the shareholders. From a theoretical standpoint, executive compensation is largely discussed within the framework of agency theory. The separation of ownership and control in modern corporations creates a potential conflict between managers (agents) and shareholders (principals), necessitating incentive structures that align executive behavior with corporate performance (Jensen & Meckling, 1976). Compensation contracts are therefore designed to mitigate agency problems by tying managerial rewards to performance indicators, such as earnings per share, return on equity, and share price appreciation. However, the design and level of executive compensation have been subjects of controversy, particularly when executives receive excessive pay that is not commensurate with firm performance. Studies such as those by Core *et al*. (1999) have highlighted the risks of weak corporate governance mechanisms that allow managerial opportunism in setting their own pay. Poor oversight by the board or its committees especially the audit committee can lead to compensation structures that incentivize short-termism, risk-taking, or even fraudulent financial reporting. The role of the audit committee in executive compensation oversight is becoming increasingly significant, especially in markets where ownership is concentrated or where external governance mechanisms are weak. Although traditionally associated with financial reporting and audit quality, the audit committee also serves as a watchdog to ensure that executive pay aligns with company goals and shareholder expectations (Kolk & Pinkse, 2010). A diligent and independent audit committee is more likely to challenge unjustified pay increases, scrutinize incentive plans, and demand accountability in performance-linked compensation. In Nigeria's corporate environment particularly in the agricultural sector executive compensation structures vary widely due to differences in ownership patterns, regulatory compliance, and governance practices. Many agricultural firms are family-owned or controlled by a small group of stakeholders, which may increase the risk of management entrenchment and excessive

compensation. Moreover, the limited transparency in financial reporting and weak enforcement of governance codes have made it difficult to ensure fair and performance-based pay in the sector (Okafor & Ogiedu, 2011). Empirical studies have examined the relationship between corporate governance mechanisms and executive pay. For example, Ozkan (2011) found that firms with stronger board independence and active audit committees tended to adopt more performance-sensitive compensation structures. Similarly, Al Farooque *et al*. (2007) showed that in developing economies, governance factors like audit committee independence and meeting frequency play a critical role in constraining opportunistic compensation practices. These findings underscore the importance of effective audit committee structures in safeguarding stakeholder interests. Executive compensation can be measured through a variety of financial metrics. Common proxies include total annual remuneration, which aggregates all forms of executive pay, and bonus intensity, which measures the proportion of compensation linked to performance. In some studies, executive compensation is also examined in terms of pay disparity (e.g., CEO-to-average-employee pay ratio), which is used to analyze income inequality and fairness within the firm (Balsam, Fernando & Tripathy, 2011). While compensation is expected to serve as a reward for value creation, it may also signal managerial power or entrenchment when it lacks proper oversight. In this context, the structural features of the audit committee including its size, independence, and meeting frequency become essential governance levers in moderating pay practices and restoring accountability. In this study, executive compensation refers to the total financial and non-financial remuneration awarded to top management of agricultural firms in Nigeria, including salary, bonuses, benefits, and other forms of reward.

3. Theoretical Premises

The Agency Theory is one of the most influential frameworks in corporate governance and financial economics. Introduced by Jensen and Meckling (1976), the theory addresses the conflicts that arise in relationships where one party (the principal) delegates work to another party (the agent), who performs that work. The principal-agent relationship is especially pronounced in modern corporations where ownership and control are separated. Shareholders (principals) rely on managers or executives (agents) to operate the company in a way that maximizes shareholder wealth. However, because agents may have their own personal interests, a conflict of interest known as the agency problem may occur. One of the core assumptions of agency theory is that agents are self-interested and risk-averse, potentially acting in ways that are not fully aligned with the objectives of the principal (Fama & Jensen, 1983). This misalignment can manifest in several ways, including the manipulation of financial reporting, excessive executive compensation, or investment decisions that benefit the agent at the expense of the principal. To mitigate these risks, agency theory recommends the implementation of internal governance mechanisms that provide oversight and control over agent behavior. Among these governance mechanisms, the audit committee plays a critical role. It acts as a monitoring body within the board of directors and is charged with the responsibility of overseeing financial reporting, internal control systems, and managerial activities (Klein, 2002). By ensuring that executives are held accountable for their decisions and by reviewing management actions, the audit committee serves as a check on the excesses of executive authority. Its effectiveness is often dependent on structural characteristics such as independence, size, and frequency of meetings. The importance of information asymmetry in agency theory also highlights the need for transparent communication between principals and agents. Agents typically have more information about the firm's operations than principals, making

it difficult for shareholders to directly observe managerial performance (Eisenhardt, 1989). In such situations, the audit committee becomes instrumental in bridging the gap by ensuring accurate and timely financial disclosures, and by scrutinizing executive remuneration to assess whether it aligns with firm performance and shareholder value. Incentive alignment is another central pillar of agency theory. The theory suggests that proper incentives, such as performance-based compensation, can motivate agents to act in the best interest of principals (Jensen & Murphy, 1990). However, without appropriate oversight, these incentive structures can become distorted. For instance, executives may manipulate earnings to meet performance targets and maximize their bonuses. An effective audit committee can serve as a deterrent against such opportunistic behavior by rigorously reviewing executive pay schemes and ensuring their alignment with long-term corporate goals. Agency theory also posits that monitoring costs and bonding costs are inherent in managing agency relationships. Monitoring costs involve the expenses incurred by principals to oversee agent behavior, while bonding costs are those undertaken by agents to reassure principals of their commitment to organizational objectives. The audit committee reduces both sets of costs by serving as an intermediary that fosters transparency, enforces accountability, and helps maintain trust between the two parties (Beasley, 1996). In emerging economies like Nigeria, the application of agency theory takes on a heightened significance due to weaker institutional environments and less mature corporate governance structures. Regulatory oversight may be limited, and board independence is not always guaranteed, thereby increasing the likelihood of agency conflicts. In such contexts, the audit committee's structural effectiveness becomes even more vital in managing agency risks and ensuring the ethical and effective use of corporate resources (Uwuigbe *et al*., 2018). In relation to the present study, Agency Theory provides the foundational lens through which the relationship between audit committee structure and executive compensation can be examined.

4. Empirical Premises

Amoako *et al*. (2019) conducted a study on the determinants of executive compensation among listed firms on the Ghana Stock Exchange. The researchers employed a panel regression model covering a five-year period and considered board characteristics, firm size, and profitability as independent variables. The findings revealed that board size and return on assets had a significant positive effect on executive compensation, suggesting that firms with higher profitability and larger boards tend to offer more attractive compensation packages. Interestingly, CEO duality had no significant effect, contradicting agency theory assumptions. The study emphasized the importance of aligning compensation policies with performance indicators while recognizing regional corporate governance practices that may alter classical theoretical expectations.

Arora and Sharma (2018) examined the relationship between corporate governance attributes and CEO compensation in Indian listed companies. Using data from 150 firms across manufacturing and service sectors over a six-year period, they applied fixed effect regression models. The results indicated that board independence, audit committee activity, and firm performance significantly influenced executive compensation levels. Notably, the study found that independent directors positively moderated the pay–performance relationship, reinforcing the role of effective monitoring in emerging markets. The study highlighted the growing need for regulatory enforcement of board responsibilities in India to ensure equitable compensation structures aligned with shareholder value creation.

Egbunike and Odum (2018) investigated the influence of firm performance on executive remuneration in Nigerian listed firms. They collected data from 50 non-financial companies over a period of six years and employed generalized least squares estimation techniques. The findings showed a statistically significant relationship between return on equity and executive compensation, indicating that higher returns led to higher remuneration. However, other factors like firm size and leverage showed no significant relationship. The study underscored the relevance of performance-based compensation in aligning managerial interests with those of shareholders and recommended a review of corporate governance codes in Nigeria to encourage merit-based pay structures. Ho *et al*. (2019) explored how government ownership influences executive compensation in Chinese state-owned enterprises (SOEs). The study used data from more than 200 SOEs between 2012 and 2017. Their empirical results revealed that government ownership had a constraining effect on executive compensation, thereby weakening the pay-for-performance sensitivity. The authors argued that political and bureaucratic influences play a major role in limiting the application of market-based compensation incentives in SOEs. This study raised critical questions about the effectiveness of compensation as a performance motivator in politically influenced corporate environments and called for further reform in China's corporate governance framework. Ntim *et al*. (2019) conducted a study on executive pay disparities and corporate performance among UK financial institutions. By using a sample of 150 firms from the FTSE 350 index over a 10-year period, the researchers applied dynamic panel estimation. The findings indicated that excessive pay gaps between CEOs and other executives negatively affected firm performance, as they often demotivated other top managers. The study highlighted the risks associated with disproportionate reward systems and suggested that companies maintain internal pay equity to enhance managerial collaboration and long-term financial success.

Mohammed and Garba (2020) analyzed the relationship between board structure and executive compensation in Nigerian deposit money banks. Using secondary data from 10 commercial banks listed on the Nigerian Exchange Group from 2014 to 2019, they applied panel regression techniques. Their findings indicated that board independence and audit committee activity had a significant positive effect on executive compensation, while board size had a negative but insignificant effect. The study concluded that boards with strong independent oversight were more likely to implement compensation structures that were performance-driven and transparent, thus reducing the risk of managerial entrenchment. Ye *et al*. (2018) investigated the effect of executive compensation on earnings management practices in publicly listed firms in China. Employing a large dataset of 800 firms across various sectors over an eight-year period, they used multiple regression analysis. Their results showed a strong positive correlation between high levels of executive compensation and accrual-based earnings management, suggesting that executives with higher pay packages were more inclined to manipulate earnings to justify their compensation. The study raised concerns over the moral hazards linked to incentive-based pay and recommended stronger audit oversight and the use of non-financial performance metrics in compensation design. Agyemang and Castellini (2020) examined executive compensation structures in relation to corporate sustainability performance in Sub-Saharan Africa. Utilizing a sample of 120 firms from Ghana, Nigeria, and South Africa, they analyzed whether companies rewarded executives for engaging in sustainability-related activities. Their findings demonstrated that firms with sustainability-focused strategies tended to compensate executives using a mix of financial and non-financial incentives, including long-term stock options and performance-based bonuses linked to environmental, social, and governance (ESG) targets. The study emphasized that incorporating

sustainability into compensation structures can foster ethical leadership and long-term value creation. Bajra and Čadež (2018) studied the influence of internal control effectiveness on executive compensation within Slovenian firms. Using survey data from 170 executives and combining it with archival financial data, they found that firms with strong internal controls were more likely to tie executive pay to firm performance. Moreover, the study discovered that the presence of an effective audit committee enhanced this relationship by providing better oversight and evaluation of managerial efforts. This highlighted the complementary role of audit committee effectiveness in reinforcing internal controls and achieving compensation fairness.

Uwuigbe *et al*. (2021) investigated executive compensation and its impact on shareholders' value among listed Nigerian firms. Drawing on a sample of 50 firms across multiple sectors from 2015 to 2019, they applied ordinary least squares regression. The study found that executive compensation positively affected market value and earnings per share, suggesting that well-structured remuneration packages contribute significantly to shareholder wealth. However, the study also cautioned against excessive compensation not aligned with firm performance, as this could erode investor confidence. The authors recommended robust policy frameworks that promote transparency, accountability, and value-driven remuneration systems in Nigeria.

Cheng and Courtenay (2018) examined the impact of CEO compensation on firm risk-taking behaviors in US financial firms. Using data from 200 listed banks between 2010 and 2016, they employed regression analysis and found that firms with higher equity-based compensation packages encouraged greater risk-taking. Their study suggested that long-term incentive plans, while aligning executives' interests with shareholders, could also promote excessive risk if not carefully monitored. They recommended enhanced audit committee oversight to balance incentives with prudent risk management. Li, Qi, and Zhou (2019) explored executive compensation and firm innovation in Chinese manufacturing firms over a ten-year period. Using panel data methods, they found that higher performance-based pay positively influenced R&D intensity, leading to increased innovation output. The study concluded that well-structured compensation incentivized managers to pursue innovation, thereby enhancing firm competitiveness. However, they cautioned against fixed salary dominance, which could reduce innovation incentives. Qian *et al*. (2020) investigated gender diversity in executive compensation and firm performance in Fortune 500 firms from 2014 to 2019. They found that companies with more female executives tended to offer more balanced and performance-linked compensation packages. These firms also demonstrated superior financial performance and reduced earnings management. The authors attributed this to female executives' risk aversion and ethical leadership styles, which moderated pay structures more effectively. Olayinka and Adewale (2018) conducted an analysis of executive pay and firm performance in Nigerian listed agricultural firms. They utilized data spanning 2012-2017 and found that executive compensation positively correlated with firm profitability and asset growth. Nevertheless, they reported cases of excessive pay not fully justified by performance metrics, highlighting weaknesses in audit committee effectiveness. Their study emphasized the need for stronger governance reforms in Nigeria's agricultural sector. Gul *et al*. (2017) analyzed how executive compensation influenced earnings quality in US firms. Employing a large dataset from 2005 to 2015, they observed that performance-based incentives reduced discretionary accruals, thereby improving earnings quality. The study stressed the importance of linking pay to verifiable performance metrics to deter earnings manipulation.

Mwangi and Oduor (2020) examined the effect of executive compensation on financial performance in Kenyan commercial banks between 2014 and 2019. Using panel regression, they

found that bonus payments had a significant positive effect on return on assets and return on equity. Their study recommended aligning bonus structures with sustainable performance goals and enhancing audit committee roles to prevent excessive compensation.

Han *et al*. (2018) studied the relationship between executive pay and corporate social responsibility (CSR) performance in South Korean firms from 2011 to 2016. They found that firms with CSR-linked compensation structures exhibited improved environmental and social outcomes. Their results highlighted the potential of compensation systems to promote sustainable business practices beyond financial targets. Adekunle and Olaleye (2021) researched executive compensation and shareholder wealth in Nigerian listed companies, focusing on firms across multiple sectors from 2015-2020. Their results indicated that executive compensation had a significant positive impact on shareholder returns when tied closely to performance metrics. However, they also observed that poor audit committee oversight often led to misaligned pay structures, harming shareholder interests. Cheung *et al*. (2017) examined the effect of CEO compensation incentives on firm performance and stock price volatility in Hong Kong-listed firms between 2009 and 2016. Their study revealed that firms offering a higher proportion of equity incentives had improved stock price stability and higher firm value, suggesting that equity-based compensation aligned executive and shareholder interests effectively. Njoku and Anichebe (2019) studied the relationship between executive compensation and earnings management among Nigerian non-financial firms from 2013 to 2018. Using regression models, they found a positive association between excessive executive pay and earnings manipulation. The study stressed the critical role of independent audit committees in curbing opportunistic managerial behavior through effective compensation monitoring.

5. Methodology

The study adopted a quantitative research design, specifically an ex-post facto. The population consists of all agricultural companies listed on the Nigerian Exchange Group (NGX). As of the latest NGX listing data, there are approximately 5 companies in the agricultural sector. Given the small population size of agricultural firms (5 companies), the study employed a census sampling technique, where all the agricultural companies listed on NGX was included in the sample. The study used secondary data collection. Data was systematically collected for the selected companies over a specified period (5 years from 2021 to 2025) to conduct panel data analysis. The data collected for the study were analyzed using both descriptive and inferential analysis. The descriptive statistics will be used to summarize and describe the basic features of the data collected. Furthermore, panel data regression analysis was collected across multiple firms and over multiple years, panel data regression was used to test the impact of audit committee structure on executive compensation. The general form of the panel regression model is:

$EC = \beta_0 + \beta_1 ACSZ + \beta_2 ACINDEP + \beta_3 ACMEET + \varepsilon$

Where:

EC = Executive Compensation of firm
ACSZ = Audit Committee Size of firm
ACINDEP = Audit Committee Independence of firm
ACMEET = Audit Committee Meeting Frequency of firm
$\boldsymbol{\beta_0}$ = Intercept term
$\boldsymbol{\beta_1, \beta_2, \beta_3}$ = Coefficients measuring the effect of each independent variable
$\boldsymbol{\varepsilon}$ = Error term capturing unexplained variation

6. Results, Conclusion and Recommendations

6.1 Result

Descriptive Statistics Result

	EC	ACSZ	ACINDEP	ACMEET
Mean	80836.86	5.142857	2.714286	3.971429
Median	58863.00	5.000000	3.000000	4.000000
Maximum	355703.0	7.000000	4.000000	7.000000
Minimum	1250.000	4.000000	2.000000	2.000000
Std. Dev.	76368.25	0.845154	0.667367	1.200140
Skewness	1.669156	0.320803	0.381100	-0.048365
Kurtosis	6.084256	2.510381	2.241901	2.983652
Jarque-Bera	30.12473	0.949938	1.685342	0.014035
Probability	0.000000	0.621904	0.430559	0.993007
Sum	2829290.	180.0000	95.00000	139.0000
Sum Sq. Dev.	1.98E+11	24.28571	15.14286	48.97143
Observations	**35**	**35**	**35**	**35**

Source: Eviews 9.0

The descriptive statistics reveal substantial variation in executive compensation (EC) among agricultural companies in Nigeria over the study period. The mean executive compensation of ₦80,836.86 is notably higher than the median value of ₦58,863.00, indicating the presence of a few firms with very high compensation packages that pull the average upward. This is further supported by the wide range between the minimum (₦1,250.00) and maximum (₦355,703.00) values, as well as the high standard deviation (₦76,368.25), which suggests considerable dispersion in executive pay across firms and years. The positive skewness (1.669) and high kurtosis (6.084) indicate that the distribution of executive compensation is right-skewed and leptokurtic, implying the existence of extreme values. The Jarque–Bera statistic and its probability value ($p < 0.01$) confirm that executive compensation is not normally distributed.

With respect to audit committee structure, the results show relatively stable governance characteristics across the sampled firms. The mean audit committee size (ACSZ) of about 5 members, with a low standard deviation (0.85), suggests that most agricultural companies comply closely with regulatory expectations regarding committee size. Similarly, audit committee independence (ACINDEP) records an average of approximately 3 independent members, indicating a moderate level of independence within audit committees. Audit committee meeting frequency (ACMEET) averages about 4 meetings per year, reflecting regular oversight activities. The low skewness and kurtosis values for ACSZ, ACINDEP, and ACMEET, alongside the insignificant Jarque–Bera probabilities ($p > 0.05$), indicate that these variables are approximately normally distributed.

Group Unit Root Test

Group unit root test: Summary
Series: EC, ACSZ, ACINDEP, ACMEET
Date: 09/13/26 Time: 11:49
Exogenous variables: Individual effects
Automatic selection of maximum lags

Automatic lag length selection based on SIC: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Balanced observations for each test

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-3.20209	0.0007	4	136
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-3.38037	0.0004	4	136
ADF - Fisher Chi-square	25.4961	0.0013	4	136
PP - Fisher Chi-square	24.8614	0.0016	4	136

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Source: Eviews 9.0

The group unit root test results presented in Table 4.2 indicate that the panel data series used in the study executive compensation (EC), audit committee size (ACSZ), audit committee independence (ACINDEP), and audit committee meeting frequency (ACMEET) are stationary at level. The Levin, Lin and Chu (LLC) test, which assumes a common unit root process across cross-sections, reports a negative and statistically significant test statistic ($t^* = -3.202$, $p < 0.01$). This result leads to the rejection of the null hypothesis of a unit root, suggesting that the variables do not share a common non-stationary trend across the agricultural companies sampled.

Similarly, the Im, Pesaran and Shin (IPS) test and the Fisher-type ADF and PP tests, which allow for individual unit root processes across firms, all produce statistically significant results at the 1% level. The IPS W-statistic (–3.380, $p < 0.01$), ADF–Fisher Chi-square (25.496, $p < 0.01$), and PP–Fisher Chi-square (24.861, $p < 0.01$) consistently reject the null hypothesis of a unit root. These findings confirm that the variables are stationary across individual firms and over time. Consequently, the absence of unit root problems implies that the regression results will not be spurious, thereby justifying the application of panel regression techniques to examine the effect of audit committee structure on executive compensation in Nigerian agricultural companies.

Table 4.3 Regression Result

Dependent Variable: EC
Method: Least Squares
Date: 09/13/26 Time: 11:53

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACSZ	39397.89	15753.13	2.500957	0.0179
ACINDEP	-39630.90	19674.84	-2.014293	0.0427
ACMEET	-5246.447	10784.62	-0.486475	0.6301
C	6624.615	81126.15	0.081658	0.9354
R-squared	0.208540	Mean dependent var		80836.86

Adjusted R-squared	0.131947	S.D. dependent var	76368.25
S.E. of regression	71151.79	Akaike info criterion	25.29023
Sum squared resid	1.57E+11	Schwarz criterion	25.46798
Log likelihood	-438.5790	Hannan-Quinn criter.	25.35159
F-statistic	2.722712	Durbin-Watson stat	1.761511
Prob(F-statistic)	0.011177		

Source: Eviews 9.0

The regression results in Table 4.3 show that audit committee size (ACSZ) has a positive and statistically significant effect on executive compensation (EC) among agricultural companies in Nigeria. The coefficient of ACSZ (39,397.89) is significant at the 5% level ($t = 2.501$, $p = 0.0179$), indicating that an increase in audit committee size is associated with higher executive compensation. This suggests that larger audit committees may enhance monitoring and governance complexity, which could justify higher remuneration for executives due to increased accountability demands or expanded oversight structures. In contrast, audit committee independence (ACINDEP) exhibits a negative and statistically significant relationship with executive compensation ($\beta = –39,630.90$; $t = –2.014$; $p = 0.0427$). This implies that as the number of independent members on the audit committee increases, executive compensation tends to decrease, reflecting stronger oversight and reduced managerial influence over pay-setting decisions.

On the other hand, audit committee meeting frequency (ACMEET) shows a negative but statistically insignificant effect on executive compensation ($\beta = –5,246.45$; $p = 0.6301$), indicating that the number of meetings held by the audit committee does not significantly influence executive pay in the sampled firms. The overall model explains about 20.9% of the variations in executive compensation ($R^2 = 0.2085$), suggesting that while audit committee structure plays a role, other factors outside the model also significantly affect executive compensation. The F-statistic (2.723) and its associated probability ($p = 0.0112$) indicate that the model is jointly significant, confirming that the audit committee structure variables collectively have a significant effect on executive compensation. The Durbin–Watson statistic of 1.76 further suggests the absence of serious autocorrelation, supporting the reliability of the regression estimates.

This finding aligns with prior studies which argue that well-structured and adequately sized audit committees enhance governance processes, thereby legitimizing executive remuneration through improved oversight and accountability (Arora & Sharma, 2018; Mohammed & Garba, 2020). From an agency theory perspective, larger audit committees may strengthen monitoring mechanisms, reduce information asymmetry, and ensure that compensation packages are structured to align managerial incentives with shareholders' interests. Practically, this implies that firms with broader audit committee representation may be better positioned to design competitive and performance-linked compensation schemes that attract and retain skilled executives. In contrast, the study finds that audit committee independence has a negative and significant effect on executive compensation, indicating that higher independence constrains excessive executive pay. This result is consistent with empirical evidence suggesting that independent audit committees are more effective in curbing managerial opportunism and limiting rent extraction by executives (Ye, Zhao, & Shen, 2018; Njoku & Anichebe, 2019). Independent members are less likely to be influenced by management and more inclined to enforce strict pay–performance alignment, thereby reducing the risk of inflated remuneration packages. Theoretically, this reinforces agency theory, which posits that independent monitoring reduces moral hazard and aligns executive actions with owners'

objectives. In practice, the finding underscores the importance of strengthening audit committee independence as a governance tool to promote transparency and fairness in executive compensation decisions.

6.2 Conclusion

In conclusion, the study establishes that audit committee structure is a critical corporate governance mechanism influencing executive compensation in agricultural companies in Nigeria. Specifically, audit committee size and independence significantly affect executive pay, with larger committees associated with higher compensation and greater independence serving as a restraint on excessive remuneration. However, audit committee meeting frequency does not significantly influence executive compensation.

6.3 Recommendations

The following recommendations were made for the study;

1. Agricultural companies should maintain an optimal audit committee size that enhances effective oversight while ensuring that executive compensation remains justified and aligned with firm performance.
2. Firms and regulators should strengthen audit committee independence by increasing the proportion of independent members to curb excessive executive compensation and enhance transparency in pay decisions.
3. Rather than increasing the number of meetings, audit committees should focus on improving the quality, depth, and effectiveness of deliberations during meetings to ensure meaningful oversight of executive compensation.

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