

Directors' Compensation and Financial Performance of Deposit Money Banks in Nigeria

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Abstract

This study examined the effects of directors' compensation on the financial performance of listed deposit money banks in Nigeria. The study adopted ex-post facto research design from the published financial statements of sampled banks for the period 2008 to 2017. The secondary data obtained from the financial statements were tested using multiple regression analysis and the results reveal that there is a relationship between directors' salary on the return on assets (ROA) and return on equity (ROE) of deposit money banks in Nigeria; there is a relationship between directors' bonus on return on assets (ROA) and return on equity (ROE) of deposit money banks in Nigeria and there is a relationship between directors' stock option on return on assets (ROA) and return on equity (ROE) of deposit money banks in Nigeria. The paper concluded that the amount money paid to executive directors as salary does affect the return on assets and equity of listed banks in Nigeria. Even thus the relationship between the dependent and independent variables are not significant. Therefore the following recommendations were provided amongst others: executive remuneration of quote firms should be pegged constantly in a flexible manner. This will enable shareholders know the causality relationship between what is paid to the executive and how that influence performance; regulators should make it mandatory for quoted firms to clearly show all the remunerations, bonuses and packages in monetary value on the annual reports and accounts. This will then assist researchers, users of annual reports and of course members of the general public to find out the extent shareholders wealth are being pursued.

Keywords: *Executive Compensation, Financial Performance, Return on Assets, Return on Equity*

INTRODUCTION

The issues of directors' compensation and financial performance have been major subjects of academic research for some time now. The need for the study of directors' compensation in organizations is linked to the fact that organizational strategy design is the primary responsibility of the executive officers and they take strategic decisions on issues affecting the entire firm. The effect of these decisions on the general outcome of an organization is essential. In the recent years there has been a debate about the level of executive compensation given to executive officers of large corporations. Ferri and Maber (2009) noted that countries like Britain have developed new legislations to control the pays of executive officers and influence it through the voice of the shareholders.

Studies have shown further that compensation system play a vital role on how those decisions are made because top management are responsive to what they observed will lead to a personal gravity. (Jegade, 2012; Abdul, Muhammed, Hafiz, Ghazanfar and Muhammad, 2014; Adeoye, 2015). There is a reason to believe that the effects of these decisions may determine the attainment of organizational objectives. The executive compensation system of organizations cannot be ignored as the mode of rewarding the top management has a key role to play in how business activities are conducted in their respective organizations. The compensation system of executives often differs from that of other members of staff. Top executives are not only more remunerated than the other members of staff, their pay structures also differ. Several investigations have been carried out to examine how executive compensation systems are determined (Ian et. al 2012; Jegede, 2012). Further opinion on this issue showed that current forms of managerial incentive pay do not effectively align with the incentives of managers as several studies indeed cannot show any positive correlation between executive incentive pay and improved performance of the firm.

According to Eduardo (2009), executive compensation consists of three elements, namely: a base salary, an annual cash bonus plan (short-term incentive), and a stock-based plan (long-term incentive). While salary is based on an annual fixed dollar amount and long-term incentive typically links executive compensation to the firm's share price at some future date, short-term incentive payoffs usually stem from more immediate, operational performance drivers. The chief executive officer cash bonus plan therefore depends on the board's ex-ante choices among the many performance measures available to examine executive performance. Moreover, performance measures for the cash bonus plan should take into account risk-incentive tradeoffs.

There are a lot of factors that interplay to influence the performance of firms. Executive compensation is one of the myriad of factors that can impinge on firms' performance (Ayodele, 2012). Often, investigations are hardly made to unravel how much the top executives that direct the affairs of a company should receive by way of remuneration and other forms of compensations and incentives. Executive compensation is the package which goes with labour services. Hence Adeoti and Isiaka (2006) argued that the objective of executive remuneration is to attract; motivate and retain good people for attainment of the organizational performance. Executive compensation which is interchangeably used with executive pay or remuneration comprises of salary and incentive pay. Incentive pay could consists of cash and non- cash packages; and is an aspect in finance and accounting that is yet to gain ascendancy in research especially in developing countries like Nigeria. Compensation normally takes the form of basic pay such as salary or non-financial rewards (Ayodele, 2012).

The relationship between executive compensation and corporate management performance has been studied in the accounting area through the analysis of forms of compensation and its correlation with the accounting items. Several empirical studies have been developed in order to examine the results obtained by the executives' compensation (Frydman and Saks, 2010; Murphy and Sandino, 2010). Many studies have tried to answer this question but the results are vague and in some cases totally different from each other. Tosi and Gomez-Mejia (2000) found no relationship between these two variables whereas Brick, Palmon and Wald (2006) and Ozkan (2007) found a strong and positive relationship between them. Following the previous studies, this study will try to determine whether there is any relationship between executive compensation and management performance of selected deposit banks in Nigeria. Rokiah and Novhani (2014); Ayodele (2012); Kurawa and Saidu (2014); Olalekan and Bodunde (2015) have examined the association that exist between executive remuneration and firm performance, but with varying mixed results due to different samples, time periods and

performance indicators. A study by Aduda (2011) reveals that there exist “varying degrees of relationships between remuneration of executives and firm performance”. In addition, a positive and significant relationship between executive remuneration and quoted firms’ performance was made by Ozken (2007), Kabla (2008) and Fald Al-Helzan (2011). More recently, Nyaoga, Tarus and Bagweti (2014) found negative correlation between compensation and financial performance. Therefore, it is against this backdrop, this present study empirically investigates the effect of executive compensation on the financial performance of deposit money banks in Nigeria.

LITERATURE REVIEW

This section of the study provides the relevant literatures on executive compensation and financial performance of deposit money banks.

Theoretical Framework: The following theories of executive compensation would be examined in this study according to Balsam (2012):

Value Based Approach: This approach focuses mainly on the question *how much* to pay executives. Executive pay is legitimized here by arguing that pay is set by market forces and pay is mainly regarded as the market value of executive services. The value approach consists of the following five different theories: (1) marginal productivity theory, (2) efficiency wage theory, (3) human capital theory, (4) opportunity cost theory, and (5) superstar theory (Balsam, 2012).

Agency Based Approach: This approach examined mainly the consequences of agency problems, and focuses on the question as to *how* to pay executives. Legitimizations of pay levels and structures are based on arguments of market forces and conceptions of executive pay at risk. Pay levels are in this approach mainly assumed to be based upon the market value of executives’ services. As pay is seen as a consequence of agency problems, the question how to pay the executive is the main issue addressed in these theories (Balsam, 2012).

Symbolic approach: This approach considers pay as a reflection of expectations, status, dignity or achievements, and plays a more secondary role in executive motivation. The symbolic approach consists of the following seven theories: (1) tournament theory, (2) figurehead theory, (3) stewardship theory, (4) crowding-out theory, (5) implicit/ psychological contract theory, (6) social enacted proportionality theory, and (7) social comparison theory (Balsam, 2012).

Conceptual Framework: This section of the paper examined executive compensation and financial performance.

Meaning of Executive Compensation: The term executive compensation is used to indicate top employee’s gross earnings in the form of financial rewards and benefits (Akwuosa and Saka, 2018). Though, compensation can be examined as a system of rewards that can motivate the employees to perform. Compensation structure takes into consideration qualification, experience, attitude and prevailing rates in the labour market or industry. According to Shin, Lee and Joo (2009), executive compensation is composed of the financial compensation and other non-financial awards received by an executive from their firm for their service to the organization. It is typically a mixture of salary, bonuses, shares of or call options on the company stock, benefits and perquisites, ideally configured to take into account government regulation, tax law, the desires of the organization and the executive, and rewards for

performance. Executive compensation is a broad term for the financial compensation awarded to a firm's executives. Junaidu and Sanni (2014) defined executive compensation or executive pay as financial compensation and other non-financial awards received by an executive from their firm for their service to the organisation. This typically a mixture of salary, bonuses, shares of or call options on the company stock, benefits, and perquisites, ideally configured to take into account government regulations, tax law, the desires of the organisation and the Executive, and rewards for performance. Kuhnlen and Zwiebel (2009), and Bebchuk and Fried (2004), identified the various elements of executive compensation to include a basic salary, bonus, stock options, and grant of shares, pension, severance pay and perquisites. Other benefits include employee benefits and pension ideally configured to take into account government regulations, tax law, the desires of the organisation and the executive, and rewards for performance.

Financial Performance: Firm financial performance is generally defined as a measure of the extent to which a firm uses its assets to run the business activities to revenues. It examines the overall financial health of a business over a given period of time and can be used to contract the performance of identical firms in similar industries or between industries in general (Atrill et al. 2009). The main source of data for determining firm financial performance is the financial statement, the product of accounting which consists of the balance sheet which shows the assets liabilities and equities of a business, the income statement that records the revenues, expenses and profits in a particular period, the cash flow statement which exhibits the sources and uses of cash in period, and the statement of changes in the owners' equity that represents the changes in owner's wealth. Firm financial performance is commonly reflected in the calculation of financial ratios that show the link between numbers in the financial statement. The financial ratios may include the computation of the profitability, efficiency, liquidity, gearing, and investment of a particular firm. Moreover, firm financial performance generally may also be reflected in market-based (investor returns) and accounting-based (accounting returns) measures. Examples of market-based indicators to measure firm financial performance are price per share and Tobin's Q which indicate the market value or the share of the firm as well as the financial prospect of the firm in the future. Additionally, what the shareholders have perceived from the returns distributed by the firm is also the driver of the share price. This price may lead to the market value of the firm. Alternatively, accounting-based measures, including profitability, efficiency, liquidity, gearing, and investment ratios, are calculated using the figures from the financial reports and may represent a firm's financial performance. According to Atrill et al. (2009), the ratios that may be utilized to calculate the firm's profitability and the return on assets (ROA), return on equity (ROE) and return on investments (ROI). These ratios express the success of a firm in generating profits or returns from the resources owned. In contrast, the market-based measure is believed to be more objective because it relies on one market responses to particular decision made by a firm. The choice of whether to use accounting or market-based calculations for measuring a firm's financial performance depends upon the specific aims of the research.

Prior Empirical Studies

The substantial increase in CEO and board compensation has been an extensively researched subject, and a large amount of previous studies have examined the relation of top management pay and firm performance (e.g. Attaway, 2010; Banker, Darrough, Huang, and Plehn-Dojuwich, 2013). However, the findings and discussions have been contradictory and inconsistent. Banker, Darrough, Huang and Plehn-Dujowich (2013) findings show, that while the salary of top management is positively correlated to performance, top management bonus shows of no such positive relation. These authors therefore argue that it is critical to separate

variable pay for performance and fixed salary when discussing the relation of executive pay and performance. This non-relationship of bonus and performance has also been supported by several other studies in various settings and under different conditions (Randøy and Nielsen, 2002; Guo, 2013; Basuroy, Gleason. and Kannan, 2014). Furthermore, a study conducted by Wald, Palmon and Brick (2006) indicates that variable pay for performance is not correlated with enhanced performance – but rather associated with firm underperformance.

Even though an extensive amount of previous studies attained results' have indicated that the implemented top management reward systems lacks positive impact on firm performance, there are other studies which have found opposing results. Hall and Liebman (1998) have found a strong positive relationship between variable pay and performance of the firm and this result has further been confirmed by Chen and Ma (2011). The positive impact of pay for performance has also been stressed and defended by Jensen and Murphy (2010), who argue that the CEO compensation can be considered essential in enhancing firm performance. Even though these authors state that the huge amount of CEO and board compensation can be problematic, it is not the amount paid that is the problem – but rather *how* the CEO and the board are compensated. Jensen and Murphy (2010) thereby argue that it is critical that the variable compensation is tied to performance; otherwise it will have no positive effect for the shareholders of the firm.

The inconsistency within previous research indicates that no conclusive statement can be made if pay for performance is connected to the performance of the firm on a general level. This is problematic, since it is ultimately the shareholders that will pay for the vast bonuses to the top management. If pay for performance does not increase the performance of the firm, the shareholder's investments are inadequately spent (Frydman and Jenter, 2010). However, this issue is not only a significant concern for the shareholders of the firm, but also a concern for the remaining actors within society. The increasing levels of the variable pay to top management reduce the amount of other investments, investments which potentially can improve other parts of the society (Grabke-Rundell and Gomez-Mejia, 2002).

Findings by Matolcsy and Wright (2011) implicate that the variable pay's impact on a firm's performance is dependent on the context in which the firm operate and that an organization with top executive variable compensation better adjusted to the context shows higher performance. Hou, Wanrong, Richard, Priem and Goranova (2014), discuss the relation between firm features and pay for performance and contend that the conditions in which the firm operates need to be taken into consideration when implementing an incentive system. This indicates that the settings in which the firm operates potentially can impact the effect of variable pay on performance.

Several studies have been published concerning pay for performance and firm performance within different specific industries. For instance, Sun, Weir and Huang (2013) have investigated the relationship of firm performance and incentive programs within the insurance industry, and Rieter, Sandoval, Brown and Pink (2009) within the Healthcare industry. Further, John and Qien (2003) have explored this subject within the banking industry and Shim and Lee (2003) among firms in the service industry. However, even though numerous studies have explored the relation of pay for performance and firm performance within different industries, studies exploring the differences across industries are limited. In our upcoming thesis, we therefore aim to explore this subject in further depth by examining variable pays' impact on performance in various industries.

Ayodele (2012) empirically examined the nexus between executive remuneration structure, and firm performance in the Nigerian banking industry. The findings show that executive compensation structures do not affect banks' market values proxy at stock price. Kurawa and Saidu (2014) further determined the "impact of executive remuneration on financial performance of listed banks in Nigeria; findings from the study reveal a positive but statistically significant nexus between executive remuneration and the performance of the banks. Olalekan and Bodunde (2015) examined the "effect of executive pay on bank performance in Nigeria between 2005 and 2012, using a dynamic generalized method of moment (GMM); the findings shows that CEO pay has significant but negative influence on bank performance in Nigeria". Aduda (2011) examines the association between executive remuneration with company performance in Kenya. The study findings indicates a negative correlation exists between executive remuneration and maximization of returns to shareholders. The kind of relationship between firm size and performance has received considerable attention but with conflicting results (Symeou, 2012). Some industries, organizations and sectors link large firms to better performance in line with the neoclassical theory of firm size while some research findings by Oliver and Chukwuani (2014) support a negative relationship between firm size and profitability.

Akewuosha and Saka (2018) studied executive compensation and organizational financial performance of selected diversified firms in Nigeria. Their study adopted ex-post facto research design that made use of the annual reports of six (6) firms in Nigeria. The annual report was used and was analysed using panel data regression model. The research findings revealed that profitability, size of firm, return on equity and return on investment have significant influence on what is to be paid as executive compensation.

Sigler (2013) examines the relationship of CEO pay and company performance for 280 firms listed on the New York Stock Exchange for a period from 2006 through 2009. The time frame of the study is a period after the adoption of the Sarbanes Oxley Act and after the SEC approval of the corporate governance rules affecting executive pay for New York Stock Exchange companies. With both descriptive and inferential statistic, a positive and significant relationship between total CEO compensation and company performance measured by return on equity was established. It was also discovered that the size of the firm appears to be the most significant factor in determining the level of total CEO compensation, according to the results, the tenure of the chief executive officer is another significant variable that influence return on equity. In this study, the CEO pay was proxy by monthly salary, cash compensation and total compensation. Therefore, since total compensation may include monthly salary and cash compensation, there is possibility of multicollinearity in data which might have affected the result.

Suherman, Wulan and Agung (2011) conducted a study on the kind of relationship that exists between firm performance, corporate governance, and executive compensation in financial firms in Indonesia. The sample of the study comprises 13 financial companies listed during the period 2007-2009 on Indonesian Stock Exchange. The inferential statistic result reveals that the probability for ROA is 0.0001, which implies that a significant positive relationship exists between executive compensation and ROA at 1% level of significance ($t\text{-stat}=4.37$). The argument for this relation is because the bonus given by company to the executive depends on the company profit. The higher the company profit, the higher the bonus that executive will receive. However, the value of probability of total shareholders' returns (TSR) as reported by the researchers was 0.4351 ($t\text{-stat}=0.79$, insignificant), which means no significant relationship was found between TSR and executive compensation. The major deficiency of this study was

the representativeness of the sample. 13 companies out of 73 could not be representative. It would have been expected that they study covers the entire population since a very small population was involved.

Hassaen (2015) in a paper examined the effect of CEO compensation on firm performance of French family firm. To investigate the link between executive pay and firm performance, they utilized multiple regression method over a period of four years (2007-2010). Findings from their study revealed that French family companies provide excessive compensation compared to their non-family counterpart, suggesting that families are likely to extract private benefits at the expense of minority shareholders. The findings also show that excess remuneration paid to executives has a negative impact on financial performance. The result confirms the preceding one and suggests that CEO compensation is used by families as a tunneling mechanism that exacerbates agency costs.

Denirer and Yuan (2013) carried out a study to investigate the relationship between executive compensation structure and firm performance in the US restaurant industry. Using executive compensation data for public trade restaurant firms for the periods 1999 to 2010, their results suggest that compensation in the form of bonuses and non-equity affect restaurant firm performance positively. Findings from the study also revealed that compensation in the form of salary affects restaurant firm performance negatively. Findings of this study suggest that restaurant firms should use salary with discretion and use bonuses and deferred pay to increase firm performance.

Sun, Wei and Huang (2013) in a paper examined the relationship between CEO compensation and firm performance proxied by efficiency estimated from data envelopment analysis (DEA) of the US property-Liability (P&L) insurance industry. The study was conducted in two stages. First, they applied DEA models to calculate efficiency scores. In the second stage a translog model was used to correlate the level and structure of CEO compensation and the efficiency for the sample P&L insurance over the period of 2000 to 2006. Findings from the study revealed that firm efficiency is positively and significantly associated with total CEO compensation. While efficiency is associated with CEO cash compensation, cost efficiency is associated with incentive compensation.

Another empirical study was conducted by Yongli and Dave (2012) on the relationship between executive compensation, ownership structure and firm performance in Chinese financial corporation's during the period 2001-2009. Relying on secondary data, it was reported that executive compensation is negatively related to the largest shareholding (-0.017), but positively related to the proportion of shares held by the five largest shareholders and the ten largest shareholders (0.017 and 0.054 respectively), indicating that private companies tend to pay CEOs higher. Moreover, CEO compensation is negatively associated with return on equity RET (-0.027) and ROA (-0.015), indicating that the higher the CEO compensation in Chinese banks, the lower the firm value or firm profitability. In another words, high CEO compensation deteriorates firm value, which is consistent with relation-based theory. As a result, executive compensation in state-owned banks is maintained at a relatively lower level.

Campbell (2015) in a paper examined the complex relationship between compensation levels of the Top management team (TMT) and firm performance. A core objective of the study was the comparison of executive compensation and company performance for United States based companies. Data was collected from a random sample of the 2013 fortune 500 list of largest United States based companies. For the study, the value of the options granted was determined

using the Modified Black Scholes method. The statistical procedure employed in the study was ordinary least squares (OLS) regression analysis. OLS regression analysis for the study utilized SPSS 22.0. Findings from the study revealed that a significant relationship exists between CEO compensation and the accounting based measure of performance which accounted for 11.4% of the variance observed in the accounting based measure of performance. The results also showed that levels of Vice President Compensation have a stronger direct relationship with firm performance than CEO compensation.

Bhatnagan and Trimm (2011) in a study explored the Agency managerial power theories to explain the relationship among the various components of executive compensation, firm performance and unsystematic risk in the US financial sector. Institutions in the financial sector listed on the NASDAQ that have been in existence from the pre-financial crisis period January 03, 2006 to the post financial crisis December 27, 2009 are examined. We find that the Agency theory does not fully explain the behavior of executives and their risk appetite. Managerial power theory fares better in this regard, as managers are focused mostly on their base salary. The date analysis shows that stock options are not significantly influenced by unsystematic risk; instead the base salary of executives has been significantly influenced by market risk and firm performance.

Nulla (2014) in a study investigated the effect of CEO roles with accounting performance towards CEO compensation in the New York Stock Exchange (NYSE) companies from the periods 2005 to 2010. This study selected one hundred and twenty companies through stratified sampling method. This study demanded the characteristics of numerical and objectivity as such the quantitative research methodology was applied. The research question for this study was: is there a relationship between CEO compensation, CEO & chairman dual role, and CEO role? It was found that, there was relationship between CEO salary, CEO bonus, CEO total commendation, and accounting firm performance, under both roles.

Jaafar, Wahab and James (2012) in a study examined relationship between director remuneration and performance in Malaysia family firms. The proxies of director remuneration include fees, salary, bonuses and benefits of kin. The proxy for family firm is a dummy variable that is one (1) if the firm is a family firm and zero (0) is a non-family firm. The dependent variable (performance) is measured by ROA and ROE. A panel analysis of 537 firms from 2007 and 2009 finds that the relationship between director remuneration and performance is significantly positive. This suggests that the remuneration drive board motivation to enhance performance.

Ismail, Yabai and Hahn (2014) in a study investigated the relationship between CEO pay and firm performance (return on asset, return on equity and profit margin) of 100 companies from the consumer product sector in Malaysia listed in Bursa Malaysia from 2006 to 2010. The research question for this study was, will the payment of CEO affects the company's performance? Overall, most of the attestations results were found to have a relationship between CEO pay and firm performance. The correlations and regressions among the sub-variables of the firm performance and the CEO pay were found to be consistently positive ranging from weak positive to the strong positive.

This study therefore provided the following hypotheses:

1. Directors' salary does not determine return on asset (ROA) of deposit money banks in Nigeria.

2. Directors' bonus does not determine return on asset (ROA) of deposit money banks in Nigeria.
3. Directors' stock option does not determine return on asset (ROA) of deposit money banks in Nigeria.
4. Directors' salary does not determine return on equity (ROE) of deposit money banks in Nigeria.
5. Directors' bonus does not determine return on equity (ROE) of deposit money banks in Nigeria.
6. Directors' stock option does not determine return on equity (ROE) of deposit money banks in Nigeria.

MATERIALS AND METHODS

This study used ex post facto research design. The data used were sourced from the published financial statements of sampled deposit money banks (First Bank of Nigeria, Zenith Bank of Nigeria, United Bank for Africa, Guarantee Trust Bank, and Union Bank of Nigeria) in Nigeria for the period 2008 – 2017. The dependent variable in this study is financial performance and it was measured by return of asset (ROA) and return on equity (ROE) of selected banks for the period under review and the independent variables include directors' salary, bonus and stock option. Also control variable in this study is bank size (Mehari and Aemiro, 2013). The study is guided by the following model:

$$ROA = \beta_0 + \beta_1DIRS_{1it} + \beta_2DIRB_{2it} + \beta_3DIST_{3it} + \beta_4BAKS_{4it} + \varepsilon \dots \dots \dots (1)$$

$$ROAE = \beta_0 + \beta_1DIRS_{1it} + \beta_2DIRB_{2it} + \beta_3DIST_{3it} + \beta_4BAKS_{4it} + \varepsilon \dots \dots \dots (2)$$

Where: ROA = Return on asset; ROE = Return on equity; DIRS = Directors' Salary; DIRB = Directors' Bonus; DIST = Directors' Stock Option; BAKS = Bank Size (The total assets of the bank); I represent every firm and t every year and the priori expectation: $\beta_1-\beta_4 > 0$.

RESULTS AND DISCUSSION

This section provides the results and discussions of research outcomes.

Multiple Regression Output

Table 1: Multiple Regression Results/Output

Dependent Variable: ROA

Date: 1/20/20 Time: 07:00

Sample(adjusted): 2008 2017

Included observations: 49 after adjusting endpoints

Variable	Coefficien	Std. Error	t-Statistic	Prob.
	t			
C	286327.4	80872.94	3.540459	0.0041
DIRS	0.801962	0.534801	1.523941	0.1612
DIRB	1.771444	1.239146	1.429568	0.1420
DIST	1.106314	1.086981	1.017785	0.1261
BAS	5.124505	1.864347	2.748686	0.0176
R-squared	0.435165	Mean dependent var		466619.5
Adjusted R-squared	0.362887	S.D. dependent var		176186.7
S.E. of regression	32060.78	Akaike info criterion		23.82858
Sum squared resid	1.23E+10	Schwarz criterion		24.07365
Log likelihood	-197.5430	F-statistic		5.567008
Durbin-Watson stat	2.105089	Prob(F-statistic)		0.000100

SOURCE: Eview Output 8.0

Table 1 shows the multiple regression analysis for return on assets (ROA) and executive compensation for the period 2008 to 2017. The result suggests that DRS (director salary), DRB (director bonus), DRST (director stock option) with p-values of 0.1612, 0.1420, 0.1261 is greater than the critical value of 0.05. Hence, we deduce that there is a relationship between director salary, director bonus and director stock option on return on assets, but the relationship is not significant. The R^2 (coefficient of determination) of 0.435165 and adjusted R^2 of 0.362887 shows that the variables combined determines about 44% and 36% of return on assets. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined are statistically significant (F-stat = 5.567008; F-pro. = 0.000100). The Durbin Watson statistic of 2.11 reveals the absence of autocorrelation, thus the variables can be relied upon for policy decision making.

Table 2: Multiple Regression Results/Output

Dependent Variable: ROE

Method: Least Squares

Date: 1/20/20 Time: 08:20

Sample(adjusted): 2008 2017

Included observations: 49 after adjusting endpoints

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C	286327.4	80872.94	3.540459	0.0041
DRS	0.420556	0.140432	0.576766	0.2669
DRB	0.832462	0.739634	1.125505	0.1220
DRST	0.806314	0.686981	1.017785	0.1352
BAS	3.124505	1.764347	1.770913	0.0176
R-squared	0.534285	Mean dependent var	466619.5	
Adjusted R-squared	0.502887	S.D. dependent var	176186.7	
S.E. of regression	32060.78	Akaike info criterion	23.82858	
Sum squared resid	1.23E+10	Schwarz criterion	24.07365	
Log likelihood	197.5430	F-statistic	6.485763	
Durbin-Watson stat	2.254763	Prob(F-statistic)	0.000100	

SOURCE: Eview Output 8.0

Table 2 shows the multiple regression analysis for return on equity (ROE) and executive compensation for the period 2008 to 2017. The result suggests that DRS (director salary), DRB (director bonus), DRST (director stock option) with p-values of 0.2669, 0.1220, 0.1352 is greater than the critical value of 0.05. Hence, we deduce that there is a relationship between director salary, director bonus and director stock option on return on equity of selected banks, but the relationship is not significant. The R^2 (coefficient of determination) of 0.534285 and adjusted R^2 of 0.502887 shows that the variables combined determines about 53% and 50% of return on equity. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined are statistically significant (F-stat = 6.485763; F-pro. = 0.000100). The Durbin Watson statistic of 2.25 reveals the absence of autocorrelation, thus the variables can be relied upon for policy decision making.

Discussion of Findings

The hypothesis tested reveals that there is a relationship between directors' salary and return on assets and equity of deposit money banks. This result is consistent with the study of Banker, Darrough, Huang and Plehn-Dujowich (2013) that salary of top management is positively correlated to performance. These authors therefore argue that it is critical to separate variable pay for performance and fixed salary when discussing the relation of executive pay and performance. Hall and Liebman (1998) have found a strong positive relationship between variable pay and performance of the firm and this result has further been confirmed by Chen and Ma (2011). The positive impact of pay for performance has also been stressed and defended by Jensen and Murphy (2010), who argue that the CEO compensation can be considered essential in enhancing firm performance. Kurawa and Saidu (2014) further determined the "impact of executive remuneration on financial performance of listed banks in Nigeria; findings from the study reveal a positive but statistically significant nexus between executive remuneration and the performance of the banks.

The hypothesis tested also shows that there is a relationship between directors' bonus on the return of assets and equity of deposit money banks in Nigeria. The result is in disagreement with the study of (Randøy and Nielsen, 2002; Guo, 2013; Basuroy, Gleason. and Kannan, 2014) of the non- relationship of bonus and performance and has also been supported by several other studies in various settings and under different conditions Furthermore, a study conducted by Wald, Palmon and Brick (2006) indicates that variable pay for performance is not correlated with enhanced performance – but rather associated with firm underperformance. The result is also in agreement with Denirer and Yuan (2013) that carried out a study to investigate the relationship between executive compensation structure and firm performance in the US restaurant industry. Their results suggest that compensation in the form of bonuses and non-equity affect restaurant firm performance positively.

The hypothesis further reveals that there is a relationship between directors' stock option and return on assets and equity of selected deposit money banks in Nigeria. This is consistent with the findings of Akewuosha and Saka (2018) that studied executive compensation and organizational financial performance of selected diversified firms in Nigeria. The research findings revealed that profitability, size of firm, return on equity and return on investment have significant influence on what is to be paid as executive compensation. The result is consistent with Denirer and Yuan (2013) carried out a study to investigate the relationship between executive compensation structure and firm performance in the US restaurant industry. Using executive compensation data for public trade restaurant firms for the periods 1999 to 2010, their results suggest that compensation in the form of bonuses and non-equity affect restaurant firm performance positively.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study examined the effects of executive compensation and financial performance of deposit money banks in Nigeria. Executive compensation is composed of the financial compensation and other non-financial compensations received by an executive from their firm for their service to the organization. It is typically a mixture of salary, bonuses, shares of or call options on the company stock, benefits and perquisites, ideally configured to take into account government regulation, tax law, the desires of the organization and the executive, and rewards for performance. The empirical results provide that there is a relationship between directors' salary and return on assets (ROA) and return on equity (ROE) of deposit money banks in Nigeria; there is a relationship between directors' bonus and return on assets (ROA) and return on equity (ROE) of deposit money banks in Nigeria and there is a relationship between directors' stock option on return on assets (ROA) and return on equity (ROE) of

deposit money banks in Nigeria. Therefore on the basis of the results, the paper concludes that the amount money paid to executive directors as salary, bonus and stock options does affect the return on assets and equity of listed banks in Nigeria. Even thus the relationship between the dependent and independent variables are not significant. Therefore the paper made the following recommendations: executive remuneration of quote firms should be pegged constantly in a flexible manner. This will enable shareholders know the causality relationship between what is paid to the executive and how that influence performance; the regulators should make it mandatory for quoted firms to clearly show all the remunerations, bonuses and packages in monetary value on the annual reports and accounts. This will then assist researchers, users of annual reports and of course members of the general public to find out the extent shareholders wealth are being pursued; the link between executive pay and financial performance is often influenced somewhat by the performance metric used. In the interest of the shareholders, the performance metric adopted should be in conformity with the objective of shareholder wealth maximization; there should also be a consideration of the compensation – setting process that depends on a firm’s ownership structure, board of directors, remuneration committee, market for corporate control and the general public; the board should focus on efficiency measures in setting executive compensation levels as these ultimately drives the performance of banks in Nigeria and regulators and policy makers should provide adequate regulation on the determination of remuneration of the directors of listed companies in Nigeria.

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