FIRM ATTRIBUTES AND EXECUTIVE COMPENSATION OF CONGLOMERATES IN NIGERIA

Aliyu Saidu
National Board for Arabic and Islamic Studies, Kaduna State
+2348036039896, +2348052364748,
aliyusaidu85@gmail.com, saidualiyu@ymail.com

Ahmad Muhammad Lawal
TISSA, School of Accountancy
University Ultra Malaysia
+2348032872424, +601158616764

Abstract
Executive compensation, particularly in the western countries has over the years received intense media and research interest particularly from the occurrence of large corporate failures. This brought to the fore, the seemingly huge compensation been received by the Executive Directors irrespective of the nature of the performance of the companies they manage. This study examined the impact of firm attributes on executive compensation using panel data from a sample of six listed conglomerates in Nigeria for a period of nine years (2010-2018). Ordinary least square (OLS) was used as technique of data analysis. The findings revealed a positive and significant impact of firm financial performance (that is: return on asset and return on equity) on executive compensation while executive ownership had a negative and significant effect on executive compensation of listed conglomerates in Nigeria. The study concluded that firm financial performance and executive ownership impact on the quantum of compensation paid to the Executive Directors, while institutional ownership, board composition and board size does not significantly. Therefore, it is recommended that the listed conglomerates in Nigeria should improve the design of the compensation of the Executive Directors with financial incentives and stocks (equity) as it will enhance the maximization of the shareholders' wealth.

Keywords: Executive compensation, ROA, ROE, Institutional ownership, Executive ownership, Board composition, Board size and Conglomerates firms

1. Introduction

Corporate governance is involved with methods in which all events interested in the well-being of a company try to make sure that managers and different insiders take measures or undertake mechanisms that safeguard the interests of shareholders. Such measures are necessitated because of the separation of ownership from management, which is an increasingly essential feature of the cutting-edge firm, mainly the conglomerate companies, in which the executive directors are involved in dealing with varied operations. When dealing with a firm,

Executive Directors may also act of their satisfactory interest rather than the interest of the company's owners (shareholders). For instance, the managers may take steps to increase the dimensions of the firm in conjunction with their pay, which won't necessarily increase the profitability of the company they manipulate (the primary problem of the shareholder).One of the methods to cope with the issues springing up from the foremost-agent relationship, is to see how some attributes of the company together with monetary overall performance, ownership structures and board characteristics influence the compensation been received with the aid of the Executive Directors (Ibrahim, 2011). Since firm commonly has various classes of shareholders and no longer all of them will either be targeted same records set or have the ability to monitor or look at perfectly the moves of Executive Directors, therefore it is paramount to offer them with incentives to take moves which are within the nice interest of the shareholders.

Several researchers like Gorre (2011) are of the view that executives' reimbursement plans ought to be designed in a way that it's going to align the pastimes of self-interested executive officers with those of shareholders. Thus, the plans must have incentive schemes that make executive compensation a feature of firm financial performance. The incentive schemes should additionally result in an extensive relation among executive repayment and firm monetary overall performance, which can be inspired with the aid of the mechanisms of corporate governance. However, in keeping with their perspectives, Conyon & Leech (1994) documented that the incapability for earlier studies to file a sizable pay-performance link can be attributed to the non-inclusion of ownership structures and board traits in studying executive compensation. For this reason, this study included Institutional and Executive ownership along with board composition and size as board characteristics.

The arguments concerning executive compensation/incentives are not the simplest manner to resolve the enterprise problems, however also wanted a scrutiny mechanism of corporate governance to address the leading controversies. Without corporate governance mechanisms, Executive Directors are able to freely carry out moves that pursue their non-public interest and such profits through the Executives are constantly detrimental to the shareholders' interest. In this context, governance mechanisms are needed to determine the quantity of executive reimbursement and overall performance tracking undertaken by way of management (Kim & Nofsinger, 2007).

Ownership structure and board of director characteristics play an essential position in addressing organization hassle. When business enterprise ownership is diverse, then ability for sub-most effective stage of tracking exists, since an individual shareholder is unable to absolutely appropriate the gains from the monitoring feature. The size and composition of board of directors also serve as a vital mechanism for setting executive compensation and act on behalf of the shareholders in representing their interest. But where Non-Executive Officers dominates the board, they are much more likely to bring more breadth of know-how to the firm, by monitoring and controlling the managers' action.

The obliging question for the average Scholars on firm financial performance, ownership structures, board characteristics and executive compensation studies, is whether the compensation of executive officers reflects economic performance of the company they manage. However, despite a large volume of researches that have been conducted by some notable researchers on this discourse, some of which include the work of Jensen & Murphy (1990), Conyon & Leech (1994), Ozkan (2007), Gregg, Jewell, & Tonks (2010) and Muhammed (2015), to find the answer to the question raised above, yet there is no real consensus on their findings.

In Nigeria, the study is also aware of a clear gap in the empirical research on this area. It is likewise discovered that to the quality of the researchers' understanding, few studies of the aforementioned area focused exclusively on banks, with Ayodele (2012) and Kurawa & Saidu (2014) discovering a direct and significant relationship between executive compensation and financial performance while Muhammed (2015) found no relationship. This necessitated this study to be carried out in the non-service firm with inclusion of corporate governance variables (ownership structure and board characteristics). This study focused on listed conglomerates in Nigeria, because the researcher identified a suitable context in which managers might take steps to increase the size of the firm along with their pay, which may not necessarily increase the profitability of the entity they manage. This is so, if one considers the inter-woven relationships between the mother corporations and their subsidiaries both of which can be indexed inside the stock exchange.

The foremost objective of this study is to examine the impact of firm attributes on executive compensation of indexed conglomerates in Nigeria, while the precise targets are to study the effect of:

i. Return on asset on executive compensation of listed conglomerates in Nigeria.

ii. Return on equity on executive compensation of listed conglomerates in Nigeria.
iii. Institutional ownership on executive compensation of listed conglomerates in Nigeria.
iv. Executive ownership on executive compensation of listed conglomerates in Nigeria.
v. Board composition on executive compensation of listed conglomerates in Nigeria.
vi. Board size on executive compensation of listed conglomerates in Nigeria.

In line with the targets of the study, the following null hypotheses were formulated:

$H_{o1:}$ Return on asset has no significant impact on executive compensation of listed conglomerates in Nigeria.
$H_{o2:}$ Return on equity has no significant impact on executive compensation of listed conglomerates in Nigeria.
H_{o3}: Institutional ownership has no significant impact on executive compensation of listed conglomerates in Nigeria.
H_{o4}: Executive ownership has no significant impact on executive compensation of listed conglomerates in Nigeria.
H_{o5}: Board composition has no significant impact on executive compensation of listed conglomerates in Nigeria.
$H_{o6:}$ Board size has no significant impact on executive compensation of listed conglomerates in Nigeria.

It is believed that the empirical evidence of this study could enable the committee concerned with setting or designing the executives' compensation, in such a way that will align the interests of self-involved Executive Directors with those of shareholders. It will also enable the regulatory authority (SEC) to examine whether corporate firms are implementing the disclosure requirement of executive officers' full remuneration. Finally, in line with the Finally, in keeping with the findings of preceding research, findings of this studies work will certainly add to the growing frame of know-how and constitutes basically the contribution of the studies.

The remaining part of this study is prepared as follows: Section two provides the overview of the relevant literature concerning the subject matter and the theoretical framework. Section three dealt with the methodology adopted for the purpose of this study. Section four centered on the discussion of the results. While conclusion and recommendations are presented in section five.

2. Theory and Practice

Firm Financial Performance and Executive Compensation

Early empirical study on top executive pay and performances is credited to Lewellen & Hunstaim (1970). Their work found a high level of direct relationship between executive compensation and profits as well as stock value of firms. The key pitfall of this study lies in the fact that the study focused on profitability as against other performance parameters.

Jensen & Murphy (1990) explored CEO compensation and company overall performance for a duration of thirteen years ranging from 1974 – 1986. 1295 US firms were taken into consideration over the length of the study. The study utilized an all-inclusive estimate of the pay for overall performance sensitivity (PPS), and also took into consideration; compensation, dismissal and stockholdings. They used the PPS to measure the effect of total compensation which represents the proportion of the share of the CEO in wealth creation. Their findings discovered that, the relationship between pay and performance is not significant. The study found firm length to be an important determinant of the PPS. The study indicated that CEOs in small companies tend to acquire more stock and have more compensation based incentives, which will result to high PPS. They concluded that the discoveries are at variance with agency theory and optimal contracting. Even though a direct relationship between CEO pay and firm overall performance exists, the relationship is not significant to play an important role as a solution to the agency problem.

In a cross sectional study, Ruge-Murcia (2005) investigated the effect of CEO cash compensation and total compensation against distinctive performance measures (i.e. earnings per share, return on equity, return on assets, and net profit margin), in a collection of listed 168 Canadian companies in the course of 2003. The results of the study showed that EPS, ROE, ROA and NPM were all positive and statistically related to CEO compensation, at various levels of significance. The major setback with this cross sectional study is the exclusion of time period (panel data) that could have enabled the researcher in observing changes in level of executive compensation in line with the performance measures.

Hojen (2007) moved away from using salary or cash compensation or total compensation in measuring executive compensation, but based this study on equity-based compensation and firm performance, within 1998-2006 for the sample of listed Danish companies. Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q were applied in measuring performance, while stock options, warrants and employee shares were used for equity-based compensation. The empirical investigation of ROA, ROE and Tobin's Q as overall performance proxies, showed that there are no significant effects from compensation program adoption on an entity operational performance, when comparing pre-adoption performance with post-adoption performance for the sample of listed Danish companies. By differentiating the time period for measuring performance proxies from security price analysis and reporting of the findings as a whole could be deceptive but rather individual model should be formulated and tested.

Duffhues & Kabir (2008) found a significant negative relationship between total pay and company performance. The study was based on the compensation of the entire board of directors that was collected from 135 sampled Dutch firms during the period 1998-2001. Both accounting and market-based performance measures were used (ROA, ROS and annual stock return), while executive compensation was measured as cash and total compensation. A lagged performance degree was used to account for the executive compensation on the premise that the executive pay in one year is usually determined by previous year's company performance; but this may not capture the total performance effect as the executive directors are extra worried with lengthy-run interest of concerned company.

Aduda (2011) examined the relationship between executive compensation and firm performance on indexed banks at the Nairobi Stock Exchange. The study considered practical form relationship between the level of executive remuneration and accounting performance measures through using a regression model that relates pay and performance. A non-significant indirect relationship was obtained between ROA, ROE in opposition to executive compensation and that accounting measures of performance are not key considerations in determining executive compensation among the banks in Kenya and that size is a key criterion in determining executive compensation because it was significantly but negatively related to compensation. The negative relationship suggested the capping of executive compensation to ensure maximization of returns to shareholders.

In a structured questionnaire consisting of 25 items as tool for statistics collection and analyzing the data using chi-square technique, Ayodele (2012) examined the effect of executive compensation structure and ownership on firm performance. The findings of the analysis revealed that there is a strong relationship between management ownership and bank's market value. Although, the finding shows that executive compensation structures do not affect bank's market value. The study also revealed that among larger commercial banks, size is a key factor in determining executive compensation as reported by Jensen & Murphy (1990) who found it to be significantly but indirectly related to compensation. Therefore, there is need to reign in the executive compensation inclination in smaller banks to favour bigger shareholders who equal as bank directors to the detriment of returns and smaller owners of the bank. The study relied solely on primary data which could be subjective when compared to secondary data that has a level of validity, reliability and objectivity as used by this study.

Kurawa & Saidu (2014) in their study examined the impact of top executive compensation on financial performance of Nigerian banks using causal research design, where they quantified board remuneration as a function of capital adequacy ratio, profit before tax, return on assets and return on equity. The study found a direct and significant link between executive compensation (excluding non-executive directors) and the profit before tax of the sampled banks. That study is one of the few published studies on executive compensation and firm performance in Nigeria, but it assumed not to include any corporate governance variables like board's composition, audit committees size, duality of board, that the study believed to have significant influence on compensation contract.

Muhammed (2015) investigated the controversy as to whether executive compensation in Nigerian Money Deposit Banks (MDBs) can be explained by the underlying performance of the banks they are managing and thus a reflection of optimal contracting or managerial power. The study sampled nine deposit money banks over the period 2006-2012, and the findings of the study showed that ROA, board size, board independence, and other board members' percentage stock ownership are not significantly related to pay and it reaffirms that CEO pay in Nigerian MDBs is not based on performance, but favored a managerial power view of CEO pay. The study assumed the highest pay disclosure to represent its CEO pay which could not be so but to other directors, which can be due to executive characteristics such as tenure or gender.

Institutional Ownership and Executive Compensation

Ownership structures play a great role in changing the executive pay-for-performance relationship. Institutional ownership has both the motivation and power to compel managers to act in consonant with value maximization objective of a firm. Noe (2002) suggested that massive shareholders have incentives to monitor activities of managers, resulting in a higher firm value. While Ozkan (2007) is of the view that large shareholdings can allow institutional investors to exert greater impact on corporate issues.

Hartzell & Starks (2003) found that institutional ownership concentration is positively related to the pay-for-performance sensitivity of executive compensation and negatively related to the level of compensation of non-banking firms; this suggests that institutional ownership might serve as monitors that mitigate the agency problem. Conclusions were drawn that firms with more concentrated institutional owners pay executives less and make this pay more sensitive to performance (i.e. lower cash-based pay, and lower direct compensation).

Shehu (2011) noted that institutional ownership emerged as an important tool for protecting minority interest. This is because large institutions have the opportunity, resources and ability to constrain managers' behaviour and they also represent ownership concentration in some cases because of their ability to make bulk purchases of the firm's equity shares.

In a broader study, Suherman, Rahmawati & Buchdadi (2011) investigated on the question of whether firm performance and corporate governance mechanisms are determinants of executive compensation. The research employed panel data and sampled 13 financial companies listed during the period 2007-2009 on Indonesian Stock Exchange. The result showed that firm performance measured by ROA and institutional ownership significantly affects the executive compensation. In furthering the study of Hartzell & Starks (2003), Smith & Swan (2013) critiqued the aforementioned researchers' results, as so sensitive with respect to the use of firm size as a control variable, because they measured institutional holdings as a fraction of institutional share ownership, and managerial option grants as a fraction of total market capitalization. Smith & Swan (2013) study covered nineteen years (1992 to 2010) and found that institutional concentration has no such effects when firm size is controlled for with a logarithmically transformed market capitalization, instead of Hartzell & Starks (2003) raw market capitalization. They concluded that institutional shareholdings are not associated with executive pay, which the

researchers ascribed to other factors such as, firms been perfect in monitoring the executives by paying them correctly, or because of heterogenity in monitoring (e.g., the corporate board), or because firms are never able to monitor effectively (and overpay) although the researchers were not consistent as of their justification to their findings.

It is evidenced that prior study's findings on the impact of institutional ownership and executive compensation are inconclusive, as differences were recorded from their findings and focus were exclusively on financial firms but the focus of the present study is on non-financial firm.

Executive Ownership and Executive Compensation

Agency costs arise where managers exploit their superior facts to maximize their own utility. Where the CEO has a tangible investment in the company, the separation between owners and managers is minimized and should, in theory, lead to a reduction in agency problems and they essentially become management-controlled-and-owned companies, and therefore are less subject to moral hazard problems (Antle & Smith, 1986).

Conyon & Leech (1994) are of the notion that director ownership can assist in aligning the interests of directors with those of shareholders. That is, with higher director ownership, directors would be likely not to divert resources away from value maximization, as they bear part of the costs of their actions. Thus, one would expect higher director shareholdings might limit excessive CEO compensation packages leading to an indirect relationship between director ownership and CEO compensation (i.e. incentive alignment effect). Hence, the relationship between directors' ownership and the alignment of shareholder and directors' interests can be non-monotonic, meaning that the marginal effect of increased directors' share ownership depends on the current level. At higher levels of directors' ownership, outside investors might find it difficult to monitor the directors' behavior since higher ownership gives directors more direct control over the company, increasing their ability to resist outside investors' pressures. Increased director ownership can also give directors greater voting power and control, which could lead to their entrenchment. Also, higher director shareholdings might inhibit the external corporate control market and, in so doing reduce the effectiveness of internal monitoring.

In another development, Nulla (2013) investigated the connection between CEO cash compensation and CEO power, which was defined as CEO: age, shares

outstanding, shares value, tenure, turnover, 5 percent management ownership, and 5 percent individual/institutional, of 120 companies of NYSE index companies covering the period 2005 to 2010. The result showed that CEO turnover, 5 percent management-controlled and 5 percent owner-managed, had an indirect group firm-sized effect on CEO cash compensation. In contrary, CEO shares, CEO shares value, and CEO tenure had a direct group firm-sized effect on CEO cash compensation. However, CEO age had a mixed group firm-sized effect on CEO cash compensation, but the study excluded non-cash components such as stock options and long-term benefits

From the above reviewed studies, the researchers' views were just on the shares held by the CEOs but this study included all the shares held by the executive directors as they are also involved in the management of the firm.

Board Composition and Executive Compensation

Board composition is one of board characteristics which might be anticipated to play a critical role in synchronizing the interest of the managers and that of the shareholders. Corporate governance structure in Nigeria requires that number of non-executive officers on the board should be more than that of the executive officers. Also, the non-executive officers must comprise of independent directors appointed on the basis of experience and competence. Since the outside directors do not possess any interest regarding the shareholding of a firm, in order to maintain their reputation, they are expected to act in such a manner that maximizes the value of the organization.

Core & Guay (2001) reported a direct relationship between CEO compensation and structure of the board of directors. The study reported that when board composition consists of independent directors (non-executive directors), CEOs have the advantage of receiving a higher compensation. This can be due to the fact that the CEO has some form of affiliation or relationship with nonexecutive directors, which can align compensation advantaged for the CEO.

Fernandes (2005) investigated the determinants of managerial compensation, with emphasis on the relation between compensation and firm performance, along with analyzing the role of non-executive board members in mediating shareholders' and managers' relations and interests. The study sampled 58 companies that were listed in Euro next Lisbon from 2002-2004. The result showed that firms with more non-executive board members pay higher wages to their executives. Furthermore, it also

shows that firms with zero non-executive board members actually have a stronger relationship between executive compensation and firm performance and have a better alignment of shareholders', although the study found no relation between compensation and shareholder's wealth thereby contradicting the finding of Komari & Faisal (2007), who reported no relationship between independent directors and executive compensation.

Suherman *et al* (2011) investigated on the question of whether firm performance and corporate governance mechanisms are determinants of executive compensation. The research employed panel data and sampled 13 financial companies listed during the period 2007-2009 on Indonesian Stock Exchange. The result showed that firm overall performance measured by ROA and the proportion of independent commissioner (independent officers) affect the executive compensation. The period of study is relatively small and the corporate governance mechanisms could have included more variables like remuneration committee and audit committee to examine any possible management of the company's earning.

Muhammed (2015) reported a non-significant relationship between board independence and CEO pay in a study of Nigerian Money Deposit Banks (MDBs) in order to investigate the controversy as to whether executive compensation can be explained by the underlying performance of the banks they are managing and thus a reflection of optimal contracting or managerial power. The study sampled nine deposit money banks over the period 2006-2012. The result of the study was consistence with Core, Holthasusen & Larcker (1999) and contradicts Seok, Lee& Kang (2012), because it reported that the more independent a board is, the greater the total, incentive, and fixed pay to the CEO.

Board Size and Executive Compensation

Seok *et al* (2012) investigated the correlation between the quality of boards, and pay allocation of executive teams. Data were collected from Risk Metrics consisting largely of S&P major index firms about the directors from 1996-2006. Their findings showed that board size is negatively related to executive compensation, which is consistent with the study of Faleye, Hoitash & Hoitash (2011), but in contrast to Core *et al* (1999) who reported a direct correlation between board size and CEO compensation with a sample from 1982 to 1984.

In a study of CEO compensation in money deposit banks in Nigeria: optimal contracting or managerial power carried out by Muhammed (2015) to examine

whether CEO compensations are a reflection of the bank's financial performance. Among the results reported, board size was found not to be related to CEO compensation, despite the overall result favouring managerial power to CEO pay. This result contradicts the findings of Gregg *et al* (2011) and Sigler (2011) that found size to be positively associated with CEO compensation, which of course portray the point made by Jensen (1993) that larger boards are ineffective.

The theoretical framework that best explained the relationship among the variables of study is Optimal Contracting Approach of Agency Theory. This theory views executive compensation as a means for enforcing the agency contract between a principal and an agent, and thereby solving agency problems between shareholders and executives, notably through a process of alignment managers' interests with shareholders' interests (Grabke-Rundell & Gomez-Mejia, 2002). In order to motivate executives to perform as effectively as possible and according to the interests of shareholders, risks are transferred to risk-averse executives through incentive-based compensation packages. Consequently, the optimal contract theory considers determination of compensation as a question of "pay design" which will, in the optimal case minimize agency costs. It integrates the agency theory perspective of Jensen and Meckling (1976) that proper incentivization (bonus) of the agent (executive directors) through pay together with appropriate monitoring (ownership structure and board of director characteristics) will make him act in utmost interest of the owners. Thereby, the optimal contracting theory implies that executive compensation contracts are usually bargained at arms' length between the board of directors and the executives; compensation levels would be the output on market forces; and the structure of executive compensation would reflect the intention to provide executives an incentive to act as efficiently as possible from the perspective of the shareholders. In this context, the board of directors is of major importance as it is responsible for structuring the executive compensation packages in the interest of the shareholders and making sure that the executives serve shareholders' interest.

3. Methodology and Specification of Model

The research design employed in this study is correlation design. The preference of the design was informed by the effectiveness of the design in revealing the association of two or more variables and the impact of one variable on another. Data was collected from secondary sources through the use of Nigeria Stock Exchange fact book and financial statement for duration of nine (9) years (2010 – 2018). The population of this study comprises of all six (6) conglomerate firms

listed in the Nigerian stock exchange as at 31st December, 2014. The data was empirically analyzed using Ordinary Least Square (OLS) multiple regression techniques with the help of Stata 11.

The model used to test the hypotheses formulated for this study is presented below.

$$EXECOMP_{it} = \beta_0 + \beta 1ROA_{it} + \beta 2ROE_{it} + \beta 3\ INSTOWNS_{it} + \beta 4\ EXECOWNS_{it} + \beta 5\ BCOM_{it} + \beta 6\ BSIZE_{it} + \beta 7\ FSIZE_{it} + \varepsilon_{it}$$

Where:
β_0 = intercept
β_1- β_5= Coefficient of the independent variables
EXECOMP = Executive Compensation (log of cash compensation of firm 'i' in period 't').
ROA = Return on Asset (Ratio of net income before interest and tax to total asset value of firm 'i' in period 't')
ROE = Return on Equity (Ratio of equity value to total asset value of firm 'i' in period 't').
INSTOWNS = Institutional Ownership (Proportion of share owned by institutional investors to total number of shares of firm 'i' in period 't')
EXECOWNS= Executive Ownership (Proportion of share owned by the executives to total number of shares of firm 'i' in period 't')
BCOM=Board Composition (Number of non-executive directors divided by total board size of firm 'i' in period 't')
BSIZE = Board Size (Number of board members of firm 'i' in period 't')
FSIZE = Firm Size (Natural logarithm of total assets of firm 'i' in period't')
εit = Residual or error term of firm 'i' in period 't'

4. Result and Discussions

This section dealt with empirical presentation, discussion of data extracted from the annual reports and accounts of the sampled firms as well as the tests of hypotheses formulated earlier in the first section.

Table 1: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.
EXECOMP	8.22	12.76	10.41	1.22

ROA	-.32	.63	.09	.16
ROE	.02	1.88	.20	.29
INSTOWN	.05	.87	.30	.30
EXECOWN	.00	.40	.06	.12
BCOMP	.5	.91	.67	.11
BSIZE	5	11	8.52	1.46
FSIZE	14.24	18.24	16.09	.93

Source: Author's compilation generated using STATA, 2020

Table 1 reports the descriptive statistics for the dependent and independent variables respectively (EXECOMP= Executive compensation, ROA= Return on Asset, ROE= Return on Equity, INSTOWN= Institutional Ownership, EXECOWN= Executive Ownership, BCOM= Board Composition, BSIZE= Board Size, FSIZE= Firm Size). From the table, it can be seen that the executive compensation for the sample of the study was on average of #69 million. The range was however wide as is evidenced by a minimum pay of #3.9 million and a maximum pay of #405 million. However, it may not be possible to infer anything from this range because analyzing the large variation without taking into context issues such as inflation would be misleading. The financial performance of the sampled conglomerate firms as proxied by ROA and ROE averaged .09 and .20 respectively. The maximum and minimum return on equity is 1.88 and .02 which is higher than the return on asset of .63 and -.32.

Institutional ownership represents 30% of shareholders on average. This indicates that majority of the shareholders representing 70% in the conglomerate firms in Nigeria are individuals. Although, the executive ownership could held up to the maximum of 40% shares in the sampled conglomerate firms under study and with a minimum and average of .00 and .06 respectively. The highest number of board size in the listed conglomerates in Nigeria is 11, average of 9 and minimum of 5, which indicates that on average board size, was neither too large nor too small. The non-executive directors have an average of 67% of the board of directors. It also shows that 91% of the directors are non-executive directors while 9% are executive directors, as supported by the standard deviation (.11) of the board composition for the firms. Furthermore, the size of the conglomerate firms in terms of total asset for the sample averaged #143 billion and a maximum of #824 billion.

Table 2: Correlation Matrix

Variables	EXECOMP	ROA	ROE	INSTOWN	EXECOWN	BCOM	BSIZE	FSIZE
EXECOMP	1.000							
ROA	.160	1.00						
ROE	.307**	.114	1.00					
INSTOWN	-.157	-.109	-.232	1.000				
EXECOWN	-.560*	-.139	-.267	.426*	1.000			
BCOM	.347**	-.000	.053	-.347**	-.276**	1.000		
BSIZE	.480*	-.007	.446*	-.182	-.546*	-.259	1.000	
FSIZE	.375*	-.258	-.178	.266	-.007	.390*	.122	1.000

Source: Author's compilation generated using STATA, 2020

**Correlation is significant at 1% **Correlation is significant at 5%*

Table 2 shows the correlation matrix with the correlation coefficient between all pairs of variables along with their significances. The result shows that ROA is 16% positively related with executive compensation of listed conglomerates in Nigeria, although not significant when compared to the positive correlation of ROE (31%), board composition (35%) and board size (48%) with executive compensation at 5% and 1% significant level respectively. But institutional and executive ownership are negatively related to executive compensation. The table also revealed an insignificant relationship between the explanatory variables themselves except for board size that was negatively and strongly correlated with executive ownership of the sampled firms under study to about 55%. However, this may not be enough evidence to strongly justify the presence or existence of multicolinearity and autocorrelation problems among the independent variables under study before computing the tolerance value and VIF. Where the result obtained from the tolerance value and VIF was above the expected limits and inconsistent with the rule of thumb of less than 1 and 10 then the problems of multicolinearity exist among the independent variables. The tolerance value and VIF were computed to assess the presence of multicolinearity using Stata 11, and the result found was consistently less than 1 and 10 respectively. This is indicating that multicolinearity is not posing a hitch and the appropriateness and fitness of the model of study.

Table 3: Regression Results

Variables	Coefficients	T-Statistics	T-Sig	VIF	Tolerance
CONS	.177	.07	.942		
ROA	1.477	1.84	.072	1.12	.895
ROE	.851	1.76	.085	1.36	.734
INSTOWN	-.005	-.01	.993	1.58	.632
EXECOWN	-4.316	-3.14	.003	1.74	.576
BCOMP	.271	.20	.843	1.64	.610
BSIZE	.089	.80	.427	1.79	.558
FSIZE	.574	3.40	.001	1.67	.599
R2			**.547**		
Adj R2			**.478**		
F. Statistics			**7.94**		
Significance			**0.000**		

Source: Output STATA, 2020

The multiple coefficient of determination (R2) gives the ratio of total variation in the dependent variable expanciated by the explanatory variable jointly. It signifies that 55% of the whole variation in executive compensation of listed conglomerates in Nigeria is caused by their return on asset, return on equity, proportion of shares held by institutions, proportion of shares held by executive directors, proportion of non-executive directors, board size and firm size, while 45% is caused by factors outside the model. The F-Statistics is 7.94, which shows that the model is ok and the explanatory variable are properly chosen, combined and adopted.

ROA and Executive Compensation

Firm financial performance measured by ROA is found to be significant and positively correlated with executive compensation at 10% level of significance, indicating that the higher the return on asset of listed conglomerates in Nigeria, the higher the compensation received by its executive directors. It also shows that at every one percent (1%) increase in ROA, the compensation received by the executive directors of listed conglomerates in Nigeria increases by #1.84k. Therefore, this provides reason of not accepting hypothesis one of the study, which stated that return on asset has no significant impact on executive compensation of listed conglomerates in Nigeria. This result is consistent with the findings of Jensen & Murphy (1990), Conyon & Leech (1994), Wallsten (2000), Kato & Kubo (2004), Gregg *et al* (2005), Ruge-Murcia (2005), Ozkan (2007), Boostman (2009), Gorre (2011), Ayodele (2012), Scholtz and Smit (2012), Givas (2013) and Kurawa & Saidu (2014), but contrary to the reported results of Hojen (2007), Duffhues & Kabir (2008), Tariq (2010), Aduda (2011) and Erick *et al* (2014).

ROE and Executive Compensation

ROE is also found to be significant and positively associated with executive pay at 10% level of significance, indicating that, the higher the return on equity of listed conglomerates in Nigeria, the higher the compensation received by its executive directors. This shows that at every one percent (1%) increase in ROE, the compensation received by the executive directors of listed conglomerates in Nigeria increases by #1.76k. This implies that ROE is significantly affecting the compensation received by the executive directors, which could be due to benefits in form of bonuses attached to the compensation of the executives in relation to the performances of the firms they manage and could help in aligning the interest of shareholders and the interest of the executives. Therefore, this provides evidence for rejecting hypothesis two of the study, which stated that Return on equity has no significant impact on executive compensation of listed conglomerates in Nigeria.

The result is consistent with the findings of Jensen & Murphy (1990), Conyon & Leech (1994), Hall & Liebman (1998), Wallsten (2000), Kato & Kubo (2004), Gregg *et al* (2005), Ruge-Murcia (2005), Ozkan (2007), Boostman (2009), Gorre (2011), Sigler (2011), Ayodele (2012), Scholtz and Smit (2012), Givas (2013) and Kurawa & Saidu (2014), which showed that ROE is also found to be significant and positively associated with executive compensation but contrary to the reported results of Tariq (2010), Aduda (2011) and Erick *et al* (2014).

Institutional Ownership and Executive Compensation

Looking at the relationship between institutional ownership and executive compensation, a negative relation is observed with a coefficient of -0.005 and t-value of -0.1 but not statistically significant. This association indicates that for every increase in shares held by institutions, the compensation to be received by the executive directors of listed conglomerates in Nigeria will decrease by #0.1k. The negative association between institutional ownership and executive compensation might serve as monitors that mitigate the agency problem and also can effectively limit the amount of executive pay. It provides evidence but not good enough (because it is in line with agency theory expectation) of failing to reject hypothesis three of the study, which states that institutional ownership has no significant impact on executive compensation of listed conglomerates in Nigeria. Consistent with this finding is the work of Noe (2002), Hartzell & Starks (2003), and Gan *et al* (2012), where institutional investors are negatively associated with total executive compensation but contrary to Ozkan (2007) and Suherman *et al* (2011) findings, as shown that institutional ownership promotes higher total executive compensation. However, relationship between institutional ownership and executive compensation as reported by Smith & Swan (2013).

Executive Ownership and Executive Compensation

The regression result in respect of the association between executive ownership and executive compensation shows that executive ownership is inversely related with executive compensation at 1% level of significance with a coefficient of -4.316 and t-value of -3.14. This result shows that for every increase in shares held by executive directors of listed conglomerates in Nigeria, the compensation to be received by them will reduce by #3.14k. It further revealed that the higher the shareholding held by the executives, the lower the compensation they earn. This could be ascribed to the reduction of agency problem because the division between owners and managers is minimized to the extent that the executives are not just managers but also owners. In line with the result reported, it provides evidence of

rejecting hypothesis four for the study, which states that executive ownership has no significant impact on executive compensation of listed conglomerates in Nigeria. This finding is consistent with Conyon & Leech (1994) and contrary to Nulla (2013).

Board Composition and Executive Compensation

The regression result revealed that non-executive directors as measured by the proportion of non-executive directors on the board are positively related with executive compensation with a coefficient of 0.271 and t-value of 0.20. This shows that for every increase in the number of non-executive in the board, the executive compensation of listed conglomerates in Nigeria will increase by #0.20k. It implies that the non-executive directors of listed conglomerates in Nigeria are unable to align the interest of the shareholders and the managers, evidenced by the regression result which shows that the executive compensation of listed conglomerates increases as the number of non-executive directors increases. This provides evidence of failing to reject hypothesis five of the study, which states that board composition has no significant impact on executive compensation of listed conglomerates in Nigeria. In support of this result is the work of Core, Holthasusen & Larcker (1999), Ozkan (2007), Muhammed (2015) and contrary to Core & Guay (2001), Fernandes (2005) and Suherman *et al* (2011).

Board Size and Executive Compensation

The expectation is that firms with relatively small size are more effective in terms of decision making and implementation. However, the result in respect of board size and executive compensation is positively related and shows that board size has a coefficient of 0.089 and t-value of .80. This shows that as the number of members on board increases, the compensation to be received by the executive directors of listed conglomerates in Nigeria will increase by #0.80k. This result further explained the positive relationship between the non-executive directors and executive compensation, as their large number only further increases the level of pay of the executives. The reported result in respect of board size provides an evidence of failing to reject hypothesis six of the study, which states that board size has no significant impact on executive compensation of listed conglomerates in Nigeria. This finding is consistent with those of Core *et al* (1999) Gregg *et al* (2011) and Sigler (2011) but contradicts the findings of Faleye *et al* (2011) Seok *et al* (2012) and Muhammed (2015).

5.1 Conclusion and Recommendations

The study draws its conclusions based on the empirical and statistical evidence provided, that ROA and ROE that were used as proxy for financial performance have a positive and significant impact on executive compensation of listed conglomerates in Nigeria, which could be attributed to benefits in form of incentives (bonuses) attached to the compensation of the executive directors in relation to the performances of the firms they manage. While board composition and institutional ownership were positively and negatively but not significantly associated with executive compensation respectively. The association between executive ownership and executive compensation within the listed conglomerates in Nigeria was found to be negative and significantly influencing the compensation received by its executives.

The study recommended that listed conglomerates in Nigeria should improve the design of the compensation package of the executive directors with financial incentives that will enhance the maximization of shareholders' wealth, as it is empirically proven that it reduces agency cost. Furthermore, they should be mandated as required by law to fully disclose, individually, all the components of the compensation of the executive directors as this will not only benefit the users of the financial reports and accounts but also will aid researchers in their quests. Also, compensation of the Executive Directors of listed conglomerates in Nigeria can be strengthened with the use of long term pay (equity), which will encourage them to be part of the owners of the firms they manage.

References

Aduda, J. (2011). The relationship between executive compensation and firm performance in the Kenyan banking sector "*Journal of Accounting and Taxation, 3(6).*

Antle, R., & Smith, A. (1986). "An empirical investigation of the relative performance evaluation of corporate executives," *Journal of Accounting Research*, 24(1), 1-39.

Ayodele, J.C. (2012). Executive compensation structure, ownership and firm performance nexus: An empirical analysis. *European Journal of Humanities and Social Science, 17(1),* Nigeria. ISSN 2220-9425

Boostman, B. (2009). Pay for performance. Accounting, auditing and control group, unpublished

Core, J.E., & Guay, W.R. (2001). Stock Option Plans for Non-Executive Employees, *Journal of Financial Economics* 61(2), 253-287.

Core, J.E., Holthausen, R.W., & Larcker, D.F. (1999). Corporate governance, chief executive officer compensation and firm performance. *Journal of Financial Economics* 51, 371-406.

Conyon M.J., & Leech, D. (1994). *Top pay, company performance and corporate performance*: oxford bulletin of economics and statistics, 56 (3).

Duffhues, P., & Kabir, R. (2008). 'Is the pay-performance relationship always positive? Evidence from the Netherlands', *Journal of Multinational Financial Management,* 18(1), 45–60.

Erick T. K, Kefah, B.A., & Nyaoga, R.B. (2014). The relationship between executive compensation and financial performance of insurance companies in Kenya. *Research Journal of Finance and Accounting* www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) 5(1).

Faleye, O., Hoitash, R., & Hoitash, U. (2011). "The costs of intense board monitoring." *Journal of Financial Economics* 101(1), 160-181.

Fernandes, N. (2005). Board compensation and firm performance: The role of independent board members, ECGI working paper series in finance (http://ssrn.com/abstract_id=830244).

Gan, H., Victoravich, L.M., & Xu, P. (2012). Institutional ownership and executive compensation: Evidence from U.S. banks during the financial crisis (http://ssrn.com/abstract=191099).

Gorre, E.A. (2011). Executive compensation and firm performance: Analysis of Dutch listed firms. Amsterdam business school, accountancy and control.

Grabke-Rundell, A., & Gomez-Mejia, L. R. (2002). Power as Determinant of Executive Compensation, *Human Resource Management Review* 12, 1, 3-23.

Gregg, P., Jewell, S., & Tonks, I. (2011). Executive pay and performance: Did bankers' bonuses cause the crisis? *Working paper,* University of Bristol, Reading and Bath.

Grivas, G. (2013). CEO compensation and firm performance: An empirical study for solvent and financially distressed firms. An unpublished master thesis, Tilburg University.

Hartzell, J.C., & Starks, L. (2002). Institutional investors and executive compensation,

Journal of Finance, 58, 2351-2374.

Hassan, S. U. (2011). "Corporate governance and financial reporting quality: A case study of Nigerian money deposit bank", *International Journal of Research in Computer Application and Management*, 1(26), 12-19.

Hojen, V.M. (2007). Equity-based Compensation and Firm Performance. An unpublished thesis, Aarhus School of Business, Aarhus University. https://www.cornell.edu/search/

Ibrahim, H. (2011). Effects of corporate governance on capital structure of listed firms in Nigeria. Unpublished doctoral dissertation, Ahmadu Bello University, Zaria.

Jensen, M.C. & Murphy, K.J. (1990). Performance pay and top-management incentives. *Journal of Political Economy*98(2), 225-264.

Kato, T., & Kubo, K. (2004). CEO compensation and firm performance in Japan: evidence from new panel data on individual CEO pay. J*ournal of Japanese and International Economies* 20, 1-19.

Kim, K. A., & Nofsinger, J. R (2007). *Corporate governance*. Second edition. NewJersey: Pearson Prentice Hall.

Komari, N., & Faisal. (2007). "Analisis Hubungan Struktur Corporate Governance dan Kompensasi Eksekutif," *Journal Keuangan Dan Perbankan*, 2, 213-224.

Kurawa, J.M., & Saidu, S.K. (2014). Executive compensation and financial performance of listed banks in Nigeria: An empirical analysis. Researchjournali's *Journal of Accounting* 2(3).

Lewellen, W., & Huntsman, B. (1970). Managerial pay and corporate performance. *American Economic Review,* 60, 710-720.

Muhammed, A.N. (2015). CEO compensation in money deposit banks in Nigeria: Optimal contracting or managerial power? Seminar paper presented in the department of accounting, Ahmadu Bello University Zaria.

Noe, T.H. (2002). Investor activism and financial market structure; Review of financial studies, 15, 289-319

Nulla, Y.M., (2013). The empirical study of the relationship between CEO cash compensation and CEO power in American companies, *Journal of Marketing Management1(1), 01-12.*

Ozkan, N. (2007). *CEO '*Compensation and firm performance: An empirical investigation of UK panel data" *Journal of Economic Literature.*

Ruge-Murcia, F. (2005). Firms performance and CEO compensation in Canada. An unpublished thesis Canada.

Seok, W., Lee, C., & Kang, H.G. (2012). How board quality affects CEO and executive team pay (http://ssrn.com/abstract=2078876).

Sigler, K. J. (2011). 'CEO compensation and company performance'. *Business and Economics Journal,* 31

Smith, G.S., & Swan, P.L. (2013). Do concentrated institutional investors really reduce executive compensation whilst raising incentives?

Suherman, Rahmawati, W., & Buchdadi, A.D. (2011). Firm performance, corporate governance, and executive compensation in financial firms: evidence from Indonesia.

Tariq, U. (2010). CEO compensation: Relationship with performance and influence of board of directors. Unpublished master's thesis in business administration.

Wallsten, S.J. (2000). Executive compensation and firm performance: Big carrot, small stick. Standford institute for economic policy research.