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Executive Compensation And Organisational Financial Performances: Evidence From Selected Diversified Firms In Nigeria

Akewushola, R.O. (Ph.D), Saka, R.O (Ph.D)
Associate Professor,Department of Business Administration, Faculty of Management Sciences, Lagos State University, Ojo, Lagos, Nigeria
Department of Business Administration, Faculty of Management Sciences, Lagos State University, Ojo, Lagos, Nigeria
Corresponding Author:Akewushola

Abstract: *This paper focused on the Examination of financial performance as the determinants of executive compensation system: Evidence from selected Diversified Firms in Nigeria. The determinants and composition of executive compensation has been very topical and controversial in practice and theory. This research examined the determinants of executive compensation and performance. The study adopted ex-post facto research design making use of the annual reports of six (6)diversified firms in Nigeria. The firms were selected using a purposive/judgmental sampling technique. The information extracted from the annual reports was analysed using panel data regression model. The research findings revealedthat profitability, size of firm, return on equity and return on investmenthave significant influence on what is to be paid as executive compensation. However, it was observed that profitability has a greater influence on executive compensation.*

Keywords: *executive compensation, performance, diversified firms, determinants*

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I. Introduction

The need for the study of executive 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. 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. (Baysinger&Hoskisson, 1990; Anja,2003; Yanadori & Marler, 2003; Otten, 2008; Michael, Huseyin& Rau, 2009; Chongwool, Tania, Vinod& In-uck, 2012; Ian, Pierce & Gino, 2012; Jegede, 2012; Abdul, Muhammed, Hafiz, Ghazanfar& Muhammad, 2014; Adeoye, 2015).There is a reason to believe that the effects of these decisions may determine the attainment of organizational objectives.

The link between executive compensation and organizational financial performance has been discussed empirically and theoretically in various studies of Economics, Finance, Accounting, Human Resources and Management(Ivan, Oded& John, 2006; Giorgio & Mahmoud, 2008). Despite this volume of studies, many issues are unresolved (Giorgio & Mahmoud, 2008).

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 (Gomez-Mejia &Bakin, 1992; Dirk, 2002; Anja, 2003; Otten, 2008; Michael et. al 2009; Chongwoo et al, 2012; Ian et. al 2012; Jegede, 2012 CIPD, 2014). 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 (e.g. Murphy, 1999; Mishra, McConaughy&Gobeli, 2000). Some study even suggested that high (Chief Executive Officer) CEO incentive pays or perquisites may in fact decrease firm performance (Core, Holthausen&Larcker, 1999; Blasi& Kruse, 2003). Yet, compensation system is still the corner stone of an effective talent management strategy. The ability to enable consistent, reliable and standardized compensation processes to link and correlate with performance may drive top management towards aligning their interest with organizational strategies in order to influence and drive many facets of business towards attainment of organizational goals, (Gomez-Mejia &Balkin, 1992;

Abdul et. al 2014; Adeoye, 2015). However, some studiesshowed mixed reactions on the executives and organizational outcome, (Core, Holthausen&Larcker: 1999; Mishra, McConaughy&Gobeli, 2000; Blasi& Kruse, 2003).

This study observed that there is the presence of executive compensation studies on financial performance in developed economies more than emerging economies like Nigeria.

Despite the recognition of the importance of compensation in organizations, views on executive compensation relatively differs as studies in Human Resource, Economics, Finance, Accounting and Management have shown mixed outcomes thereby making it one of the most widely conducted empirical studies in these areas in developed economies in recent times. This is because large sum of monies of organisations are involved in executive compensation perhaps makes itthe most controversial issue in organizations today. At the heart of this controversy, several questions have been raised on how executive compensation systems are determined, who determined them, how was the group that determined them constituted among others.

Findings in existing studies indicated that the size of the firm, company performance, board of directors, industry pay systems, global compensation system, stockholders' interest and powerful managers etc. are the determinants of executive pay. (Roberts, 1959; Lewellen, 1968; Gabaix&Landier, 2008; Frydman& Saks, 2010; Nyberg et al, 2010;Philippon &Reshef, 2012; Banker et al, 2013; Custodio et al 2013;Michel, Sylvie & Linda, 1995; Muhammad, Waheed, &Adeel, 2015).

It is instructive to note that findings have shown that either executive compensation or financial performance determines each other. These financial performances(indicators) have not been extensively examined among Nigerian companies to know what factors determine the executive pay of managers and whether executives deserve to earn the amount of money being given to them. While some writers have referred to executive earnings as loot, madness, wacky and disgusting, others believed that their earnings are justified, (Loomis, 1982; Murphy, 1985; Harris &Bromiley, 2007; Roberts, 2010; Fredrickson et.al 2010).

Overall, it is surprising that little research attention has been devoted to the financial performance as the determinants of executive compensation of diversified companies in Nigeria.

For this reason, examining financial performance as the determinants of executive compensation system in diversified firms' in Nigeria is necessary in order to shed more light on this issue. Executive compensation systems among others could determine and influence the performance of a diversified firm or otherwise. However, this remains a conjecture waiting to be examined and tested.

Research Questions

1. To what extent have performance indicators (profitability, size of firm, return in Investment, return on equity etc.) determined executive compensation?

Research Hypothesis

1. Ho: Performance indicators (profitability, size of firm, return in Investment, return on equity etc.) do not determine executive compensation.

Significance of the Study

An empirically conducted research work of this nature will give more information on the determining factors of executive compensation and organisational performance of diversified companies in Nigeria. The study is important because it will expose the determinants of executive compensation that is better for a diversified firm. The findings from this study are useful to business managers/executives, academics and research students working on related subject matter and expand the frontiers of knowledge in this area. In addition, this study is useful in the area of Human Resource Management and Strategic Management in particular and Business Administration in general

Results of this study may also have important public policy implication considering the extensive studies in this area. The reason being that executive compensation is a general issue that cut across both private and public sphere. This will open up doors to proper negotiation on how executive compensation should be carried out, which compensating type is better and what are the other options available to compensate executives and which one is better.Thus, it is hoped that this empirically conducted study will fill the gap identified in the literature which necessitate this study.

II. Literature Review

The executive compensation system is one of the important ways behaviour of management team can be guided and influenced. Executive reward is a major issue in the corporate debate as well as in practice because the structural mode is unclear (Otten, 2008). However, executive compensation is perceived as an influential link between top executives and organizational performance.

However, executive compensation system cannot be ignored in a diversification strategy studies because top managers run business, build and expand organizational businesses in terms of their customer needs and groups, customer functions and technology to be adopted or acquired. Diversification is usually driven by the desire (industry volatility or financial ability) to expand beyond the apparent limit of existing market and or by the desire to reduce business risk by developing new "legs" (Koch, 2001). De Wit and Meyer (2004), posited that diversification occurs when a corporation enters a business by starting up new activities [internal growth] or buying it which lead to expansion of business and thereby ensures synergy and increase in profitability of organization. This also helps organizations to spread their risk. Firms are considered diversified if they are concurrently active in more than one business.

Conceptual Framework

The term executive compensation is used to indicate the top management or top employee's gross earnings in the form of financial rewards and benefits. 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. Employees may receive financial and non-financial compensations for the work performed by them. Financial compensation includes salary, bonus, and all the benefits and incentives, whereas non-financial compensation includes awards, rewards, citation, praise, recognition, which can motivate the employees towards highest productivity.

JunaiduandSanni (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. Jegede (2012), conceptualized executive compensation as the remuneration package which goes with labor services. According to Mnzava (2012),opined that basic salary is a key component of executive compensation that guarantees a minimum increase over time. It was further explained that contrary to other components of executive compensation, basic salary is a fixed component in executive contracts and can be reviewed on an annual basis. Mnzava, (2012), explained that basic salary is the key component of executive compensation that guarantees a minimum increase over time. Unlike other compensation components, basic salary is affixed component in the executive contracts which can be reviewed annually. Aminu (2011), opined that executive compensation is the financialpayments and non-monetary benefits provided to high level management in exchange for their workon behalf of an organisation. The types of employees that are typically paid with Executive compensation packages include corporate presidents, chief Executive officers, chief financial officers, vice presidents, managing directors and other senior Executives. Greckhamer (2011), conceptually defined executive compensation as all forms of financial returns and tangible services and benefits that employees receive as part of an employment relationship. Executive compensation or executive pay is the financial compensation received by an officer of a firm. It is typically a mixture of salary, bonuses, shares of and/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 (Maijoor&Vanstraelen, 2006). Bebchuk, Grinstein and Peyer (2010) argued that executive compensation is the pay received by an officer of a firm, often as a mixture of salary, bonuses, and shares of and/or call options on the company stock, paid expenses (perks) or insurance. It refers to the benefits and remuneration accruing to top management of a corporation mostly the Board of Directors including the CEO. Kuhnen 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.

Executive compensation determinants

The following factors are identified; company/firm size, risk, age and job tenure, among others. A number of contending factors have been identified as determinants of executive compensation. Scholars have come up with varied degrees of executive compensations determinants. The size of the company has been observed to be one of the strong components that can influence the executives' compensation (Gomez-Mejia &Balkin,1992; Jensen & Murphy, 2010;Vince, 2011; Al-Dhamari& Ismail,2014). This argument was supported by Conyon& Murphy, (2000) that opined that the remuneration of top executives increases as the size of the company grows. Studies also showed that the threat to executive is mitigated by this posture of expanding the scope of organisation and thus has a positive link with compensation rather than using firm performance as a basis for their pay (Simon, 1959; Mahoney, 1979; Tosi et al. 2000). Furthermore, existing literature indicated that there are justifications for size premium since organisation has become bigger and company operates tall

structure with many layers requiring executive human capital for larger companies (Aggarwal, 1981; Dyl 1988).Risk is also identified as another major factor that determines executive compensation. It was assumed that level of risk and challenges the top executive faces while carrying their executive responsibilities for the organisation determines what executive earn (Bloom & Milkovich, 1998). Core and Larcker (2002), argued that the degree of risk taking influence managerial risk-taking behaviour. Furthermore, Jensen and Meckling (1976),submitted that when managers' bear too much risk they become risk-averse and as a result, executive will expect better pay package. Variables such as age, knowledge and experience characterized executives' human capital development, or degree of interest and control in the company. These variables may affect their perceived value to the company. Executives that have acquired more experience and have built up a larger amount of this specific human capital may influence his/her pay. Madura et al. (1996), conjectured that the reward for this characteristic is high than executive without such features. Moreover, age plays not only a role in the level of compensation, but also in the structure of the pay package. Older executives will be less afraid of risk. Gray and Cannella (1997), argued that such executives are already accumulated much wealth and experience,they do not have to fear for future career damage. The preference of a steady and safe income will be greater for older executives compared to younger ones that are still putting efforts to build up wealth. Swagerman and Terpstra (2007), noticed that flexible pay may be less important to experience executives. Studies suggest that executive entrenchment is positively related to executive tenure Morck et al. 1988; Hermalin&Weisbach2012; Boone et al. 2007). Vince (2011), observed that structure, transparency and competition for talent determine the level of executive remuneration. In his study on executive remuneration, he argued that structural nature of remuneration has continued to change in order to solve the principal–agent problem where most large companies have decided to pay larger proportion of remuneration in various forms such as short and long term incentives, deferred bonus, share options, and pensions in order to resolve issues identified in principal-agent problem. Hefurther suggested that companies should be encouraged to be more transparent about executive pay. However, increased transparency of pay will prompt remuneration committees to justify pay proposals and encouraged shareholders to play a more activist role. In addition, major reasons currently identified for high levels of pay is the influence of the international market for CEOs and the need to pay above average to attract the very best talent and to discourage flow of executives to other countries from developed economies like UK and US.

Measurements of Executive Compensation

Studies on executive compensation havecut across all forms of organisational structure and scope. Gormley, Matsa, and Milbourn (2013) and Pandher and Currie (2013), noted that total CEO compensation and equity incentives may provide the best utility and indicator for their study. Ferri and Maber (2013) have measured executive compensation that is cash-based. They used multiple regression analysis and independent variables which include CEO compensation, CEO cash pay, CEO total pay, salary, bonus, and stock options to find the relationships between cash (bonus &salary) compensation and company performance. Lin, Kuo, and Wang (2013), studied company performance and its relationship to CEO compensation with adoption of regression modeling with CEO cash compensation as the dependent variable and ROE, CEO tenure, CEO age, and company size as independent variables. They found CEO compensation to be positively related to age, tenure, and company size. Additionally, it was observed that there is a lack of relationship between CEO compensation and ROE, the nonprofit version of return on investment.

Several existing studies have shown significant relationships that exist between CEO compensation, age, tenure, and company size while examining company performance and CEO compensation, (Gormley, Matsa, &Milbourn, 2013; Ferri&Maber, 2013; Lin et al., 2013; Hou, Priem&Goranova, 2014). The study further revealed the use of stock variance, assets, market-to-book ratio, and cash flow as independent variables while the dependent variables for the study included the various elements of CEO compensation annualized by base salary, bonuses, stock options and awards, and total CEO compensation. Multiple regression analysis was used for the study and found that risk-taking options relate to board structuring in for-profit companies.

Ferri and Maber (2013), Gormley et al. (2013), and Lin et al. (2013) have focused their study on executive compensation components while others used CEO compensation packages. Pandher and Currie (2013), advanced their argument that CEO total compensation provides a sufficient measure as the dependent variable between compensation and performance. They noted that CEOs and stakeholders can interact over the firms' resource surplus based on executive bargaining power. They argued extensively that CEOs of giant companies would have higher equity compensation in cash pay (bonus) and assumed the ratio of equity-to-bonus would grow significantly when stock market is bullish. Pathak, Hoskisson, and Johnson, (2014) used various forms of equity compensation incorporated into CEO compensation packages, total compensation, has become significant because of the combination of both cash and non-cash compositions.

Theoretical Framework

Various strategic management scholars, human resource experts, business owners and managers who have conducted studies on the effect of executive compensation system on the performance of firms have identified theories that are not necessarily contradictory but represent different perspectives of studying executive compensation issues. Though, the study observed clearly that executive compensation system is a very complex phenomenon that cannot be easily compressed into a single model. The theoretical framework for this study is based on marginal productivity theory and governance theory.

Marginal Productivity Theory (MPT)

Marginal productivity theory has its roots in macro and micro-economics and this is primarily concerned with predicting the pay levels of executives, (Roberts, 1959); Gomez-Mejia & Balkin, 1992). MPT theorists are of the opinion that average productivity of the executive should be positively linked to wages, rather than each executive getting precisely their just dessert. This implies that the productivity will determine compensation of executive. Compensation will increase as productivity increases vice-a-vice. Many of its propositions about executive compensation are made with a context of analyzing the firm's ability to generate profits and maximize productive output. Two main conclusions regarding the magnitude of executive compensation are drawn from marginal productivity theory.

Firstly, the size of the executive pay package reflects the firm's net profits. In a firm where the entrepreneur is the sole owner and functions as chief executive officer, the entrepreneur desires to achieve the highest returns on his investments and this will occur where the marginal cost of production is equal to the market price of the product. At this point the firm maximizes its profits and the executive maximises his compensation which is equivalent to the profits of the firm. In practice, there are no such pure situations. Most entrepreneurs borrow capital from outside investors and decision must be made about what share of profits goes to whom. The marginal productivity theory is not a framework for determining the allocation of profits between an executive and others who invest their money.

Secondly, the size of the executive pay package is proportional to the executive's marginal revenue product. It is assumed that the executive is hired by the firm and is pay commensurate with his economic contribution. The amount of compensation equals the executive's marginal revenue net product. The practical implication of marginal productivity theory is that both the firm's profitability and the executive's relative economic contribution are pay-level determinants. To some extent, this theory can explain the "star" system that has developed in the hiring of certain chief executive officers and other key executives. These are executives with demonstrated track records of creating shareholder value through their management skills. Such individuals may demand and receive outsized compensation levels compared to others doing the same job because of their potential to influence a firm's future profitability and value.

Governance Theory

Governance aspects of executive pay namely managerialism and agency theory developed from political science, sociology, finance and economics, Gomez-Mejia &Balkin, (1992). It was suggested that executives should pursue strategies that will create long- term shareholder value and that they should receive closely related rewards. Executives may feel free to pursue interests that do not coincide with those of the firm's owners, knowing that the owners have a limited ability to influence the executive's rewards. As a result, the executive compensation package may not be effectively linked to performance that creates or maximizes shareholder value. Managerialism and agency theories as a subset of governance theory deal with issues arising when the firm's owners are removed from the decision-making processes of the executive. Advocates of these theories believe that a hired executive will act in the best interests of the owners if he has a personal ownership stake. Many contemporary executive compensation programmes are structured to reflect this theory by paying substantial amounts of compensation in the form of stock options.

Berle and Means (1932) explained that managerialism isthe separation of ownership and control in organisations which can lead to executive pay decisions that benefit the executive regardless of what the organisational outcomes and effects might be on shareholders. In other words, an executive in such a firm is more likely to have a pay package that will increase when firm performance is good and remain at the same level even when the firm performance is poor. Agency theory on the other hand may be considered as a theoretical extension of managerialism.

Smith (1776) argues that any companies managed and controlled by an individual or group of persons other than the company owners, the goals of such owners cannot be implemented. Jacskyte, (2012) revealed that agency theory is the supposition which is based on detail business relationships between business owners (principals) and managers (agents) of business. A firm's owners are called the principals and the hired executives are called the agents. Owing to widely dispersed ownership, the agent may pursue activities that benefit him rather than the firm's owners. This represents an "agency cost" to firm owners which is the

difference between net profits of the firm had the owners been the managers and the net profits under the agent's stewardship. Agency theorists hold that agency costs are a necessary evil that comes with the advantages of modern corporations. Wiseman, Cuevas-Rodriguez and Gomez-Mejia (2012), argued that for agents to perform in the best interest of the owners (principals), compensation and incentives should be linked to firms performance goals and shareholders' interest. Dorsey (2014) observed that both the principal and agent are only concerned with the maximization of their personal gravity and wealth. He explains that in agency theory, the agents may sometimes not taking decisions in the best interest of the principal. Furthermore, Bosse and Phillips (2016), suggested that in order to protect the owners (principals) best interest, there must be a link and relationship between the executive pay and company performance.

These aforementioned theories have a link in analyzing executive compensation. For instance marginal productivity theory suggests that productivity of the executives should be the basis for compensation; the higher the productivity the higher the executive pay and vice versa. Managerialism and agency theory are of the opinion that agency cost is what the principals' bear, agents should be paid based on organisation performance. Conclusively, the level of productivity attained, performance achieved, size and structure of the firm determine executive compensation.

Method and Data

The study used ex-post facto research design. The population of this study is composed of six selected diversified firms in Nigeria. The choice of these firms is as a result of their years of operation and size. The data were extracted from their annual reports and covered a period of seven years (7 years) from 2009 to 2015 financial year.The panel data regression model was estimated using the fixed effect model (FEM) or the Fixed Effect Least Square Dummy Variable (LSDV) variable. There are 6 cross-sectional units (companies) each for the periods of 7 years, thus, a total of 42 panel data observations were examined. Econometric software package E-view version 8 was used to carry the secondary data analysis.

Method of Data Analysis

This aspect of data analysis involves panel data regression analysis. The panel data regression model has been adopted to examine the effect of performance variables (such as; Profit After Tax (PAT), Capital Employed (CAE), Return on Investment (ROI) and Return on Equity (ROE))as the determinants of executive compensations (EXC). The analysis involves panel data on the aforementioned variables for 6 companies (cross-sectional units or subjects) for the periods of 7 years between 2009 and 2015. Therefore, pooling the data for all the companies for all the years makes up 42 observations for each variable. Also, this panel data is a long panel since the number of cross-sectional subjects (companies) is greater than the number of time periods

As regards the estimation of the parameters of the panel regression model, the fixed effect model (FEM) or the Fixed Effect Least Square Dummy Variable (LSDV) variable has been adopted as the estimation technique. There are 6 cross-sectional units (companies) for the periods of 7 years, thus, a total of 42 panel data observations.

In the fixed effect regression Model (FEM), the 42 panel data observations are pooled together but allow each cross-sectional unit (company) to have its own (intercept) dummy variable. The different intercepts differentiate one company from the other. The difference may be due to special features of each company, such managerial style, managerial philosophy, or the type of market each company serves. In a nutshell, this model allows heterogeneity in the cross-sectional units.

The panel data were analysed using both descriptive and analytical tools.

The model is specified in form of multiple regression model which expresses functional relationship between executive compensation (EXC) and financial performance. The functional model is expressed as follows:

$EXC = f(PAT, CAE, ROI, ROE)$ …… (1)

The panel data regression model is expressed as follows:

$EXC_{it} = \beta_{1i} + \beta_2 PAT_{it} + \beta_3 CAE_{it} + \beta_4 ROI_{it} + \beta_2 ROE_{it} + \mu_{it}$ ……..…..(2)

The subscript i on the intercept term β_1 suggests that the intercepts of the 6 companies are different. To allow for the fixed effect intercept to vary among the companies, the equation (1) above is thus expressed as follows by using dummy variable technique:

$EXC_{it} = \alpha_1 D_{1i} + \alpha_2 D_{2i} + \alpha_3 D_{3i} + \alpha_4 D_{4i} + \alpha_5 D_{5i} + \alpha_6 D_{6i} + \beta_2 PAT_{it} + \beta_3 CAE_{it} + \beta_4 ROI_{it} + \beta_5 ROE_{it} + \mu_{it}$…….(3)

In FEM, the intercept in the regression model is allowed to differ among the companies in recognition of the fact that each company may have some special characteristics of its own.

Definitions of Variables

Variables		Definitions
Dependent Variable:		
EXC	-	Executive Compensation
Explanatory Variables:		
PAT	-	Profit after Tax
CAE	-	Capital Employed (Proxy for Company's Size)
ROI	-	Return on Investment
ROE	-	Return on Equity
$D_{1i,}D_{2i} \ldots \ldots D_{6i}$	-	Dummy variable for each company
u_{it}	-	Error term

β_2 = Partial regression coefficient of PAT with respect to EXC.
β_3 = Partial regression coefficient of CAE with respect to EXC.
β_4 = semi elasticity coefficient of ROI with respect to EXC.
β_5 = semi elasticity coefficient of ROE with respect to EXC.
α_i = fixed effect of company i. This represents the mean executive compensation of each company.

The '*A Priori'* Expectations
It is necessary to state the theoretical relationships in respect of the expected signs and the values of the parameters between dependent and independent variables in each model. Thus, the *a priori* expectations are stated as follows:
$\beta_2 > 0, \beta_3 > 0, \beta_4 > 0, \beta_5 > 0$
$\alpha_i > 0$, where $i = 1,2,3, \ldots 10$

Results of Descriptive Statistics

	EXC	PAT	CAE	ROI	ROE
Mean	146948.9	9988016.	43544433	0.364048	0.384286
Median	119839.0	6962172.	27015682	0.345000	0.320000
Maximum	559002.0	54928555	2.85E+08	1.440000	1.150000
Minimum	21997.00	1342325.	10035462	0.100000	0.130000
Std. Dev.	95956.60	9291212.	45780288	0.209390	0.226836
Skewness	2.071920	2.832597	3.619364	3.236798	1.271196
Kurtosis	9.344647	14.05496	19.61357	17.72896	4.516180
Jarque-Bera	100.4954	270.0366	574.7173	452.9872	15.33447
Probability	0.000000	0.000000	0.000000	0.000000	0.000468
Sum	6171855.	4.19E+08	1.83E+09	15.29000	16.14000
Sum Sq. Dev.	3.78E+11	3.54E+15	8.59E+16	1.797612	2.109629
Observations	42	42	42	42	42

Source: Computed by researcher using E-view 8

The table above shows the various descriptive parameters such as mean, median, maximum, minimum, standard deviation, skewness and kurtosis. The Jarque-Bera statistics show all the variables are not normally distributed. This is also indicated by the p-values. The variables; Profit After Tax (PAT), Capital Employed (CAE), Executive Compensation (EXC)Return on Investment (ROI) and Return on Equity (ROE) do not follow a normal distribution since the p-value of each variable is less than 0.05 (5%).

TABLE: Result of Panel data regression model
The table below is the output of the panel data regression model estimation.

Dependent Variable: EXC				
Method: Panel Least Squares				
Sample: 2009-2015				
Periods included: 7				
Cross-sections included: 6				
Total panel (balanced) observations: 42				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	64410.05	28570.24	2.254446	0.0311

PAT	0.000976	0.005403	0.180709	0.0086
CAE	0.001952	0.000755	2.584560	0.0014
ROI	-56111.69	208352.0	-0.269312	0.0079
ROE	21410.11	208851.6	0.102513	0.0919

	Effects Specification		
Cross-section fixed (dummy variables)			

R-squared	0.761042	Mean dependent var	146948.9
Adjusted R-squared	0.693835	S.D. dependent var	95956.60
S.E. of regression	53094.91	Akaike info criterion	24.80181
Sum squared resid	9.02E+10	Schwarz criterion	25.21554
Log likelihood	-510.8379	Hannan-Quinn criter.	24.95346
F-statistic	11.32384	Durbin-Watson stat	1.397058
Prob(F-statistic)	0.000000		

Source: Computed by researcher using E-view 8

The value of the intercept term $C(\#64410.05)$ in the table above represents the average fixed effect of the dummy variable effects.

The partial regression coefficient of PAT (Profit after Tax) with respect to EXC (Executive Compensation) is 0.000976 while other independent variables are held constant. This has a positive sign indicating that PAT has a positive effect on EXC. This implies that for every one naira increase in PAT, EXC increases by $\#0.000976$ and vice versa. Thus, the positive sign is in line with the *priori expectation*that $\beta_2 > 0$.

The partial regression coefficient of CAE (Capital Employed as proxy for size of each company) with respect to EXC (Executive Compensation) is 0.001952 while other independent variables are held constant. This has a positive sign indicating that CAE has a positive effect on EXC. This implies that for every one naira increasein CAE, EXC increases by $\#0.001952$ and vice versa. Thus, the positive sign is in line with the *priori expectation*that $\beta_3 > 0$.

The partial regression coefficient of ROI (Return on Investment) with respect to EXC (Executive Compensation) is -56111.69 while other independent variables are held constant. This has a negaitive sign indicating that ROI has a negative effect on EXC. This implies that for every 1% increase in ROI, EXC decreases by $\#56111.69$ and vice versa. Thus, the negative sign is not in line with the *priori expectation*that $\beta_4 > 0$.

The partial regression coefficient of ROE (Return on Equity) with respect to EXC (Executive Compensation) is 21410.11 while other independent variables are held constant. This has a positive sign indicating that ROE has a positive effect on EXC. This implies that for every 1% increase in ROE, EXC increases by $\#21410.11$ and vice versa. Thus, the positive sign is in line with the *priori expectation*that $\beta_5 > 0$.

In the table above, the p-value of the partial regression coefficient of $PAT$is 0.0086. This is less than 5%. Thus, the null hypothesis is rejected. This implies that PAT is statistically significant to individually influence EXC.

In the table above, the p-value of the partial regression coefficient of $CAE$is 0.0014. This is less than 5%. Thus, the null hypothesis is rejected. This implies that CAE is statistically significant to individually influence EXC.

In the table above, the p-value of the partial regression coefficient of $ROI$is 0.0079. This is less than 5%. Thus, the null hypothesis is rejected. This implies that ROI is statistically significant to individually influence EXC.

In the table above, the p-value of the partial regression coefficient of $ROE$is 0.0919. This is more than 5%. Thus, the null hypothesis is accepted. This implies that ROE is not statistically significant to individually influence EXC.

From Table above, the adjusted-R^2 value of 0.693835 means that about 69.38% of the total variation in the dependent variable, Executive compensation (EXC), is explained by the independent variables (PAT, CAE, ROI, ROE), a fairly high value considering the fact the maximum value of R^2 can at most be 1. The remaining 30.62% out of 100% is due to the factors or omitted explanatory variables not included in the model as represented by the error term u_{it}.

In the table above, the F-statistic is 11.32384 and its p-value is 0.0000 (less than 5%). Thus, the null hypothesis is rejected. This implies that the independent variables are jointly significant to influence the dependent variable (EXC).

Table: Testing the Fixed Effect

Redundant Fixed Effects Tests			
Equation: EQ01			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.972608	(5,32)	0.0005
Cross-section Chi-square	27.685855	5	0.0000

The table above is the fixed effect output. It is used to test for equality of the fixed effects (dummy variable coefficients).

The F-value and chi-square values are given in the table below. Each of F-value and chi-square values has the p-values of 0.0005 (less than 5%). Thus, both tests clearly reject the null hypothesis of equal intercept. The companies are therefore heterogeneous.

III. Summary And Conclusion

The findings on executive compensation system and financial performance: Evidence from selected Diversified Firms in Nigeria, revealed that profitability, size of firm, return on equity and return on investment determined executive compensation of diversified firms in Nigeria. There were correlations between performance indicators and executive compensation system. The quantitative finding showed that profitability was a major determinant of executive compensation. This implied that the higher the profit the higher the executive compensation. Basically, financial performance determines executive compensation. Though, compensation is a serious business issue, executive compensation is complex and difficult to comprehend because of the people that are involved. The result of the finding is in line with earlier study (Michel, Sylvie & Linda, 1995) which states that profitability, organizational size, ROE and ROI, may determine the executive compensation. Organizations should use economic contributions of individual managers as a key measure to determine executive compensation.

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