



# Executive Compensation and Financial Performance of Listed Deposit Money Banks in Nigeria

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## ABSTRACT

The study focused on executive compensation and financial performance of listed deposit money banks in Nigeria. Executive compensation was measured with Directors' compensation, CEO compensation and chairman's compensation whereas financial performance was measured using return on assets, return on equity and earnings per share. Ex-post facto research design was employed in the study. Using ten selected deposit money banks in Nigeria, data was collected from the annual reports and financial statements of the ten (10) banks. Pre-estimation test carried out showed that the variables were not normally distributed necessitating the use of generalized method of moments (GMM) regression. Results reveal that Directors' compensation, has a positive but insignificant effect on return on asset (ROA) and return on equity (ROE). While CEO compensation and chairman's compensation have significant but negative effect on return on asset and return on equity of listed deposit money banks in Nigeria. Based on these findings, the study conclude that executive compensation do not have significant effect on financial performance of listed deposit money banks in Nigeria. The study therefore recommends amongst others that deposit money banks develop a more performance-oriented compensation structure that closely ties executive pay particularly CEO and chairman's compensation to measurable financial indicators such as ROA and ROE. Linking bonuses and incentives to long-term performance metrics rather than short-term gains can reduce agency problems and ensure that executives act in the best interest of shareholders.

**Keywords:** Executive compensation, Return on asset, Return on equity, Financial performance, Generalized Method of Moments

## INTRODUCTION

Executive compensation refers to the financial and non-financial rewards that an executive receives for their contributions to the business. This include both monetary compensation and various non-monetary perks that an executive receives from their organization in exchange for their services (Ma, et al., 2021). According to Emmanuel et al. (2017), executive compensation includes a fixed salary, variable performance-based bonuses (cash, shares, or stock options), benefits, and other mandates that are best structured to take into consideration CEO preferences, government regulations, tax laws, and the objectives of the company. Barde et al (2023) however avers that executive compensation differs substantially from typical pay packages for either hourly workers or salaried management and professionals in that executive pay is heavily biased toward rewards for actual results. Executive compensation has remained a critical and often controversial aspect of corporate governance and financial performance globally. The structure, level, and effectiveness of executive remuneration are pivotal not only to attracting and retaining top managerial talent but also to aligning the interests of executives with those of shareholders. In particular, the banking sector being central to the economic development and financial stability of any country presents a unique setting for analyzing the impact of executive compensation on corporate financial performance. This is especially relevant in Nigeria, where the performance of deposit money banks (DMBs) significantly influences the overall economic climate.

In the wake of the global financial crises and corporate scandals such as Enron, Lehman Brothers, and others, the link between executive compensation and organizational performance attracted significant academic and regulatory attention. Critics argue that excessive or poorly structured executive remuneration schemes can

incentivize short-termism, excessive risk-taking, and even fraudulent activities (Bebchuk & Fried, 2024). These concerns have been particularly pronounced in the financial sector, where executive decisions can have far-reaching impacts on the stability of the economy. In Nigeria, the 2009 banking crisis and subsequent reforms exposed several governance and ethical challenges in the financial services industry, which brought executive remuneration under the spotlight (Sanusi, 2020). Given the critical nature of the operations of banks and the regulatory importance of sound corporate governance, the issue of executive compensation within these banks has attracted increasing scrutiny. In theory, well-structured executive compensation packages are expected to incentivize bank executives to act in the best interests of shareholders, thereby improving financial performance (Jensen & Meckling, 1976). However, empirical evidence, especially in developing economies like Nigeria, suggests a more complex and sometimes contradictory relationship. In the Nigerian banking industry, where issues such as weak regulatory enforcement, insider abuses, and governance lapses are prevalent, executive compensation practices are often perceived as misaligned with actual firm performance. Several instances have been reported where bank executives received disproportionately high compensation packages despite the poor financial health of their institutions (Sanusi, 2020). This scenario raises concerns about whether executive compensation is truly performance-based or merely a reflection of managerial entrenchment and weak oversight mechanisms.

Executive compensation typically comprise of a combination of fixed salaries, performance bonuses, stock options, retirement benefits, and other incentives. The optimal design of these packages is intended to align executives' interests with shareholders' goals, thus improving financial performance (Jensen & Meckling, 1976). However, empirical evidence on the actual impact of executive compensation on financial performance remains mixed and inconclusive, particularly in emerging markets such as Nigeria. Some studies found a positive relationship, suggesting that well-designed compensation packages can improve firm performance (Ghosh, 2023), while others suggest the opposite, showing that excessive or misaligned compensation may not yield any significant financial benefits and could even harm firm value (Bebchuk & Fried, 2024).

In Nigeria, the banking sector has undergone significant transformations, especially since the Central Bank of Nigeria (CBN)'s consolidation reforms in 2004, which has led to the emergence of stronger, more competitive banks that are publicly listed and subject to corporate governance codes. Executive compensation in Nigerian banks is often characterized by high base salaries and generous allowances, with limited transparency regarding performance-based components. According to the annual reports of several listed DMBs, the top executives earn significantly more than the average employee, yet some of these institutions report declining profits or nonperforming loan portfolios. This raises questions about the effectiveness of executive remuneration policies in enhancing shareholder value and driving sustainable performance (Owolabi, Obida, & Usman, 2016).

Previous empirical studies on this topic in Nigeria have produced divergent findings. For instance, Uwuigbe *et al.* (2023) found a positive relationship between CEO compensation and return on equity among Nigerian banks, suggesting that performance-based incentives might be working as intended. Conversely, Akinsulire (2021) reported no significant correlation between executive pay and financial performance, raising doubts about the efficacy of current compensation structures. These inconsistencies highlight the need for further empirical analysis, especially using up-to-date data and robust financial performance indicators. Hence the need for the present study.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### The Concept of Executive Compensation

Executive compensation refers to all forms of financial rewards provided to senior executives, including base salary, bonuses, stock options, allowances, and long-term incentives. They are monetary compensation and various non-monetary perks that an executive receives from their organization in exchange for their services (Ma, *et al.*, 2021). According to Emmanuel *et al.* (2017), it includes a fixed salary, variable performance-based bonuses (cash, shares, or stock options), benefits, and other mandates that are best structured to take into consideration CEO preferences, government regulations, tax laws, and the objectives of the company. In corporate governance research, compensation is viewed as a mechanism to align managerial interests with those of shareholders and other stakeholders (agency theory). Properly structured pay is expected to motivate executives to pursue strategies that enhance firm value and financial performance. Conversely, poorly designed incentives can trigger managerial entrenchment, risk-taking, or managerial opportunism (Frydman & Jenter,



2010) especially in financial institutions where leverage and regulatory constraints intensify governance challenges.

Executive compensation is usually determined by the board of directors, particularly by the compensation committee composed of independent members, in order to reward the executive team, who have a major impact on the company's strategy, decision-making, and value generation, and to enhance executive retention. The leaders of every organization are crucial to decision-making, corporate strategy development, and overall business value addition. In order to incentivize these executives to make the investments, engage in the activities, and employ the methods that increase shareholder value, incentives should be provided (Ayodele, 2022).

Ntim *et al.*, (2019) avers that overall CEO compensation in practice comprises two primary models. Firstly, the total fixed cash compensation (base pay, annual bonuses, contributions, and any monetary compensation in addition to benefits-in-kind). The second is equity-based compensation, sometimes referred to as variable compensation (the inherent or expected value of stock, long-term incentive plans, and options). In a similar vein, Singh *et al.* (2021) argued that CEOs should get two forms of compensation: performance-based compensation, which includes bonuses, shares, and share options, and fixed compensation, which includes a base salary, pension, and housing allowances. Additionally, they asserted that CEOs are crucial to corporate governance, the expansion and success of the business, and the creation of profits for shareholders (Ayodele, 2022).

Adegoroye, Sunday, Soyinka, and Ogunmola (2017) explained banks' financial performance as a measure of how effectively a business generates revenue from its resources. Financial performance in banking is frequently measured using accounting based indicators that reflect profitability and efficiency such as return on asset (ROA), Return on Equity (ROE) and earnings per share (EPS). These measures offer a multi-dimensional view of bank performance capturing asset utilization. Recent empirical work in Nigeria highlights that executive pay remains a contentious issue: high rewards often coexist with weak performance, fueling debates about pay-for-performance effectiveness and governance standards. For example, studies of Nigerian banks find mixed effects of executive compensation on profitability, with some reporting significant positive influence while others observe weak or adverse impacts.

### **Link between Executive Compensation and Financial Performance**

In the Nigerian banking sector, the relationship between executive compensation and financial performance is a critical focal point of corporate governance. This link is primarily anchored on Agency Theory, which suggests that well-structured compensation packages align the interests of bank executives (agents) with those of the shareholders (principals) to mitigate conflicts of interest (Jensen & Meckling, 1976). In Nigeria, Deposit Money Banks (DMBs) operate under stringent regulatory oversight by the Central Bank of Nigeria (CBN). These regulations aim to ensure that executive pay is not just a reward for presence, but a driver for sustainable financial health across various key metrics including: Return on Asset (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). ROA measures how efficiently a bank uses its total assets to generate profit. The compensation of the CEO, Chairman, and Board of Directors serves as a strategic lever for asset optimization. Competitive salaries and performance-based bonuses incentivize the optimization of the bank's loan portfolio. According to Adewoyin *et al.* (2020), there is a significant positive relationship between directors' remuneration and ROA among listed DMBs in Nigeria, suggesting that well-compensated boards are more effective at managing asset quality and reducing non-performing loans (NPLs). While the Chairman's role is non-executive, their compensation reflects the quality of board leadership, which stabilizes the bank's asset base (Olayinka, 2019). Hence we hypothesized that: Directors' compensation, CEO compensation and chairman's compensation has no significant effect on return on asset of listed deposit money banks in Nigeria.

Return on Asset (ROE) reveals the profit generated from shareholders' invested capital. It is a vital metric for assessing how executive pay translates to owner wealth. In the Nigerian context, CEO pay often includes stock options or long-term incentive plans (LTIPs). This encourages the CEO to maximize equity returns rather than pursuing short-term, risky gains. Empirical Evidence however found that while CEO compensation has a positive impact on ROE, the effect of Chairman compensation can be more nuanced, sometimes showing a non-linear relationship where over-compensation leads to "managerial entrenchment" and diminishing returns for shareholders (Afolabi and Olagunju (2023)). Based on the above we investigated the causal relationship between directors' compensation, CEO compensation and chairman's compensation on return on equity of listed deposit money banks in Nigeria.



Ideally, executive compensation and financial performance are perfectly correlated, but associated studies on executive compensation and performance have yielded mixed results. The executives who build real value in the company they manage should be paid handsomely well but not excessively, hence a level which is able to attract, maintain, and motivate such skilled managers who will enable the firm achieve its objectives and goals in the long term (Busaule, 2021). Kaplan and Atkinson (1989) explain that executive compensation should be designed in a way that affects employees positively and should fulfill three criteria. The executive compensation should be competitive in terms of size in order to attract and keep the best employees; Incentive programs should communicate and strengthen the main objectives of the company by attaching flexible compensation to performance; Flexible compensation should encourage a performance oriented corporate climate by observing and rewarding good performance.

### **Prior Studies**

Executive compensation remains a critical corporate governance mechanism designed to align the interests of managers with those of shareholders. In the banking sector, where risk-taking behaviour, regulatory oversight and financial stability are of paramount importance, compensation policies play a strategic role in shaping managerial decisions and performance outcomes. The Nigerian banking industry characterized by regulatory reforms, recapitalization policies and evolving governance frameworks, present a unique context for examining the effectiveness of executive pay structures in driving financial performance.

Akinwale (2023), provided empirical evidence on executive compensation and bank performance, with the objective of examining the influence of director compensation, CEO compensation, chairman's compensation and CEO ownership on bank performance. A quantitative and longitudinal research design in which secondary data were collected from the quoted banks on the Nigeria Stock Exchange from 2012 to 2016. empirical results show that director compensation has a negative and insignificant influence on bank performance measured by return on equity, CEO compensation has a positive and a significant influence on bank performance, chairman compensation has a negative and a significant influence on bank performance, CEO ownership has a positive and insignificant influence on bank performance while the control variable, firm size has positive and insignificant influence on bank performance. While increased pay can drive performance, high compensation for directors, especially without corresponding equity ownership can negatively affect bank value and performance. Mohammed et al., (2023), examined the effect of executive compensation on the financial performance of listed non-financial firms in Nigeria using a correlational research design based on a filtered census population of 63 firms listed on Nigeria's Exchange Group. The study found salary emoluments, bonuses and stock-based compensation, as measures of executive compensation, have negative impact on the return on equity of listed non-financial firms in Nigeria. While executive pension claims a positive impact on the return on equity of listed non-financial firms in Nigeria. Ahamed, (2022), analyzed the relationship between CEO compensation and bank performance in Bangladesh. Finding CEOs' compensation package is positively and significantly related to the bank performance. Ibrahim and Ahmed (2020) considered the effect of executive compensation and share ownership on financial performance of listed commercial banks in Nigeria, their study found CEO Pay has positive effect on financial performance of banks. Recommending that management should tie the payment of CEO of the banks to performance.

Owota and Banigo (2022), looked at how executive pay affects Nigerian commercial banks' financial performance. According to their findings, organizations should pay their executives well enough to incentivize them, because the more money they make, the better their financial performance. Aside from the standard salary, it was also advised that executive compensation packages include various benefits designed to keep employees motivated. Scholtz and Smit (2022), carried out a study to examine the relationship between short-term executive compensation and company performance for a sample of companies listed on the Alternative Exchange in South Africa between 2013 and 2020. Evidence provided by the study showed that there is a strong relationship between executive remuneration and some company performance variables, such as total assets, turnover and share price. The corporate governance measures and disclosure requirements application to executive remuneration were also examined. Ozkan (2021), examined the link between CEO pay and performance employing a data set of 390 UK nonfinancial firms from the FTSE All Share Index for the periods 1999-2005. The results indicated a positive and significant link between CEO cash compensation and performance; however, the link between total compensation and performance was positive but not significant. The findings from the study also suggested that larger firms pay their CEOs higher compensation, which one can interpret as reflecting



their demand for higher quality CEO talent. Sigler (2021), examined the relationship of CEO pay and company performance for 280 firms listed on the New York Stock Exchange for the period from 2016 through 2019 just immediately after the adoption of the Sarbanes Oxley Act. Findings from the study revealed that there is a positive and significant relationship between total CEO compensation and company performance measured by return on equity. The size of the firm appears to be the most significant factor in determining the level of total CEO compensation, according to the results, and the tenure of the Chief Executive Office is another significant variable.

## THEORETICAL REVIEW

This study is anchored on the Agency Theory formally developed by Jensen and Meckling in their seminal 1976 paper titled “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure and further enriched by the contributions of Ross (1973) who developed the economic foundations of principal–agent relationships and Fama (1980) on managerial labor markets and monitoring mechanisms. These scholars laid the theoretical foundation for understanding conflicts of interest between owners and managers and the mechanisms used to align their interests. Agency Theory explains the contractual relationship between a principal (shareholders) and an agent (managers/executives). In modern corporations including listed deposit money banks in Nigeria ownership is separated from control. Shareholders provide capital but delegate decision-making authority to executives. The theory assumes that individuals are self-interested and utility-maximizing, managers may pursue personal benefits (e.g., higher compensation, prestige, job security) rather than shareholders’ wealth maximization and that information asymmetry exists because managers possess more information about the firm’s operations than shareholders. This divergence of interests creates agency problems, which lead to agency costs (monitoring costs, bonding costs, residual loss), potential inefficiencies and suboptimal financial performance. To reduce agency problems, firms design incentive-based compensation systems that align managerial interests with shareholder wealth.

Under Agency Theory, executive compensation is viewed as a control and alignment mechanism and when executive compensation is tied to financial performance indicators, executives are more likely to make decisions that enhance firm performance. Thus, performance-linked pay reduces moral hazard and aligns managerial objectives with shareholders’ wealth maximization. In the Nigerian banking sector, particularly after the consolidation reforms under the Central Bank of Nigeria, corporate governance practices have emphasized accountability, transparency, and performance-based remuneration. Listed deposit money banks in Nigeria operate in a highly regulated and competitive environment. The separation between shareholders and professional managers makes agency conflicts inevitable. If compensation is effectively linked to measurable financial outcomes then executives are incentivized to improve profitability, agency costs are minimized and financial performance improves. However, if compensation is poorly designed (e.g., excessive fixed salaries without performance linkage), it may encourage opportunistic behavior, risk manipulation, or earnings management ultimately weakening financial performance. Thus the study on Executive Compensation and Financial Performance of Listed Deposit Money Banks in Nigeria is fundamentally anchored in Agency Theory because:

1. It examines whether compensation structures align managerial interests with shareholder wealth.
2. It tests whether higher or performance-based executive compensation improves financial performance.
3. It evaluates whether executive pay serves as an effective governance mechanism in the Nigerian banking sector.

The theory provides the explanatory framework that executive compensation is not merely a cost to the firm but a strategic governance tool designed to mitigate agency conflicts and enhance financial performance. Thus, Agency Theory predicts a positive relationship between performance-based executive compensation and financial performance, assuming proper design and effective corporate governance mechanisms, Agency Theory provides a robust theoretical lens for analyzing executive compensation in Nigerian listed deposit money banks. It explains the inherent conflict between shareholders and executives and justifies compensation structures as alignment mechanisms.

## METHODOLOGY

The study used causal comparative research design also referred to as ex post facto design. This design explore the effect of executive compensation on the financial performance of listed deposit money banks in Nigeria over time. This approach collects data from the same banks at multiple points, allowing for observation of changes and better control of time-related factors like economic conditions and regulatory shifts. This design also analysed existing financial performance outcomes to infer potential causal factors, such as executive compensation. This method helps in both predicting and understanding the causal relationship between executive compensation and financial performance in Nigerian deposit money banks. For the purpose of this study, the population comprised of the 14 deposit money banks listed on the Nigeria Exchange Group (NGX) during the period 2015 to 2024. The study adopted judgmental sampling in the determination of sample size. Data for the study was extracted from the audited financial statements of the sampled banks from the period 2015-2024 for analysis. Descriptive statistics was employed in explaining the nature of the dataset while the estimation technique used was Generalized Method of Moments (GMM).

The model of Akinwale (2023) with modification was adapted to suit the present study. The modified model for the study is stated below:

$$ROA = \beta_0 + \beta_1LNDIRC_t + \beta_2LNCEO_t + \beta_3LNCHAIRC_t + \mu \dots \dots \dots (i)$$

$$ROE = \beta_0 + \beta_1LNDIRC_t + \beta_2LNCEO_t + \beta_3LNCHAIRC_t + \mu \dots \dots \dots (ii)$$

Instrument Specification =

$$@DYN (ROA (-2) LNDIRC (-1) LNCEO (-1) LNCHAIRC (-1)) \dots \dots \dots (iv)$$

$$@DYN (ROE (-2) LNDIRC (-1) LNCEO (-1) LNCHAIRC (-1)) \dots \dots \dots (v)$$

Where:

ROA = Return on asset

ROE = Return on equity

LNDIRC= Log of director’s compensation

LNCEO = Log of CEO compensation

LNCHAIRC= Log of chairman’s compensation

$\beta_0$  = Constant term,  $\beta_1$  = Coefficient and  $\mu$  = Error term.

## RESULTS AND DISCUSSION

### Descriptive Statistics

The descriptive statistics for both the dependent and independent variables are presented in table 1

**Table 1: Descriptive statistics**

| Statistic          | LNDIRC    | LNCEO     | LNCHAIRC  | ROA       | ROE       |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| Mean               | 5.664417  | 4.849143  | 4.240809  | 0.023303  | 0.154883  |
| Median             | 5.756091  | 4.930236  | 4.308887  | 0.018522  | 0.136310  |
| Maximum            | 6.837841  | 5.311739  | 4.716003  | 0.123385  | 0.578125  |
| Minimum            | 4.531479  | 4.204120  | 3.301030  | -0.084224 | -0.137159 |
| Standard Deviation | 0.482166  | 0.311924  | 0.354776  | 0.026173  | 0.128468  |
| Skewness           | -0.218299 | -0.425999 | -1.152443 | 0.395941  | 0.670108  |
| Kurtosis           | 3.473878  | 1.998887  | 3.762191  | 8.342825  | 3.765306  |



|                     |          |          |          |          |          |
|---------------------|----------|----------|----------|----------|----------|
| <b>Jarque-Bera</b>  | 1.729914 | 7.200528 | 24.55598 | 121.5536 | 9.924475 |
| <b>Probability</b>  | 0.421070 | 0.027317 | 0.000005 | 0.000000 | 0.006997 |
| <b>Observations</b> | 100      | 100      | 100      | 100      | 100      |

Source: Authors compilation from E-views Output

Table 1 presents the descriptive statistics for executive compensation variables (LNDIRC, LNCEOOC, LNCHAIRC) and firm performance indicators (ROA, ROE, EPS) based on 100 observations. The mean values of the compensation variables indicate moderate variations in directors', CEOs', and chairmen's remuneration across the sampled firms, with mean and median values being relatively close, suggesting limited central tendency bias. The average ROA (0.023) and ROE (0.155) indicate modest firm performance, while the mean EPS (3.013) reflects positive but highly dispersed earnings outcomes. Standard deviation values show that EPS exhibits the highest variability, whereas ROA and ROE display relatively lower dispersion, implying more stable performance measures. Skewness and kurtosis statistics reveal that compensation variables are largely negatively skewed, while performance indicators particularly EPS are positively skewed and leptokurtic, suggesting the presence of extreme values. The Jarque-Bera test indicates normality for LNDIRC but rejects normality for the remaining variables, justifying the application of log transformations and robust estimation techniques in subsequent analyses.

## Correlation

**Table 2: Correlation Results**

| Variables     | DIRC     | CEOOC     | CHAIRC    |
|---------------|----------|-----------|-----------|
| <b>DIRC</b>   | 1.000000 | 0.123342  | 0.018224  |
| <b>CEOOC</b>  | 0.123342 | 1.000000  | -0.082822 |
| <b>CHAIRC</b> | 0.018224 | -0.082822 | 1.000000  |

Source: Authors' Output from E-views

Table 2 showed the correlation matrix of the variables employed in this study. Correlation considers two variables at a time to determine how they relate to each other. These types of checks are necessary because high correlation cause problems about the relative contribution of each predictor to the success of the model and detects multicollinearity. The correlation matrix above shows the absence of multicollinearity among the explanatory. All the variables show a low correlation with the highest correlation estimated at 0.123342. This is less than 0.75. According to Gujarati (2001), correlation matrix value of 0.75 is considered harmful.

## Variance inflation factor (VIF)

**Table 3: Variance Inflation Factor for Multicollinearity Test**

| Variables       | Coefficient Variance | Uncentered VIF | Centered VIF |
|-----------------|----------------------|----------------|--------------|
| <b>C</b>        | 0.003391             | 515.1577       | NA           |
| <b>LNDIRC</b>   | 2.91E-05             | 142.6936       | 1.016289     |
| <b>LNCEOOC</b>  | 6.99E-05             | 250.7488       | 1.022979     |
| <b>LNCHAIRC</b> | 5.32E-05             | 146.4555       | 1.007751     |

Source: Authors' Output from E-views

The variance inflation factor (VIF) is used to check the level of multicollinearity that exist between the independent variables. If the independent variables are highly correlated making it difficult to isolate the individual effect of the variables, it means that there is problem and the independent variables cannot give a

dependable and reliable result. The criterion is that any time the centered VIF have values between 5 and 10, this implies that there is sign of multicollinearity. From the result, the centered VIF have values less than 5 which implies that the independent variables are free from multicollinearity.

**Regression Results**

**Table 4: Effect of Executive Compensation on ROA of listed Money banks in Nigeria**

| Dependent variable: ROA Variable               | Coefficient | Std. Error         | t-Statistic | Prob.  |
|--|-------------|--------------------|-------------|--------|
| ROA(-1)  | 0.100716    | 0.018945           | 5.316350    | 0.0000 |
| LNDIRC   | 0.000764    | 0.004465           | 0.171121    | 0.8646 |
| LNCEOC   | -0.014806   | 0.004529           | -3.269391   | 0.0016 |
| LNCHAIRC                                       | -0.012526   | 0.002918           | -4.293076   | 0.0001 |
| <b>Cross-section fixed (first differences)</b> |             |                    |             |        |
| Mean dependent var                             | 0.000362    | S.D. dependent var | 0.028569    |        |
| S.E. of regression                             | 0.029787    | Sum squared resid  | 0.067432    |        |
| J-statistic                                    | 7.341664    | Instrument rank    | 10          |        |
| Prob(J-statistic)                              | 0.290402    |                    |             |        |

Source: Authors' Output from E-views

Table 4 provides results that evaluates the validity of the effect of executive compensation on ROA model using the J-statistic of 7.341664. The probability of the J-statistic is reported as 0.290402. Since the probability of Jstat is greater than threshold of 0.05 set for the study, this result indicates that the model is valid and can be relied upon in predicting the effect of executive compensation on return on asset. The value of the beta coefficient for DIRC of 0.000764 with a p-value of 0.8646. This implies that a unit increase in the number of director's compensation (DIRC) will lead to about 0.000764% increase in ROA of the listed deposit money banks in Nigeria if other factors are held constant though not significant. On the other hand, CEOC and CHAIRC indicate both negative and significant effect on return on asset (ROA) of listed deposit money banks in Nigeria. A unit increase in CEO compensation (CEOC) and chairman's compensation (CHAIRC) will result to 0.014806% and 0.012526% reduction in ROA of listed deposit money banks. Results in table 4 indicates that the probability of j-statistic of 7.341664 is significant at 5% level (P-value = 0.290402 > 0.05). This indicates that the instrumental variables used in the dynamic panel estimation are valid and appropriate.

**Table 5: Test result of the effect of DIRC, CEOC and CHAIRC on ROE of listed deposit money banks in Nigeria.**

| Dependent variable: ROE Variable | Coefficient | Std. Error | t-Statistic | Prob.  |
|----------------------------------|-------------|------------|-------------|--------|
| ROE(-1)                          | 0.375062    | 0.008543   | 43.90078    | 0.0000 |
| LNDIRC                           | 0.010538    | 0.014576   | 0.722929    | 0.4719 |
| LNCEOC                           | -0.023739   | 0.010822   | -2.193715   | 0.0313 |



|  |           |                    |           |        |
|--|-----------|--------------------|-----------|--------|
| LNCHAIRC                                       | -0.080657 | 0.012047           | -6.694999 | 0.0000 |
| <b>Cross-section fixed (first differences)</b> |           |                    |           |        |
| Mean dependent var                             | 0.015918  | S.D. dependent var | 0.083050  |        |
| S.E. of regression                             | 0.101623  | Sum squared resid  | 0.784868  |        |
| J-statistic                                    | 6.394017  | Instrument rank    | 10        |        |
| Prob. (J-statistic)                            | 0.380528  |                    |           |        |

Source: Authors' Output from E-views

In table 5 the results examining the relationship between executive compensation and Return on equity using the J-statistic of 6.394017. The probability of the J-statistic is reported as 0.380528. Since the probability of J-stat is greater than threshold of 0.05 set for the study, this result indicates that the model is valid and can be relied upon in predicting the effect of executive compensation on return on equity. The value of the beta coefficient for DIRC of 0.010538 implies that a unit increase in the number of director's compensation (DIRC) will lead to about 0.010538% increase in ROE of the listed deposit money banks in Nigeria if other factors are held constant. In the same vein, a unit increase in CEO compensation (CEOC) will result to 0.023739% decrease in ROE of listed deposit money banks. Finally, a unit increase in chairman's compensation (CHAIRC) will result to 0.080657% decrease in ROE of listed deposit money banks. Results in table above indicates that the probability of j-statistic of 6.394017 is significant at 5% level ( $P\text{-value} = 0.380528 > 0.05$ ). This implies that the instrument is valid and therefore capable of explaining the variation in the profitability of the banks as measured with return on equity.

## DISCUSSIONS OF RESULTS

### Effect of executive compensation on return on asset.

The findings from hypothesis one revealed that past profitability significantly influences current profitability. It shows that a 1-unit increase in prior year ROA leads to approximately a 0.10 increase in current ROA, holding other factors constant. Furthermore the significance of ROA suggests a dynamic adjustment process in bank performance. Performance in listed money banks in Nigeria exhibits persistence; profitable banks tend to remain profitable over time. The directors' compensation (LNDIRC) coefficient is positive but statistically insignificant. This implies that directors' compensation does not have a meaningful impact on ROA. The very high p-value (0.8646) suggests the effect is not different from zero. There is no empirical evidence that directors' compensation significantly influences profitability (ROA) of listed banks. Board compensation may be more governance-oriented than performance-sensitive. On the other hand, CEO compensation (LNCEOC) and chairman's compensation (LNCHAIRC) have a significant but negative effect on return on asset of listed deposit money banks in Nigeria. This suggests that increases in CEO and Chairman's compensation are associated with a decrease in ROA and lower profitability. This may be indicative of overcompensation without proportional performance gains, weak pay-performance alignment, and possible agency problems. It could also reflect governance inefficiencies or excessive compensation structures that reduce financial performance. Executive compensation is expected to exert a positive influence on the return on assets of deposit money banks in Nigeria as performance-based remuneration aligns managerial incentives with profitability objectives, enhances executive effort, improves risk management and promotes efficient utilization of bank assets. This result contradicts with the findings of Ahamed, (2022) who analyzed the relationship between CEO compensation and bank performance in Bangladesh and found that CEOs' compensation package is positively and significantly related to the bank performance. But aligns with that of Ibrahim and Ahmed 2020; Scholtz and Smit (2022); Ghosh (2023)}. However, Odey (2025) found an inverse and weak relationship between executive compensation and return on asset of deposit Money banks in Nigeria. The dynamic panel results reveal significant profit persistence among listed money deposit banks in Nigeria. While directors' compensation has no significant effect on ROA, both CEO and chairman compensations exert significant negative effects on profitability, suggesting

possible misalignment between executive remuneration and firm performance. The validity of instruments is confirmed by the insignificant J-statistic, supporting the robustness of the estimates.

### **Effect of executive compensation on return on equity.**

The findings from hypothesis two gives a similar indication like that of hypothesis 1. ROE is positive and highly statistically significant at the 1% level. This indicates strong profit persistence among listed money deposit banks. A unit increase in the previous year's ROE increases current ROE by approximately 0.375 units, holding other variables constant. Bank profitability (measured by ROE) is strongly dependent on past performance. This confirms a dynamic adjustment process in bank financial performance. The coefficient of directors compensation is positive but statistically insignificant suggesting that directors' compensation does not significantly influence ROE. CEO compensation and Chairman's compensation coefficient on the other hand is negative and statistically significant at the 5% level. The results do not support the traditional pay-performance hypothesis rooted in Agency Theory. Instead, they suggest possible agency conflicts, where higher executive compensation does not translate into improved shareholder returns. This result is not in line with the findings of [Owota, King and Banigo (2022); Obasan (2022)]. It also does not align with the a priori expectation as executive compensation is expected to have a significant effect on return on equity of deposit money banks in Nigeria as performance based remunerations aligns managerial incentives with shareholders wealth maximization, improves capital efficiency, enhance profitability and reduces agency costs within a regulated and volatile banking environment. The results do not support the traditional pay-performance hypothesis rooted in Agency Theory. Instead, they suggest possible agency conflicts, where higher executive compensation does not translate into improved shareholder returns. Regulatory authorities such as the Central Bank of Nigeria may need to strengthen monitoring of executive remuneration structures in listed banks. Similarly, shareholders within firms quoted on the Nigerian Exchange Group should ensure compensation packages are tied to measurable performance benchmarks. The dynamic panel results reveal significant persistence in ROE among listed money deposit banks in Nigeria. While directors' compensation has no significant impact on shareholder returns, both CEO and chairman compensations exert significant negative effects on ROE, suggesting misalignment between executive remuneration and firm performance. The insignificant J-statistic confirms the validity of instruments and robustness of the model estimates.

From the analysis it is evident that there is weak evidence supporting the pay-performance hypothesis. Regulatory authorities such as the Central Bank of Nigeria may need to strengthen monitoring of executive remuneration structures in listed banks. Similarly, shareholders within firms quoted on the Nigerian Exchange Group should ensure compensation packages are tied to measurable performance benchmarks.

## **CONCLUSION**

The study demonstrates that executive compensation specifically CEO and Chairman's compensation does not significantly affects financial performance represented with return on asset and return on equity The data's normality (skewness  $\approx 0$ , kurtosis  $\approx 3$ ), absence of multicollinearity, and exceptional model fits validate these conclusions. The Panel GMM model using the 1st Differences GMM is confirmed as the appropriate analytical framework for the study.

## **RECOMMENDATIONS**

Based on the findings and conclusion of the study, the following recommendations were made:

1. The study recommends that deposit money banks develop a more performance-oriented compensation structure that closely ties executive pay particularly CEO and directors' compensation to measurable financial indicators such as ROA. Linking bonuses and incentives to long-term performance metrics rather than short-term gains can reduce agency problems and ensure that executives act in the best interest of shareholders.
2. Since Directors' compensation, CEO compensation and chairman's compensation have a significant effect on return on equity of listed deposit money banks in Nigeria, banks should design executive compensation



packages that are closely linked to financial performance indicators such as return on equity. This will ensure that executives are motivated to make decisions that enhance shareholders' value and improve profitability.

3. Regulatory and bank board should establish transparent and performance-based compensation structures that align executives' rewards with the bank's earnings growth and long-term sustainability. This will help to prevent excessive pay unrelated to performance and promote accountability among top management.

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