 doi:10.20944/preprints201710.0105.v1

Article

The Influence of Chief Executive Officer's Compensation on Firms' Performance in the Nigeria Banking Industry

Ehijiele Ekienabor [1,†,*], Damian Mbaegbu [2,†] and Sunday Aguwamba [2,†]

[1] Department of Business Administration, College of Business and Management Studies, Igbinedion University, Okada, Edo State, Nigeria.; ehismcman@yahoo.com
[2] Department of Business Administration, College of Business and Management Studies, Igbinedion University, Okada, Edo State, Nigeria.
* Correspondence: ehismcman@yahoo.com; Tel.: +2348032912296
† These authors contributed equally to this work.

Abstract: This is a quantitative research based on secondary sources of data. The study examines the influence of Chief Executive Officer's (CEO) compensation on a firm's performance. The objectives of the study were to determine if CEO compensation and firm size do significantly influence a firm's performance. In other to elicit information to examine the relationship between the variables, the convenience sampling technique, with the combination of both the cross-sectional and time-series data (panel data) were used since they provide greater precision and guard against having an illusory sample. 10 banks quoted on the Nigerian Stock Exchange were sampled for easy accessibility of data. The least square regression technique was used to test the hypotheses of the study. Two hypotheses were tested using panel least square (EViews 8) and from the research work, we summarize the following results; there is a significant relationship between CEO compensation and firm performance in the Nigerian banking industry. In addition, firm size does significantly influence firm performance in the Nigerian banking industry. The study recommends that there should be proper compensation review as this will increase the productivity of the executives. Since increased pay is necessary for the efficiency of the workers, it is advised to ensure a considerable pay as this will ensure for efficiency in the organization. In addition, since the core goal of setting up any business is to make a profit, business organisations should sort out ways at maximising profit and this could include cutting down expenses such as cutting down excessive employees' pay (CEOs pay especially) and setting apposite pay package for employees. Therefore, policymakers (board of directors) should make an effort to align CEO's pay with the firm's capability to pay.

Keywords: chief executive officer; compensation; firm performance; Nigeria banking industry; chief executive officer compensation; firm size; return on asset

1. Introduction

Compensation management is one of the most imperative elements of personnel management, which covers reward in the form of salaries and wages and varied forms of non-financial economic payments known as indirect compensation. Top executives of companies, if erroneously or inadequately compensated may not have the right motivation to carry out tasks in the overall interest of the organization. Many scholars consider the issue of Chief Executive Officers (CEOs) pay as an essential component of corporate governance mechanism for the alignment of firm managers interest with the shareholders interest while some other experts argue that the gap in CEO pay arrangement and divergence are imperative and widespread and therefore sees it otherwise (Amzaleg, Ben-Zionb & Rosenfield, 2014; Bebchuk & Fried, 2003).

The conflict of interest amid CEOs and shareholders has gained importance in public policy debates and within academic research in recent years. Bhagat, Bolton and Subramanian (2010) posit

 doi:10.20944/preprints201710.0105.v1

that one of the most important roles of a board is to take into service a CEO with remarkable skill. Finding and taking into service an apt CEO is an important task for the board of a firm. On the other hand, even though the apt CEO is employed, there are a number of concerns which come about. The key concern that comes up is the CEO pay, and whether or not this can influence the performance of a firm. Investors nevertheless expect the CEO who is receiving high pay to perform and prove his merit. Shareholders, politicians, regulators and the media have all evaluated on the suitability of the level of CEO compensation.

Several pieces of evidence from the studies of compensation and performance have exhibited mix outcomes and patterns with some suggesting the alignment of managers' interest with those of shareholders through right compensation packages to encourage the executive to perform in the good interest of shareholder (John, Mehran & Qian, 2010 and Olaniyi & Obembe, 2015). Critics assert that CEO's compensation is disproportionate because it is feebly linked to firm performance and also the problems linked to CEO compensation are therefore pervading that most CEO's get surplus pay.

Tosi, Werner, Katz and Gomez-Mejia (2000), Finkelstein and Boyd (1998), and Johnson (1982) found no correlation between the variables (CEO's compensation and firm performance). While Ozkan (2007), Brick, Palmon and Wald (2005) and Belliveau et al. (1996) found a strong positive correlation connecting the variables. Another study carried out by Sigler (2011) revealed a positive significant correlation between CEO's compensation and firm performance quantified by return on equity. Similarly, Ozken (2007) and Kabla (2008) are also of the opinion of a positive significant pay-performance relationship in their studies across several industries, cultures and time. However, Jensen and Murphy (1990) contradict this thinking by establishing a negative correlation between compensation and financial performance. In Nigeria however, few researchers have delved on the issue. Researchers like Ogbeide and Akanji (2016), Olalekan and Bodunde (2015), Olaniyan (2015), Omoregie and Kelikume, (2017), Adegoroye, Oluwafemi, Akanfe and Oladipo (2017), and Olaniyi, Obembe and Oni (2017) have carried out research relating to executive compensation and firm performance. Consequent upon the above, the present study tries to investigate upon existing research thus contributing more knowledge to the study under review. The motivation to conduct this study therefore is to on a reasonable scale improve on the literature and provide a platform upon which further research can be done. Accordingly, this article tries to evaluate the extent CEO's compensation influences the banking industry performance.

2. Chief Executive Officers (CEOs) Compensation

As stated by Shin, Lee and Joo (2009), chief executive officers' compensation consists of the monetary compensation along with other non-monetary rewards received by an executive for their service into the firm. Chief executive officers' compensation is a combination of salary, bonuses, shares or call options on the benefits, company stock and perquisites, ideally configured to take into account the desires of the organization and the executive, government regulation, tax law, and rewards for performance. A firm's Board of Directors designs the CEO compensation remunerations usually by the compensation committee consisting of independent directors, with the intent of incentivizing the executive team, who have a momentous impact on firm strategy, decision-making, and value creation in addition to enhancing Executive Retention (Adegoroye, Oluwafemi, Akanfe & Oladipo, 2017).

Sun, Xianging and Huang (2013) delineate executive compensation as reward packages paid to senior leaders in business, most habitually the CEO. Executive pay packages differ from employee pay both in scale and the benefits offered. Stock option forms a fundamental component of a lot of executive compensation packages, and a huge basic salary, though many will offer to a large extent more favorable stock choices and a low standard salary to lower the tax burden.

3. Firm Size

This variable is vital in ascertaining CEO pay. Following a prior study, the market capitalization is calculated by multiplying the price of the share at year-end with the number of shares outstanding at the year-end. Market capitalization = Share price at year-end × Number of shares outstanding.

 doi:10.20944/preprints201710.0105.v1

Many different methods can be used for the measurement of firm size; this could be by way of employees, sales, assets or value-added features. On the whole, those using the technological theory based on economy of scale derived from capital inputs would use assets or only sales figures for the measurement purpose. Assets and sales are appropriate techniques of dimension to get a measurement for size; however, the principal dilemma would be how the range of costs, agency and transactions influence profits. Measuring the employees' enrolment and value-added measurements are other choices in measuring the size of the firm in organizational theories as opposed to assets or sales. Further, the larger the size of a firm the larger the board size and invariably the higher the CEOs pay.

4. Firm Performance

Performance could be the accomplishment of task measured against predetermined or recognized standards of precision, cost, completeness, and speed. By comparison, performance is considered to be a satisfaction of an obligation in a way that discharges the performer from the liabilities laid down under the contract. Firm performance encircles the actual output or outcomes of a firm as quantified against its projected outputs (or objectives and goals). Firm performance encompasses three definite areas of firm outcomes: (i) Shareholder return (total shareholder return and economic value added) (ii) Product and market performance (share, sales, market) and (iii) financial performance (profit, return on assets and return on investment) The nature of corporate performance and measurement has been a topic for both practitioners and scholars since organizations were first formed. How to determine if the efforts of the organization are being put to their best use and are achieving the desired outcome at the heart of several disciplines.

Hansen and Mowen in their study in 2005 postulates' that firm performance is quite vital to the executive since it is a result that's been achieved by an individual or some people in a firm related to its authority and duty in reaching the goal legally, not despite regulations, and in compliance with the moral and ethics. Performance may be the purpose of the capability of an organization to manage and gain the resources at unique procedures to successfully come up with a competitive advantage. While the management disciples concentrate on how to improve collaborate performance particularly and in particular entrepreneurship and strategic management research, accountants devote their attention to fairly presenting the performance of the organization.

In this study, firm performance is proxy by return on asset and used as the dependent variable. This will be briefly explained next.

5. Return on Assets (ROA)

Return on assets is the percentage corporate return on assets or the ratio of earnings to average total assets. The performance of a firm is dependent on several factors (e.g., economy), but return on asset and return on equity remain the most significant factors (Usman, 2010). The reason behind picking out ROA in this study is the fact that the return on assets quantifies the potency of the economic unity in making use of its assets to make a profit. The greater the ratio the better the economic unity for the reason that it signifies management's competence in the use of its assets to generate profit (Mou & Wanrapee 2015).

In addition, it reflects the ratio of just how much a firm has earned on its asset base, and also the return on assets. Return on assets will be made use of in this study as a dependent variable for the reason that the net profit in correlation to the selected firms' asset base is a great method of quantifying the level of returns on investments made in the companies. Mou & Wanrapee (2015).

6. Review of Prior Studies

CEO compensation has quite a few components. The fundamental type is a fixed base salary. Second to fixed base salary, CEO's can be given compensation in the forms of share-based payments, stock options, cash bonuses etc. Cash bonus is a payment given by an organization based on the

 doi:10.20944/preprints201710.0105.v1

performance of the CEO. A firm may also bring in incentive programs so as to align interests between the shareholders and CEO. Chief executive officers are then awarded the right to purchase or obtain stock options or company shares, and also this procedure eventually leads towards the stock option payments and share-based payments to CEO. Prior studies have various findings concerning the influence of CEO compensation on firm performance and this would be looked at below.

Kazan (2016) carried out a study aimed at investigating the impact of CEO compensation on firm performance in Scandinavia. The test sample consists of Scandinavian firms that had a spot on the Forbes Global 2000 List of 2016. The impact of CEO compensation on firm performance is tested by using the performance measures of ROE and ROA. The results show a non-significant negative relationship between CEO compensation and firm performance.

Lone, Hassan and Afzal (2015) aimed at exploring the reason for high CEO compensation in Pakistan's Banking Sector. The paper attempted to use panel data of 22 listed banks in Pakistan for the periods 2006-2013 and explores the relationship between CEO compensation and the following variables: firm performance, Firm Size, CEO from the family, Independence of the board of directors, share held by the board, percentage ownership of financial and non-financial institution. Findings from the study suggest that performance does not play any role in CEO compensation.

Olalekan and Bodunde (2015) in a study examined the impact of CEO pay on the performance of 11 selected Nigerian quoted banks between 2005 and 2012, using a dynamic Generalized Method of Moments (GMM). The research makes known that the CEO pay exerts significant but negative influence on bank performance in Nigeria. This study, therefore, concludes that rather than being a significant corporate governance mechanism to align the interests of CEO with those of shareholders, the CEO pay of Nigerian quoted banks is indeed part of agency issue in the industry.

Shakerin, Natalie and Low (2014) study investigated the relationship between CEO pay and firm performance (return on asset, return on equity and profit margin) of 100 companies from the consumer product sector in Malaysia listed on Bursa Malaysia from 2006 to 2010. Overall, most of the attestations results were found to have a relationship between CEO pay and firm performance. The correlations and regressions among the sub-variables of the firm performance and the CEO pay were found to be consistently positive ranging from weakly positive to the strong positive.

7. Theoretical Framework

The theoretical framework will look into various theories that have been formulated in the field of CEOs compensation management and its impact on firms' performance.

7.1. Managerialism theory

Managerialism theory is a concept that is built on the idea that separation of ownership from control can cause a discrepancy of interest between the management and owners (Tosi et al. 2000). Managers focus on taking advantage of firm size rather than the value of the company. In doing so, they get prestige, power and more pay. This could lead to less or negative returns for the shareholders.

7.2. Stakeholder theory

The term stakeholder refers to any group or individual who has a legitimate claim on the firm. Each stakeholder of a firm creates value for the company. Since managers are considered to be stakeholders of a firm, the CEO is also included in this consideration. Thus this theory is built on the premise that CEOs are also affected by the outcomes of the firm. That is to say, a positive firm performance will ultimately make the position of the CEO stronger. This will make the probability of a layoff smaller. Thomsen & Conyon (2012) explicates that the view of corporate expenditure of CEO's change when they buy or receive company's stock. Thus, setting appropriate incentives for the CEO or changing the compensation structure can provide results.

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 16 October 2017 doi:10.20944/preprints201710.0105.v1

8. Materials and Methods

This study is deemed to be an explorative (literature search) type of research design with a descriptive (panel study) side to it. In other to elicit information to examine the relationship between the variables, the convenience sampling technique, with the combination of both the cross-sectional and time-series data (panel data) were used since they provide greater precision and guard against having an illusory sample. The justification for choosing this design is due to the fact that the combination provides more informative estimates and it's more efficient.

The focus of this article is to examine the influence of CEOs' compensation on firms' performance in the Nigerian banking industry, for the period, 2010-2014. The data collection approach for the research is quantitative and the study made use of secondary data. These data were formed into a balanced panel (see table 2) sourced from the financial statements of the 10 selected quoted banks (selected based on the availability of the financial statement of the various firms from 2010-2014) listed on the Nigeria Stock Exchange as at 31st December 2014.

The statistical technique utilized in this research is the Panel Least Squares (PLS) with the aid of EViews 8. Furthermore, Descriptive Statistics is also used to test if the variables are normally distributed. In addition, the study employs correlation mix to investigate if there is multicollinearity among the independent variables.

8.1. Model Specification

Hypotheses

H_{01}: There is no significant relationship between CEO compensation and firm performance in the Nigerian banking industry.

H_{02}: There is no significant relationship between firm size and firms' performance in the Nigerian banking industry.

The linear multiple regression model is specified below:

The theoretical form: ROAt = F (CEOCt, FSIZEt)

The econometric model is given by: $ROA = B_0 + B_1\,\mathrm{CEOC} + B_2\mathrm{FSIZE} + U_t$

Where:

B_0 = Intercept

B_1, B_2 = Co-efficient

ROA = Firm Performance measured as return on asset (Net Income + Interest)/(Average total assets for the fiscal year)

FSIZE = Firm Size

CEOC = CEO Compensation (Salary + Bonus)

μt = The Stochastic Error term

 doi:10.20944/preprints201710.0105.v1

228 *8.2. Data Description*

229 **Table 1: Data used for analysis**

S/N	BANK NAME	YEAR	ROA	FSIZE	CEOC
1	ACCESS BANK PLC	2010	0.0243	11.86151	4971000
		2011	0.01693	11.97587	5148000
		2012	0.02392	12.18062	21704000
		2013	0.0184	12.23149	1155000
		2014	0.02328	12.29709	9521500
2	FIRST BANK PLC	2010	0.01713	12.29164	10032300
		2011	0.02132	12.39156	10543100
		2012	-0.00302	11.43293	11053900
		2013	0.22651	11.49389	11564700
		2014	0.01974	11.45904	12075500
3	GT BANK PLC	2010	0.04261	12.02823	12586300
		2011	0.0407	12.18327	13097100
		2012	0.0618	12.2096	13607900
		2013	0.05275	12.27975	14118700
		2014	0.05189	12.32768	14629500
4	UBA PLC	2010	0.0025	12.15613	15140300
		2011	-0.02252	12.21892	15651100
		2012	0.02396	12.28493	16161900
		2013	0.03041	12.34584	16672700
		2014	0.01811	12.369	17183500
5	ZENITH BANK PLC	2010	0.024	12.25272	17694300
		2011	0.02634	12.33627	18205100
		2012	0.03859	12.38683	18715900
		2013	0.03269	12.45919	19226700
		2014	0.03149	12.53451	19737500
6	FIDELITY BANK PLC	2010	0.01741	11.67944	20248300
		2011	0.01111	11.86891	20759100
		2012	0.02334	11.96111	21269900
		2013	0.00834	12.03391	21780700
		2014	0.01307	12.07445	22291500
7	STERLING BANK PLC	2010	0.0142	11.41427	22802300
		2011	0.0068	11.70279	23313100
		2012	0.01292	11.76359	23823900
		2013	0.01315	11.8499	24334700
		2014	0.01303	11.91621	24845500
8	WEMA BANK PLC	2010	0.06381	11.3078	25356300
		2011	0.03385	11.34681	25867100
		2012	-0.02011	11.39041	26377900
		2013	0.00588	11.51966	26888700

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 16 October 2017 doi:10.20944/preprints201710.0105.v1

		2014	0.00808	11.5827	27399500
9	FCMB PLC	2010	0.02577	11.46758	27910300
		2011	-0.06906	11.30487	28421100
		2012	0.08226	11.03561	28931900
		2013	0.0463	11.11886	29442700
		2014	0.04142	11.11915	29953500
10	STANBIC IBTC PLC	2010	0.01878	11.73421	30464300
		2011	0.01608	11.57125	30975100
		2012	0.01452	10.86038	31485900
		2013	0.10896	10.87737	31996700
		2014	0.17044	10.87892	32507500

Researcher's computation sourced from the financial statements of the selected quoted banks listed on the Nigeria Stock Exchange as at 31st December, 2016

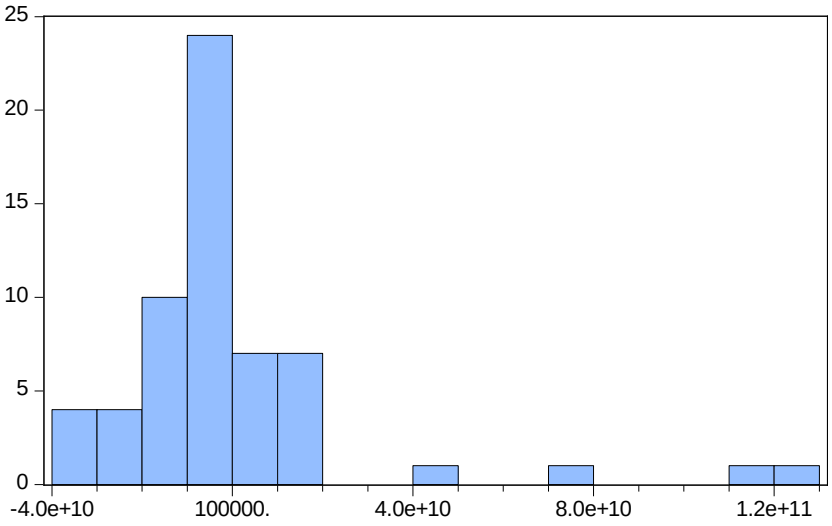
Table 2: Descriptive Statistics

	CEOC	FSIZE	ROA
Mean	1.26E+08	78155289	1.36E+10
Median	18192500	32726454	4.57E+09
Maximum	6.43E+08	4.08E+08	1.60E+11
Minimum	205500.0	418500.0	-1.39E+10
Std. Dev.	1.90E+08	1.12E+08	3.22E+10
Skewness	1.599762	1.886666	3.661175
Kurtosis	4.272874	5.379994	15.89442
Jarque-Bera	29.64292	49.75602	549.7069
Probability	0.000000	0.000000	0.000000
Sum	7.55E+09	4.69E+09	8.14E+11
Sum Sq. Dev.	2.13E+18	7.34E+17	6.10E+22
Observations	50	50	50

Source: Researcher's Computation Using E-views 8.0 (2017)

The mean values of CEO compensation, firm size and return on asset are given by 1.26E+08, 78155289 and 1.36E+10. The standard deviation results show that CEO compensation, firm size and return on asset are given by 1.90E+08, 1.12E+08 and 3.22E+10. From the Jarque Bera statistics, all the variables are normally distributed since their p-values are less than 0.05 level of significance.

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 16 October 2017 doi:10.20944/preprints201710.0105.v1



Series: Standardized Residuals
Sample 2010 2014
Observations 50

Mean	-1.43e-07
Median	-5.94e+09
Maximum	1.23e+11
Minimum	-3.76e+10
Std. Dev.	2.87e+10
Skewness	2.645253
Kurtosis	11.34008
Jarque-Bera	243.8660
Probability	0.000000

Source: Researcher's Computation Using E-views 8.0 (2017)

The bar chart above shows the normality test of the residuals. It could be seen that the residuals approximate a normal distribution. The Jarque-Bera statistics of 243.8660 with a probability of 0.00000 lends credence to this fact hence we conclude that the error term is normally distributed.

8.3 Correlation Analysis

Table 3: Correlation Matrix

Covariance Analysis: Ordinary
Date: 03/13/17 Time: 00:47
Sample: 2010 2014
Included observations: 50

Correlation	CEOC	FSIZE	ROA
CEOC	1.000000		
FSIZE	0.423651	1.000000	
ROA	0.352212	0.140055	1.000000

Source: Researcher's Computation Using E-views 8.0 (2017)

From the correlations analysis, CEO compensation has a strong positive relationship between firm size and return on asset. It is also observed that firm size is positively related to return on asset.

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 16 October 2017 doi:10.20944/preprints201710.0105.v1

8.4 Presentation of Panel Least Square Result

Table 4. Panel Least Square Result

Dependent Variable: ROA
Method: Panel Least Squares
Date: 03/13/17 Time: 00:48
Sample: 2010 2014
Periods included: 5
Cross-sections included: 21
Total panel (unbalanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.38E+09	4.87E+09	1.515156	0.1354
CEOC	66.10832	27.80366	2.377685	0.0209
FSIZE	163.4522	45.68869	3.577520	0.0007

R-squared	0.662188	Mean dependent var	1.36E+10
Adjusted R-squared	0.612432	S.D. dependent var	3.22E+10
S.E. of regression	2.94E+10	Akaike info criterion	51.11383
Sum squared resid	4.86E+22	Schwarz criterion	51.25345
Log likelihood	-1529.415	Hannan-Quinn criter.	51.16844
F-statistic	37.73448	Durbin-Watson stat	1.858482
Prob(F-statistic)	0.004811		

Researcher's Computation Using E-views 8.0 (2017)

From the table above, we can see a high value of R^2 given as 0.662188 signifying that a 66.2% systematic variation in ROA is explained by CEOC and FSIZE. Only 33.8% is left unexplained and this is assumed to be captured by the stochastic error term, U. this shows that the model is a good measure of fit determining the explanatory power of the model.

The adjusted R^2 is given as 0.612432. This means that after adjusting for the degree of freedom, the adjusted R^2 explains approximately 61.2% systematic variation in the dependent variable. The higher the adjusted R^2, the lower the residual variance error due to a one-on-one relationship between the both of them and this means our model has a better predictive ability.

The F-ratio with the value of 37.73448 shows that the model easily passes the F-test at 5% level of significance and this means that the hypotheses of a significant linear relationship between the dependent and independent variables taken together is validated. It shows that the overall significance of the model is met.

The T-statistics using the rule of thumb (which states that when the t-value of the parameter estimate is greater than or equal to 2 then it is statistically significant in explaining the dependent variable but when it is less than 2, then it is not). The t-values show that CEOC and FSIZE which have values of 2.377685 and 3.577520 respectively taken in their absolute form are statistically significant in explaining ROA. This means that the variables are an important determinant in explaining ROA in the selected companies.

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 16 October 2017 doi:10.20944/preprints201710.0105.v1

The Durbin Watson test for 1st order serial correlation shows the absence of autocorrelation as we have a value of 1.858482.

A close observation of the coefficients shows that they are correctly signed based on the theoretical proposition. CEOC and FSIZE are positively related to ROA. The intercept and coefficients are interpreted as follows:

- Intercept

The intercept of 7.38E+09 means that the model passes through the point 7.38E+09. This indicates that when all the independent variables are zero, then ROA is given by 7.38E+09 units.

- CEO Compensation (CEOC)

The coefficient of CEO compensation is 66.10832 which have a positive sign. This conforms to the standard theoretical proposition which postulates that CEOC increases ROA in companies. The coefficient of 66.10832 implies that over the study period, on average, a one unit increase in CEOC led to a 66.10832units increase in ROA.

- Firm Size (FSIZE)

The sign of FSIZE coefficient is positive. This conforms to the theoretical postulation which stressed that FSIZE is positively related to ROA. The coefficient of 163.4522 implies that a one unit increase in FSIZE will on the average lead to an increase in ROA by 163.4522units.

8.5 Test of Hypotheses

Two hypotheses were raised and are hereby restated below:

H_{01}: There is no significant relationship between CEO compensation and firm performance in the Nigerian banking industry.

H_{02}: There is no significant relationship between firm size and firms' performance in the Nigerian banking industry.

The t-value can be used to test the hypotheses of the study. The table below summarizes the test and conclude whether they are significant or not;

Table 5

Variable	t-statistic	Critical Value using Rule of thumb	Conclusion
C	1.515156	2	Statistically insignificant
CEOC	2.377685	2	Statistically significant
FSIZE	3.577520	2	Statistically significant

Researcher's Computation (2017).

Findings

H_{01}:

The first finding indicates a significant relationship between CEO compensation and firms' performance in the Nigerian banking industry with respect to the findings in table 5 using the rule of thumb (which states that when the t-value of the parameter estimate is greater than or equal to 2 then it is statistically significant in explaining the dependent variable but when it is less than 2, then it is not). The t-value show that CEOC value of 2.377685 taken in its absolute form is statistically significant. This shows that CEO's compensation does influence the banking industry performance. Consequently, we reject the null hypothesis and accept the alternate hypothesis, which states that there is a positive significant relationship between CEO compensation and firm performance in the

 doi:10.20944/preprints201710.0105.v1

Nigerian banking industry. Due to its observed statistical significance, it is seen to be consistent with the findings of Carpenter & Sanders (2002), Doucouliagos, Askary and Haman (2008), Barb (2008), Sigler (2011), Ozkan (2007), Ramadan (2013), Ismail, Yabai and Hahn (2014), Shakerin, Natalie and Low (2014).

H_{02}:

The second finding indicates a statistically significant relationship between firm size and firms' performance in the Nigeria banking industry with respect to the findings in table 5 using the rule of thumb (which states that when the t-value of the parameter estimate is greater than or equal to 2 then it is statistically significant in explaining the dependent variable but when it is less than 2, then it is not). The t-value shows that FSIZE which has a value of 3.577520 taken in its absolute form is statistically significant. This shows that firm size does significantly impact on firm performance in the Nigerian banking industry. Consequently, we reject the null hypothesis and accept the alternate hypothesis, that there is a positive significant relationship between firm size and firms' performance in the Nigerian banking industry and in agreement with the findings of Sigler (2011) and Ozkan (2007).

9. Conclusions

Larger firms reward their CEOs higher compensation, which one can construe as reflecting their demand for higher quality CEO talent. Firms with larger board size pay their CEOs higher level of total compensation. What's more, size of a firm seems to be the most critical factor in determining the level of total CEO compensation. This study posits that the issue of mixed findings noticed in the literature indicates that the issue of CEO compensation and firm performance is far from resolved empirically. Further, in light of the literature, where cash or equity is used the findings seem to vary. Also, the measure of financial performance appears to also account for the diversity in the findings. Nevertheless, since the focal objective of setting up any business is to make a profit, business organizations usually sort out ways at maximizing profit. This includes cutting down expenses such as cutting down excessive employees' pay (CEOs pay especially) and setting appropriate pay package for its employees.

Remuneration can stimulate employees to be more productive as well as increasing the overall employee morale. For this reason, for the efficiency of the workers to be made certain, the concept of remuneration should be treated with utmost thoughtfulness.

Therefore, based on the findings, there should be proper compensation review as this will increase the productivity of the executives. Since increased pay is necessary for the efficiency of the workers, it is advised to ensure a considerable pay as this will ensure for efficiency in the organization. There is need to sensitize executives in Nigeria banks on the need to align their payment to performance measures as these measures are directly linked to wealth maximization and firm performance.

In addition, policymakers (board of directors) should focus on designing compensation apparatus that concentrate on long-term, rather than short-term incentives (e.g., stock options) that have a capacity to maximize the long-term value of the firm. Since the main objective of setting up any business is to make a profit, business organizations should sort out ways at maximizing profit. This includes cutting down expenses such as cutting down excessive employees' pay (CEOs pay especially) and setting appropriate pay package for employees. Therefore, the board should endeavour to align CEO's pay with the firm's capacity to pay the amount of compensation the firm can really afford.

Conflicts of Interest: The authors declare no conflict of interest.

References

Adegoroye S., Oluwafemi M., Akanfe S.K. & Oladipo O.J. 2017. Executive compensation and firm performance: evidence from Nigeria firms. *International Journal of Advanced Academic Research | Social & Management Sciences*. Vol. 3, Issue 7.

Amzaleg Y., Azar O.H., Ben-Zion U., & Rosenfield A. 2014. CEO control, corporate performance and pay-performance sensitivity, *Journal of Economic Behavior & Organization*, 106(C), 166–174. http://dx.doi.org/10.1016/j.jebo.2014.07.004

Bebchuk L. & Fried J. 2003. Executive compensation as an agency problem. *Journal of Economic Perspectives*, 17(3): 71–92.

Belliveau M.A. & O'Reilly C. & Wade J. 1996. Social capital at the top: Effects of social similarity and status on CEO compensation. *Academy of Management Journal*. 39. 1568-1593. 10.2307/257069.

Bhagat S., Bolton B., & Subramanian A. 2010. CEO education, CEO turnover, and firm performance. *SSRN*, 1-46.

Brick I.E., Palmon O., & Wald J.K. 2006. CEO compensation, director compensation, and firm performance: Evidence of cronyism? *Journal of Corporate Finance*, 12(3): 403-423.

Finkelstein S., & Boyd B.K. 1998. How much does the CEO matter? The role of managerial discretion in setting of CEO compensation. *The Academy of Management Journal* 41(2): 179-199

Hansen D. & Mowen M. 2005. *Management Accounting*. 7th Hardcover Edition Binding: Hardcover Publication

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

John K., Mehran H. & Qian Y. 2010. Outside monitoring and CEO compensation in the banking industry. *Journal of Corporate Finance* 16, 383-399

Johnson B. 1982. Executive compensation, size, profit and cost in the electric utility industry. *Unpublished doctoral dissertation*. Florida State University.

Kabla J.A. 2008. Executive compensation shares and their impact on corporate performance. Evidence from New Zealand. *Studies in Economics and Finance*, 3(1), 54-92.

Kazan E. 2016. The impact of CEO compensation on firm performance in Scandinavia. *8th IBA Bachelor Thesis Conference*, the Netherlands.

Lone R.R., Hassan F., & Afzal M. 2015. Factors effecting CEO compensation: Evidence from listed banks in Pakistan. *Proceedings of 10th Annual London Business Research Conference 10-11 August 2015*, Imperial College, London, UK.

Mou X. & Wanrapee B. 2015. Factors affecting financial performance of firms listed on Shanghai Stock Exchange 50 (SSE 50. Accessed from http://www.utccmbaonline.com/Journalsys/Upload_Arti/2015-02-02_14:57:09.pdf

Ogbeide S. & Akanji B. 2016. Executive Remuneration and the Financial Performance of Quoted Firms: The Nigerian Experience. *Management and Economics Review* Volume 1, Issue 2

Olalekan O.C., & Bodunde O.B. 2015. Effect of CEO pay on bank performance in Nigeria: Evidence from a generalized method of moments. *British of Economics, Management and trade*, 9(2), 1-12.

Olaniyi C.O., Obembe O.B. & Oni E.O. 2017. Analysis of the Nexus between CEO Pay and Performance of Non-Financial Listed Firms in Nigeria. *African development review*, 29 (3) p. 429-445

Olaniyi C. O. & Obembe O. B. 2015. Effect of CEO pay on bank performance in Nigeria: evidence from a generalized method of moments. *British Journal of Economics, Management & Trade*, Vol.: 9, Issue.: 2

Ozkan N. 2007. CEO compensation and firm performance: an empirical investigation of UK Panel Data. *European Financial Management*, 17(2), 260 – 285.

 doi:10.20944/preprints201710.0105.v1

Shakerin B. I., Natalie V. Y. & Low J. H. 2014. Relationship between CEO pay and firm performance: evidence from Malaysia Listed Firms. *IOSR Journal of Economics and Finance (IOSR-JEF)* Volume 3, Issue 6, PP 14-31

Shin E.D., Lee, J. & Joo I.K. 2009. CEO compensation and US high tech and low-tech firms corporate performance. *Contemporary management research*, 5(1), 93-106.

Sigler K.J. 2011. CEO compensation and company performance. *Business and Economics Journal BEJ*-31: 1-8.

Sun F., Xianging W. & Huang, X. 2013. CEO compensation and firm performance: Evidence from the U.S. property and liability insurance industry. *Review of accounting and finance,* 12(3), 252-267

Thomsen S. & Conyon, M. 2012. *Corporate Governance*: Mechanisms and Systems. Maidenhead, Berkshire: McGraw-Hill Education

Tosi H. L., Werner S., Katz J. P. & Gomez-Mejia L. R. 2000. How much does performance matter? A meta-analysis of CEO pay studies. *Journal of Management*. 2000; 26(2):301-339.

Usman T. 2010. CEO compensation: Relationship with performance and influence of board of directors. *Master thesis in Business Administration*, Gotland University, Sweden.