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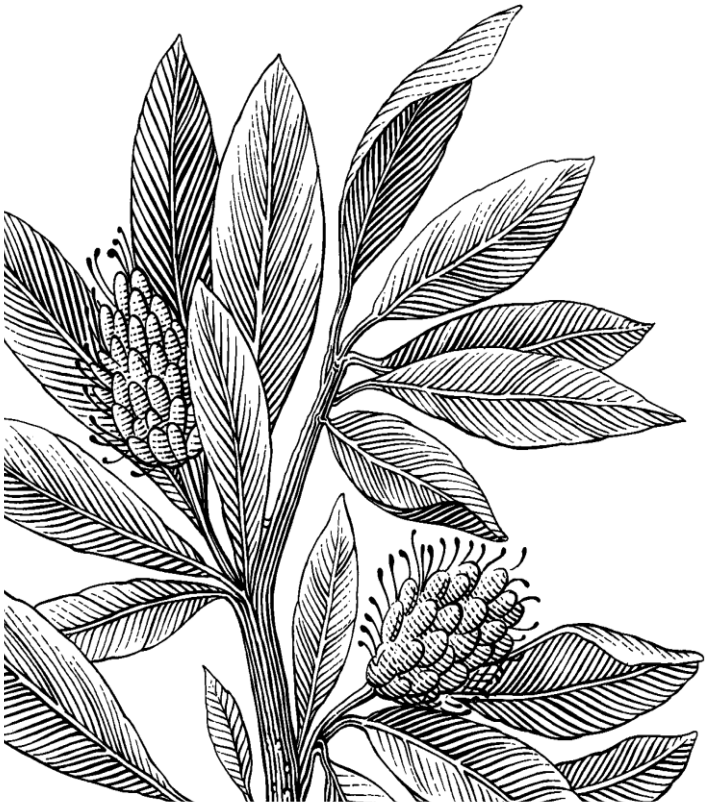
Masters Thesis

THE DETERMINANTS OF CEO COMPENSATION IN NIGERIA

- ***A Quantitative Study***



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ABSTRACT.

The increase in executive compensation in the last few decades has attracted interest in CEO compensation and other top management pay. This has caused the determinants of CEO compensation to remain at the center of debate and discussion among the academic literatures in recent time. Despite the growing discussion in this field, there has not been a definite solution and the problem remains unsolved. This is because different factors determining CEO compensation has been characterized by disagreements, while monetary rewards are considered by most studies as determinant for CEO compensation.

Based on the above, the study investigates the determinants of CEO compensation in Nigerian. To accomplish it objectives, the study was conducted on fifty (50) listed companies in Nigeria where secondary data from year 2016 to 2018 were used. Linear regression was used to confirm the relationship between study dependent and independent variables. The study finds out that board compensation is a determinant of CEO compensation among the listed companies in Nigeria; CEO shareholding is not a determinant of CEO compensation; firm performance is not a determinant of CEO compensation among the listed companies in Nigeria; firm size is a determinant of CEO compensation among the listed companies in Nigeria; and board size is a determinant of CEO compensation among the listed companies in Nigeria. The study therefore recommends that board should generally review the compensation structure of the board and CEO to a level that would not be negatively affect firm performance and survival. The study also recommends an increase in the number of members on the board by firms.

Keywords: CEO, Board of Director, CEO Compensation, Firm Performance.

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INTRODUCTION

The purpose of the study is to investigate the effect of board compensation on CEO compensation among the listed companies in Nigeria. This section is the introductory part of this research work and it focuses on the background to the study which gives concrete insight into determinants of CEO compensation, while the research problem is also briefly explained. Thereafter, the research questions and objectives are briefly highlighted.

Background to the Study.

The views over executive compensation has attracted great attention as a result of the continuous increase in executive pay in recent decades. The compensation system and the quality of pay setting process of publicly listed corporations over the world have called for debate among the academic scholars. The CEO of firm who receives high pay is expected by the firm's shareholders to perform better and prove his worth (Tariq, 2010). The performance of the CEO has sometimes been attributed to his compensation packages and it was believed that the high pay for a CEO was warranted to his expertise, skill and knowledge. However, what has been discovered is that irrespective of CEOs' performances, there has been a rapid growth in all the CEOs pays and remuneration (Tariq, 2010; Langsam el al., 1997). Among corporate governance mechanisms developed to improve the internal control of managers are top executives' compensation and board of directors' compensation packages through which the right incentives are provided to them to promote the interests of the shareholders, and therefore reduce agency problem. In many companies, the coordination issues and agency challenges likely faced by the boards might endanger their monitoring and advising functions, so that providing directors with incentivizing remuneration schemes becomes necessary (Menozzi et al., 2011). While CEO's compensation has received academic attention in the last

decade, there has been very little attention on how board compensation and firm size could influence CEO pays.

As many corporations struggle for sustainability and their quest to reach the market pinnacle in present global economic, the issue of corporate governance remains a frontline subject because it places an organization in a strategic position of attractive investment terminus (Ajayi et al., 2017). In order to achieve this, the quality of the board composition is important, and also board compensation need to be designed in a way that put the organization in the right and strategic position to draw the right people to manage the affairs of the corporation in the right and better directions. When setting compensation package that bring into line the corporate's objectives and competitive advantage, reliable and correct market data is very necessary. When equipped with reliable and correct data, shareholders can make directors work in their interest, save money through their boards, reduce agency problem and also gain important understanding about different choices available for meeting their board of director's compensation expectations (Ajayi et al., 2017). A lot of attention has been drawn to CEO compensation, corporate governance and organizational risk management following the 2008/2009 global economic crisis.

As a result, several codes of corporate governance have been developed in various countries, institution and authorities to regulate the activities of the board/CEO and as well as their compensation packages. In Nigeria for example, three key bodies are advocating for effective corporate governance. They are the Nigerian Stock Exchange (NSE), the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN). These bodies have issued codes for companies to follow, and listed companies in Nigeria are required to bring in line their corporate governance framework with the provisions of the codes issued by these regulatory bodies.

The service of CEO is needed in every company for daily running of the company's activities (Akewusola & Saka, 2018). With highest-level of executive position in many companies, CEOs are appointed by the board of directors and the CEOs hold responsibilities such as creating and carrying out highest-level strategies, managing operations and resources of a company, facilitate corporate decision makings, and also playing the middle man role between the top management and the board of directors (Ismail et al., 2014). However in recent time, the compensation received by CEOs in their respective corporation has raised cause for concern by policy makers, economist and researchers. The continuous increase in CEOs' pay in the developed economies has prompted increased discuss about the nature of the pay-setting process and the outcomes it produces. The high and growth in CEOs' pay has been attributed to some powerful and/or influential managers determining their own compensation and removing rents from their corporations, while other studies linked growth to the outcome of ideal astringent in a competitive market for managerial talent (Frydman & Jenter 2010).

The problem following the 2008 financial crisis underscored the executive compensation issues bringing about great concerns about the growth in executive pay (Dong & Ozkan, 2008). However, these extensive growth in executive pay has not been manifested in fundamental in the companies' performance. (Gregg et al., 2005). The compensation of CEOs of major firms was 41 times higher than that of the average employees in 1980s. In fact, that figure doubled itself and moved to 83 times in 1990s. In 2000, the average compensation of CEOs reached an incredible 533 times to that of the average employee's salary (Mattern, 2011). In 2010, another survey was carried out on S&P 500 companies in the United State of America and average CEOs compensation per year in this period was at $11.4 million (Connell, 2011). The review indicates that from 1970s up till early 2000s, there was a great increase in executive pay levels based on the CEO compensation reviewed by (Frydman and Jenter, 2010). In fact, the annual growth rate in CEO compensation was more than 10% by the end of 1990s. Meanwhile, this

excessive compensation is not limited to a particular categories of companies/organisations as it has been seen in both big and small firms. However, it is more pronounced in the larger firms (Frydman and Jenter, 2010). The high level of CEO compensation in the developed countries has received substantial discussion and a lot of attentions from policy makers especially and academia, the pay-setting process and compensation contracts effectiveness (Lin & Lin, 2014). Following its general public awareness, CEO compensation has been said to have effects over the past decades and the High Pay Commission says it has negative and unfavourable impacts on the economy (BBC, 2011). Its effects have also been seen on the firm performance, organization efficiency and capabilities of the employees, and it is sometimes believed to create social gap between the CEO and employees due to higher CEO pay based on salary, bonuses like benefit and paid expenses, short term reward and insurance coverage (Ismail et al., 2014). Deysel & Kruger (2015) explained that alignment of CEOs compensation and their performance is essential in creating sustained return for shareholders. The CEO's compensation schemes are designed by the board of directors. Hence, the boards of collapsed firms were majorly blamed following the 2008/2009 global financial crisis because adequate supervision over top executives was found to have not been conducted by them (Lin & Lin, 2014).

However, in developed economies, there have been some measures taken by to address excessive executive compensation. In the UK for example, the introduction of Hempel report of 1998, Greenbury report of 1995 and the department of trade and industry report and directors' remuneration regulation report of 2002 all are developed to increase the accountability of the CEO to shareholders (Ferri and Maber, 2013). In addition, in United States, the introduction of Sarbanes- Oxley Act of 2002 has been associated to curb increased CEO remuneration, even though it was an answer to key scandals like WorldCom and Enron (Farmer, 2008). The Sarbanes-Oxley Act was also said to limit the corporate board structure in

order to reduce the board compensation. In developing countries like Nigeria, CEO compensation has not received huge attention maybe due to the nature of CEO compensation. In contrast to compensation in the UK, US and other developed countries, CEOs are compensated in Nigeria with cash bonuses, cash salary and allowances. Also, since CEO compensation and stock performance are not related by reason of stock options, the drive for CEO performance coming from the profit of a rising stock price is doubtful (Odum, 2018).

Research Problem.

According to the agency theory the board of directors has the responsibilities of monitoring and overseeing the activities of the CEO, keeps the CEO on check so as to pursue and implement strategies that would satisfy the shareholders' interests, design CEO compensation packages that would follow corporate governance requirements (Akewusola & Saka, 2018). According to Adeyemi (2009), the board of directors is described as the most important organ of the firm specially responsible for the monitoring the activities of the firm and its management. It is the duty of this board to ensure effective performance of the management so as to protect and enhance shareholders wealth as well as achieving the firm's obligations and provide for other stakeholders needs (Baxi *et al.,* 2010). It is however believed that the board of directors of many companies in the world have failed to deliver their monitoring role effectively. Studies have examined corporate governance problems that prevent the board's effectiveness. The board culture may prevent constructive criticism and as a result the board might not be able to achieve the effective monitoring of executive performance. This in other case might result down to informational asymmetry problems that exist between management and the board (Brick *et al.,* 2005). The board culture has been linked to board compensation. A well-compensated board may likely become less critical and lack power to monitor directors (Kibet, Neddy & Irene, 2015).

The CEO is the most senior executive of the firm who has the responsibilities of making key corporate decisions. The CEO makes top-level managerial decisions and also responsible for overall firm's success. According to the agency theory, the CEO (agent) is hired by the shareholders (principal) to maximize their value. But the conflict of interest between both parties constitutes the agency problem (Kibet et al., 2015). The board of directors can oversee and resolve this conflict of interest by designing such contract for the company's CEO, which ties his compensation with company's performance, thereby giving the CEO an incentive for maximizing the shareholders' wealth (Usman, 2015).

The issue of CEO compensation is a well debated topic among researchers and academicians in the last few decades. While much attention has been giving to the issue in the developed countries, little attention has been giving in developing countries like Nigeria. The main aim of the shareholders when investing a company how they would maximize the value of their investment. The basic idea of CEO compensation is to reward CEOs based on their performance (Usman, 2015). Compensation packages are believed to have a crucial role to play in motivating top executives. However, the conflict of interest between the CEOs and shareholders in a modern corporate establishment has given the board of directors an essential role of watching over the managers in the effort to make them act in the interest of shareholders (Lin & Lin, 2014). This is an effective way to curb excessive CEO compensation. But according to Jensen (1993), the board of directors might not achieve an efficient and effective monitoring because the CEO is usually involved in the selection of the board. In addition, the CEO's tenure also play big role, in that a CEO who has been in office for many years may command influence and power over the board. As a result, the independence of the board may likely to be compromised because the board of directors may be in association with such CEO (Lin & Lin, 2014). In such situation where the board is over-powered by the influences of the CEO, the board may lose it monitoring and overseeing responsibilities and would fail to

protected shareholders' interest (Akewushola & Saka, 2018). The board of directors' compensation play significant role in their effort to monitoring of CEO. Researches have shown that highly compensated board often protect shareholders' value (Akewushola & Saka, 2018).

This however, is in contrast with the study of Brick *et al.* (2006) when they established that highly compensated board of directors are probable to be less critical in monitoring of the CEOs activities. On the other hand, when the board of directors is compensated moderate, they become more critical in monitoring the CEO activities. In an attempt to maximize compensation however, the CEO might resort to the use of barriers to monitoring including CEO tenure, inside directors, large boards, CEO duality and CEO membership in nominating committee (Hermalin and Weisbach, 1998).

The relationship between these actors needs proper consideration as regards the remuneration of both the board and CEO in relation to shareholders value. This relation must not promote mutual interest between the board and CEO. This is because mutual relations between the board and the CEO will put the firm in a dangerous situation. The interests of both the CEO and the board would only be pursued at the detriment of shareholders' interests once there is mutual relation between them (Soyinka & Ogunmola, 2017). However, a close relation between the shareholders and the board would put the company's CEO in a situation where the CEO is focus on his job. Meanwhile, a firm performance based CEO compensation will provide solutions to the difficulty of finding the incentive to increase shareholders' wealth (Akewusola & Saka, 2018).

In Nigeria, unlike the developed countries where shareholders actively monitoring their investment, except for those with more holdings in the firm (controlling interest shareholders), most of the shareholders in Nigerian companies are not critical of their investment. Due to the fact that many Nigeria shareholders are not critical of their investment, they lack relevant

information on the major operational and strategic activities of the CEOs and that board of directors. This usually result to board having mutual relation with the CEO, getting excess compensation and CEOs pursuing strategies that best suit their selfish personal interests against the shareholders' interests (Aina, 2013).

The research "the determinants of CEO compensation in Nigeria" was chosen to identify how board of directors' compensation, CEO shareholding, firm performance, firm size and board size influence the CEO compensation. This study will add to the existing knowledge and also help future researchers to understand better, the major determinants of CEO compensation among the listed companies in Nigeria. Also this study will serve as an indispensable planning tool for shareholders and board of directors when fixing the relevant compensation, salary and allowances for the CEOs and the board. The study would enable regulatory agencies, existing and potential investors to identify which amongst the proposed determinants of CEO compensation can help in monitoring CEO compensation and can possibly be relied upon.

Purpose of the Study.

The purpose of this study is to identify the determinants of CEO compensation among the listed companies on the Nigeria Stock of Exchange (NSE). To achieve this general purpose, the specific objectives are to;

i. Examine the relationship between board compensation and CEO compensation;
ii. Evaluate the effect of CEO shareholding on CEO compensation;
iii. Investigate the effect of firm performance on CEO compensation;
iv. Evaluate the effect of firm size on CEO compensation; and
v. Examine the effect of board size on CEO compensation.

Research Questions.

In order to achieve the purpose of this study, the following research questions have been designed to guide the conduct of this research work.

i. What are the influences of board compensation on CEO compensation in Nigerian listed companies?
ii. What relationship exists between CEO shareholding and CEO compensation of listed Nigerian companies?
iii. What relationship exists between firm performance and CEO compensation of listed Nigerian companies?
iv. What relationship exists between firm size and CEO compensation of listed Nigerian companies?
v. What relationship exists between board size and CEO compensation of listed Nigerian companies?

LITERATURE REVIEW.

This section focuses on the concepts, definitions and conceptual approach to the variables for the study. The study provides details on the concepts of CEO compensation, board directors types of directors, board size among others.

Conceptual Framework

Board of Directors

A company's board of director is a group of people who among themselves oversees the day to day running of the company. Section 244(i) of Companies and Allied Matters Act (CAMA)-Law of Federation of Nigeria (LFN) 2004 amended: defines board of directors *"*as persons appointed by the company to direct and manage the business of the company". Furthermore, section 650 of the same Act defines the director as including "any person occupying the position of directors by whatever name called". A corporation's board of directors is headed by a chairman or chairperson, and he or she together with other member of the board are elected by shareholders of the corporation to represent their interests and ensure that the management of the company acts on behalf of shareholders. Following their elections, members of the board have the responsibilities of attending board meetings, take key decisions concerning the company, assess performance of the management, design compensation packages for the executive, declare dividends and make stock-option policies. Apart from these, the board of directors sets broad goals for the corporation, backs executive duties, and makes sure the company has sufficient, well-managed resources at its disposal (Aina, 2013). The directors of the board can be categorized into two, the executive directors and non-executive directors (NEDs), the two types and their responsibilities are extensively discussed in the next section of the study.

Types of Directors.

The two types of directors are the Executive and Non-Executive Directors (NEDs) and Dependent and Independent Directors.

Executive Director.

The executive director is usually appointed under a contract of service as a full time officer of the company. The executive director is an employee of the company who has a proper contract of service with the company. As professionals, executive directors must be duly qualified for their office either by educational qualification or cognate experience or both (Aina, 2013). The executive director usually form part of the firm's management team mostly as the head of a particular department in the company. According to Chijioke (2014) executive directors attain their position by rising through file and ranks to the top positions, therefore inherit a seat on the board automatically. Executive directors are also known as inside directors. Catalyst (1998) defines inside directors as officers of a company who serve as members on its board. According to Kenser (1988) inside directors can be retired executives of the company. The recruitment of executive directors are usually done by the board, and their remuneration packages consist of basic salary and benefits that are usually attached to performance, making them the highest earners in the company. Executive directors of many large companies are engaged under permanent contracts, often rolling over every 12 months (ACCA, 2012). Chief Executive Officer or Financial Director are usually executive directors serving the company in a senior capacity, generally in areas of major strategic importance.

Non-Executive Directors (NEDs).

Non-Executive Directors are people whose primary employment according to Chijioke (2014) is external to the organization and they are appointed to the board due to their specialist expertise, industry contacts, or prior experience. Independent directors are non-executive directors of a company and help the company to improve corporate credibility and enhance the

governance standards (Soyinka & Ogunmola, 2017). The tenure of the Independent directors the hall up to 5 consecutive years; however, they shall be entitled to reappointment by passing a special resolution with the disclosure in the Board's report. NEDs are not involved in the day to day management of the company because they are not employees of the company. They are appointed to the board on a part-time basis to monitor the executive management, and as a result they do not have offices in the company but are expected to attend the company's board meetings. Their position according to Aina (2013) is adversarial in nature. NEDs are usually prominent figures in the society or professionals who have full-time jobs elsewhere (ACCA, 2012). Like the executive directors, the NEDs are also engaged under a contract of service and receive flat fee compensation for their services. Roles of the NEDs were summarized by the 2003 Higgs Report to include contribution to the company's strategic plan; provision of external viewpoint on risk management, examine the performance of the executive directors; the NEDs also addresses people issues, such as the future shape of the board and resolution of conflicts (ACCA, 2012).

Board Size and Composition.

According to Aina (2013) the maintenance of good corporate governance in the company is one of main responsibilities of the board. The Security and Exchange Security Code provides that "the board should ensure that the company carries on its business in accordance with its articles and memorandum of association and in conformity with the laws of the country observing the highest ethical standards and on an environmentally sustainable basis". However, the attainment of the above would be difficult without proper organization of the board in terms of size and composition (Aina, 2013). Although, no suitable formula to determine the number of directors a board must have, in some cases company law specifies a minimum and/or maximum number of directors for different types of company (ACCA, 2012).

Also, the Nigerian Security Exchange Commission Code provides for a minimum number of five directors on the board, but on a general note the "Board should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meeting". For the effectiveness of the board, the Higgs Review suggested that "an effective board should not be so large as to become unwieldy. It should be of sufficient size that the balance of skills and experience is appropriate for the requirement of the business and that changes in the board's composition can be managed without undue disruption". This reveals that the size of the board is proportionate to its effectiveness and board directors must include individuals with diverse experiences and people with great commercial sense, courage, openness and integrity to manage the affairs of the company.

However, different countries have different laws on the composition of the board of directors. In England, Principle A3 of the Combined Code states, "the board should include a balance of executive and NEDs (or in particular independent non-executive directors) such that the individual or small group of individuals cannot dominate the Board decision-taking". In Nigeria, the SEC Code gives majority number of board members to be NEDs and recognizes at least one of them as an independent director. The composition of the board according to Aina (2013) should include the following:

i. The chairman who should be a NED
ii. The chief executive officer (CEO) or Managing Director, who is the head of the management team and is answerable to the Board
iii. Executive Directors
iv. Non-executive directors (NEDs)
v. Independent Directors.

Role of the Board.

The core decision making body of a company is its board, and in order to achieve its objectives, the company must have a committed and responsible board. The role of board of directors has attracted the attention of different scholars. To Hilmer (1993), the role of board of directors is "to ensure that corporate management is continuously and effectively striving for above-average performance, taking account of risk. This is not to deny the board's additional role with respect to shareholder protection" (p. 71). After him, a lot of authors have expressed the roles of the board in a prescriptive nature. In his seven analysis of the role of the board, Mintzberg (1983) listed board roles to include: CEO selection, monitoring management performance, taking control during periods of crisis, co-opting external resources, giving advice fund raising for the organization and improving the reputation of the organization. From managerial point of view Muth and Donaldson (1998) suggested three roles of the board as: "managerial control, managerial empowerment and co-optation" (p. 6). On their own part, Dalton et al., (1999) listed control, providing resources, and expertise and counsel as the roles of the board. Unlike Mintzberg, Hung (1998) identified six major roles of the board and these include; linking, coordinating, control, strategic, maintenance, and support. Zahra and Pearce (1989) identified service, strategy and control as the three critical roles of the. In the same vein and by general agreement in the perspective literature, Stiles and Taylor (2001) also identified service, strategy and control as three key roles of the board.

In Nigeria, the SEC Code identified the role of the board as: "accountability and responsibility for the performance and affairs of the company; ensuring that the company is properly managed; ensuring operation of good corporate governance; and defining the framework for the delegation of its authority or duties to management". In developed countries like the UK, the role of the board of directors was stated in the UK Code 2012 as: "Every company should be headed by an effective board which is collectively responsible for the long-term success of

the company". In providing a wider role of the board, King Code of Corporate Governance Principles (King III) identified three roles for the board as: "responsible leadership (strategic and operations to sustainable business responsibilities); impact of the board's decisions on the society, economy and environment; and the impact of ethical and environmental issues on the stakeholders".

Comparatively, Aina (2012) argued that the Nigerian SEC Code failed to live up to international standard and best practices. According to him, the board being the company's highest decision making organ, needs to operate on a high standard. The SEC Code standard should ensure that Nigerian companies are responsible corporate citizens that can compete with the other companies across the globe. However, the next review of the Security and Exchange Commission Code should address issue of ethical conduct, long and short term business sustainability, responsibility to the stakeholders and their immediate environment (Aina, 2013).

Board Committees and their Roles.

The board of directors has different committees whom certain responsibilities are delegated, these committees varies from one company to another depending on the organization, board size and governance model. Nonetheless, each committee have clearly defined roles and responsibilities, they hold meetings and report back to the board their deliberations, findings and recommendations.

Standing Committees.

ACCA (2012) defined standing committee as "any committee that is a permanent feature within the management structure of an organization". They are permanent committees that provide necessary solutions to ongoing issues. In many public listed companies, four committees are often appointed, and they are the audit committee (consist of experts in financial management), the nominations committee (responsible for the appointment and assessment of directors and

top senior management), the remuneration committee (in charge of board and top management executive compensation) and the risk committee.

Remuneration Committee.

This is the committee in charge of deciding the executive directors and top management executive pay. It is believed that the compensation package of a company should be designed in a way that would attract and retain suitable talents to the company, the responsibility of formulating the pay packages is rested in the hands of the remuneration committee. With compliance to the principle that executives shouldn't decide their own pay, the entire remuneration committee should consist of independent non-executive directors. The achievement of long-term objectives of the company is essential to the board therefore, the remuneration committee must come up with a pay packages that will motivate the directors as well as the executives by offering a competitive basic salary and fringe benefits, combined with performance-related rewards such as bonuses linked to medium and long-term targets, shares, share options and eventual pension benefits (ACCA, 2012).

Board Compensation.

Soon after shareholders start constituting their firm's board of directors, the issue of compensation comes up. Members of the board of directors are usually professional in different fields or business owners as well with serious tight schedules. Even though board members have limited time due to their commitment in their own field, their invite to the board means they will be serving a favour, using their level of expertise to make high-level strategic decisions, it seems only reasonable to compensate them for services rendered. The Non-executive directors are usually compensated, but the size and type of the firm determine the type and level of their compensation (Ozkan, 2007). Below are ways members of the board of directors are compensated.

***Travel Repayment*:** Board members of virtually all corporations are compensated for travel expenses to attend board meetings, retreats and other official outings. The board of a relatively small company may spend less on travel because majority of its board members are likely to come from local domain, but a big company with director in another cities would surely pay minimum compensation for mileage or airfare, lodging, and per diem for incidentals (Murray, 2019).

Indirect Compensation: This is a non-monetary benefit provided to board members in addition to other monetary benefits. These benefits are important because they can help companies in attracting and retaining executives and non-executive directors. The amount for reward for non-executive directors is not consistent and also known to be varied depending on the function of the firm, the size of the firm, and also the sector and industry. The time required to perform the role is also an important consideration as well as responsibilities within sub-committees of the board (Kenton, 2019).

Stock Options: Stock options are another way of rewarding members of the board of directors. Public listed companies offer stock options as compensation package for their directors. When granting stock options, attention must be paid to serious issues such as the circumstance that may lead to stock options being exercised, when option is vested and resultant effect of a leaving director.

Chief Executive Officer (CEO).

The CEO of a company is the most senior executive of that company who has the responsibilities of making main corporate decisions. The CEO is the public face of the company who manages the overall resources of the company and its operations in totality, and act as well act a as the main point of contact between the corporate operations and the board. A firm's CEO is responsible for making top-level managerial decisions as well as being responsible for

total success recorded by the company. It is deal for CEOs to seek for opinions on key decisions but final decision making authority reside with them. CEOs are often members of the board of directors, and in some cases, they even chair the board (Kenton, 2019). In the case where the CEO is also the director of the board, they are usually referred to as the Managing Director (MD). Even though CEO and MD are used interchangeably because the former are often appointed as board director of most public listed companies, the two statuses have different legal standing and authority.

Firm size and overall organizational structure makes the role of a CEO differs from one company to another. For example, the CEO usually has a bit more hands-on role in small companies where they make majority of decisions on business activities of the company, plus lower-level ones, like employee employment. In bigger companies however, most of the tasks are given to managers or different departments, and the CEO is preoccupied only the company's higher-level strategy and leading the overall growth of the company (Kenton, 2019). Firm size also affects the CEO pay. There is a close relation between CEO compensation and size of the firm when measured by sales, and less related to profits (Shah & Abbas, 2000). To support this argument, Murphy (1999) also noted that CEO's base salary is associated with firm's size. In determining the level of total compensation for CEO, firm size is considered main factor. While firms with small size pay their CEO little compensation in relations to the firm's performance, bigger firms pay their CEOs higher compensation, which is a manifestation of their request for CEO with top quality talent (Ozkan, 2011).

CEO Compensation.

Compensation is another term used in place of wages and salaries. Compensation is a way of providing monetary value to employees in return for their contribution to the organization. Cascio (1995) define compensation as "direct cash payments and indirect payments in form of

employees benefits and incentives to motivate employees to strive for higher levels of productivity". According to Gary (2012) employee compensation "refers to all forms of pay going to employees and arising from their employment". In their words, Milkovitch, Newman and Cole (2005) defined compensation as "all forms of financial returns, tangible services and benefits employees receive as part of an employment relationship". Salient terms in this definition need further explanation. For example, financial returns here are employee's basic salary and other incentives long and short term, while tangible services and benefits means benefits as insurance, pension plans, employee discounts and paid vacation and sick days enjoyed by the employees.

From the definition of compensation, we can define CEO compensation as financial and other non-financial awards received by CEO from their firm for their service to the organization. Salary, benefits, bonuses, perquisites and shares of or call options on the company stock are what made up of CEO compensation, and they are usually structured in a way that it take care of government regulation, tax law, the desires of the organization and the CEO, and rewards for performance (Emmanuel et al., 2017). The remuneration committee which is made up of independent directors from the board of directors is saddled with the responsibilities of designing CEO compensation packages. The purpose of designing the compensation package is to incentivize the executive team, who according to Emmanuel et al. (2017) has a plays strategic decision making roles and create value for the firm.

According to Sun Xianging and Huamg (2013) executive compensation is pay packages received top managers in business, mostly the CEO. In terms of scale and other benefits, CEO compensation packages differ from pay received by other employee in a firm. An essential part of CEO compensation package is large basic salary and stock option. However, many companies will prefer to pay their CEO not too big basic salary more favourable stock options to reduce the tax burden (Emmanuel et al., 2017).

Components of CEO Compensation.

Virtually in every corporation, CEO compensation packages is made up of five basic components as salary, annual bonus, payout from long-term incentive plans, restricted option grants and restricted stock grants (Frydman and Jenter, 2010).

Salary.

Salary is fixed amount of money paid to an employee by an employer in return for work performed. Base salary is the largest component of the total compensation package for most employee and it exclude other benefits, bonus payments, or any other potential compensation from an employer (Hofmann, 2015). Base salaries are paid in monthly or biweekly to employees but in the case of CEO salaries, it is set on a yearly basis. A research conducted by the Economic Research Institute in 2010 revealed that 11.2% of executive compensation is base salary. Murphy (1999) also stated that firm size is associated with base salary. Emmanuel, Michael, Akanfe and Oladapo (2017) argued that it is not clear that there is salary-related explanation for earnings management when consider the implicit bonus scheme in which subsequent salary is adjusted according to reported earnings.

Percent Bonus.

The performance of current-year is used mostly by companies are used to pay managers' bonuses. According to Holthausen *et al.* (1995) bonus plan structure is used to determine if earnings can be manipulated to increase bonuses, and as such executives have incentives to either increase or decrease earnings of the company. There is a strong relationship between firm earnings and managers bonus. When the firm earnings are high bonuses increased, while performance-based compensation might not be possible when firm earnings are below a lower bound. As a result a manager would be forced to make earnings-decreasing decisions. In contrast, when firm earnings are in-between a range where bonuses are positively associated

with firm earnings, implementation of earnings-increasing practices is imminent for a manager to adopt (Emmanuel *et al.*, 2017).

Restricted Stock Held.

Emmanuel *et al.* (2017) defined restricted stock held "as the value of the CEO's restricted stock held as a percentage of total compensation". These are stock currently owned by executives who have the choice of selling or holding on to them. For executive who wish to sell their restricted stocks, the earning-increase practices would need to be implemented in order for them to maximized current value of the firm. In contrast, different earning management decisions would need to be made by executives who prefer to hold on to their own stock. However, for executives who prefer to hold restricted stocks, Eckles and Halek (2010) suggested that they are expected to carry over-reserve so as to shift favorable firm performance to the future when they decide to sell the restricted.

Stock Option Exercised.

Stock options are usually exercised in monetary value. However, firm's performance and value at the time the option are exercised determines the monetary value of stock options. The basic value of option in a particular year can be increased as per earnings-increasing policies, as a result managers would have incentives to under reserve. According to Holthausen *et al.* (1995), option exercised by managers indicates solely earnings-increasing discretionary behaviors. Therefore, Emmanuel *et al.* (2017) documented a negative coefficient on stock option exercised, and this according to them is calculated as the value of the CEO's stock option exercised as a percentage of total compensation (Emmanuel *et al.*, 2017).

THEORETICAL FRAMEWORK.

This study adopts the agency theory, human capital theory and managerial power theory. Agency theory was chosen because it attempts to explain resolve disputes over priorities between the company's principals and agent. It focuses on performance-based compensation which is one way that is used to achieve a balance between principal and agent. Human capital theory is necessary for the study since the overall health of workers also may also affect organization's performance. Executive and Non-Executive directors are essential resources every organization needs to grow. The managerial power theory was chosen as it provides guidance on the CEO power.

Agency Theory.

Agency theory focuses on providing solution to problem ascending from the variances in objective between the principal (shareholders) and agent (executive) and the cost implication of the principal monitoring the agent (board of director) Murphy (2002). The agency theory has attracted the attention of many researchers in theoretical analysis of their studies on executive compensation and performance. The agency theory states that business owners find it difficult to come together due to their scattered nature, access to information by the agent's superior etc, the agents may purse activities that will maximize their own interest rather than the interest of the owners. When this happen, the agency cost problem set in. The agency cost is disparity in firm's net profits when business owners are the managers and firm's net profits under the watch of the agent. The agency relationship problem can be reduced by putting in place a formal mechanism to resolve the divergent interest between owners and agents by monitoring agents' activities and incentives to align the interests of the owners The agency cost has been referred to as evil hidden under modern day business benefits such as shared risk, capital availability and economies of scale (Wiseman *et al.,* 1998; Murphy, 2000; and Pfeffer & Langton, 1993). The agency however can be reduced according to agency theorists, by

putting in place a formal mechanism to resolve the divergent interest between owners and agents by monitoring agents' activities and incentives to align the interests of the owners.

When explaining the non-convergence of interests between the principals and the agents as well as the process to reduce agency cost, academics usually cite the works of Fama and Jensen (1983a, 1983b) and Fama (1980). These authors posited that where the intended connection between the shareholders and CEOs is specified, the firm can be considered a "nexus of contracts". These contracts perform two functions. First, it allows the firm to make use the specialized knowledge of their CEOs, second it's used to put CEOs behavior under necessary control. The enforcement of the nexus of contracts occurs in four stages of decision-making process as discussed below.

a. **Initiation stage**: The initial stage enables CEOs to identify possible opportunities and threat inherent in the environment by exploring the environment and come up with strategic proposals for the use of existing resources.
b. **Ratification stage***:* Here, CEO's strategic proposals go through an approval process usually by principal monitoring agents (board of directors).
c. **Implementation stage**: Implementation of the strategic plan.
d. **Performance measurement stage***:* Principal monitoring agents (board of directors) assess CEOs contributions and reward them accordingly.

However, the above four-step monitoring process affords the shareholders through the use of performance criteria and evaluation, the opportunity to influence CEOs performance.

The above procedure suggests an effective way of reducing agency costs through the use of performance-related financial incentives. The procedure aimed at rewarding CEOs for achieving quantifiable results (changes in return on equity, cash flow return on investment and stock price) that are in the best interest of shareholders, rather than supervising CEOs behaviour in the decision-making process.

Human Capital Theory.

The skills and knowledge acquired by an individual is central to this theory. The Human Capital theory states that individual acquired skills and knowledge was intended to enhance his ability of fulfilling value added economic activities (Milgrom, 1992). The theory shows that there is strong correlation between compensation and skills, knowledge as well as experience an individual possess Agrawal (1981). The proponents of this theory argued that the amount of human capital acquired by the executive at any given point determines how valuable he or she is to the firm. In other words, the skills and knowledge of the CEOs determine their values to the organization and their compensation are tied to their services. However, as long as CEO compensation continued to be tied to the level of performance, the possible value of the human capital theory becomes fading, except it can reliably forecast performance results in connections with CEO's individual backgrounds and characteristics.

Central to human capital theory are attributes such as experience, knowledge, skills, and health possessed by individuals that boosts his productivity and elevates his income. This attributes according to Becker (1993) come from education and training the individual invested in. The assumption that physical resources theories are used to explain part of variation between countries economic performance, the human capital theory had initially assumed an essential role in economic theory. Also, among theories of firm performance, the human capital theory assumed key role. As a result, the theory is now been used in literature on firm performance and utilization of firm resources. According Pfeffer (1994), Kogut & Zander (1996) the distribution of physical and financial resources has significant influence on firm performance.

The human capital theory view human as a factor of production. Murphy (2002) posits that human capital theory sees people working in a firm as a factor of production and that higher managerial skill depict executive pay. The important role CEOs' human capital level plays in effecting firm performance and other outcomes have been highlighted by management experts,

to have the potential of creating value at all levels of the firm (Pennings *et al.*, 1998; Hambrick & Mason, 1984; Castanias & Helfat, 1991). The experimental study that found important positive relations between managerial human capital and organization innovation, gave credence the connection between CEO human capital and value creation in the organization. However, the link with performance in particular has not always been direct and positive. As been the case for other resources, it appears that organisational human capital may have a stronger impact on outcomes, such as knowledge creation, innovation and competitive advantage than on financial performance and survival. This study adopts the agency theory because it attempts to explain resolve disputes over priorities between the company's principals and agent. The study focuses on performance-based compensation which is one way that is used to achieve a balance between principal and agent.

Managerial Power Theory.

The managerial theory posits that market forces have a great influence on executive compensation making the achievement of ideal contract difficult, and in that way giving the executives the opportunity to sway compensation arrangements and to extract rent (Bebchuk, *et al.*, 2002). In other words, the extent at which the executive can manage powers determines the extent of rents they extracts (Ozkan 2007). However, in companies where managers have relatively more power, Anjam (2010) argued that executive pay will have minimal effect on performance. In supporting this argument, Bebchuk and Fried (2004) added CEOs have power over the board in determining their pay. According to them, when CEOs' power supersede the power board of directors, they will dominate the negotiation process and their priority would be to negotiate for compensation that better serve their own interests, which means that they will negotiate for pay that will at the expense of the firm's performance. In this case, the board of director loses it monitoring responsibility of CEOs behaviours. While the CEOs maximize their own selfish interests through higher pay, the shareholders are at the receiving end of CEOs

excessive rent extracts. This study adopts the managerial power theory was chosen as it provides guidance on the CEO power and how manager power can influence their pay.

Hypotheses Development.

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, skills, attitude and prevailing rates in the labour market or industry. Employees, directors and/or CEO may receive financial and non-financial compensations for the work performed by them. Financial compensation includes basic salaries, extra bonuses, and incentives, the non-financial compensation are done in form of awards, praising of the employee and special recognitions, all these can increase the morale of the employee towards highest productivity and this leads to the gain of the organization.

Development of Hypothesis One.

According to Olaniyi and Obembe (2015) one important factor that influences CEO compensation is the board compensation. The CEO and other top executives may carry out the wish of shareholders when the board is being compensated for their effort. Olaniyi and Obembe (2015) found that board compensation has positive relationship with the CEO compensation. Meanwhile, Akinsulere and Saka (2018) in their study argued that no significant relationship exist between board compensation and CEO compensation. Also, Obasan (2012) found that executive remuneration have direct impact on board compensation. According to him, compensation has the potential beneficial effects of enhancing productivity and by extension improving the overall organizational performance. Ozkan (2007) based on a sample of UK companies in the year 2003 found that board compensation was significantly associated with CEO's total compensation. According to Ayodele (2012), board compensation was also found to be positively influenced CEO’s compensation. Meanwhile, Kibet, Neddy and Irene (2014)

in their study stated that board compensation has no significant influence on CEO compensation.

According to the managerial power theory, CEOs' power may supersede the power board of directors, when this happens, they will dominate the negotiation process and their priority would be to negotiate for compensation that better serve their own interests. As CEOs build a power base and gain voting control over time, they may exert influence over board composition and consequently, demand compensation packages that serve their own interests rather than the shareholders' (Pandher & Currie, 2007; Ozkan, 2011). Therefore this study expect positive relationship between board compensation and CEO compensation.

H_1 There is a positive relationship between board compensation and CEO compensation of listed companies in Nigeria.

Development of Hypothesis Two.

Based on the previous studies reviewed, CEO shareholding has been identified has one of the variables that can affect CEO compensation. Hartzell and Starks (2003) provided empirical evidence for a strong positive relation between executive ownership and the pay-for-performance sensitivity of managerial compensation. Also, Kibet, Neddy and Irene (2014) found that CEO shareholding has a positive and significant influence on CEO compensation. It was also CEO shareholding also influences significantly CEO's cash compensation. On a sample of Spanish firms, Obasan (2012) showed that the presence of a large CEO shareholding is associated with a large sensitivity of cash based executive compensation to changes in shareholder value, while in firms with a less concentrated ownership, modifications in managerial compensation depend upon changes in accounting returns in prior years.

Meanwhile, Cyert, Kang and Kumar (2002) found that larger CEO ownership results in higher pay levels in form of base salary, equity compensation or discretionary compensation. Sapp (2007) found that the CEO's total compensation decreases as the shareholdings of the CEO

increase. However, Kahn et al (2005) found that higher levels of CEO shareholding lead to a significant reduction in the level of options compensation, as well as higher ratios of salary to total compensation and lower ratios of options to total compensation. Ayodele (2012) examined the effect of board compensation, CEO shareholding and CEO compensation. A simple random sampling technique was used to sample 240 personnel from cross-section of banks in Lagos State, Nigeria. A structured questionnaire consisting of 25 items as instrument for data collection was employed. The data were analyzed using chi-square technique. The results of the analysis revealed that there is a significant relationship between CEO ownership and compensation.

The level of CEO shareholdings shows the extent to which the wealth of the CEO is connected with value of the firm and this is related to the extent of agency problems faced by companies (Ozkan, 2007). According to agency theory, CEOs with much shareholdings in the firm have more incentives to increase or boost the organisation stock value. Consequently, lower incentive compensation package would be necessary for aligning the interests of CEO and the shareholders. The agency relationship problem can then be reduced with CEOs having interest (shares) in the company. That is, CEO shareholdings can be used as a substitute for the CEO compensation (Pandher & Currie, 2007) and a negative relationship is expected between compensation of the CEO and the shareholdings of the CEO. Therefore, a negative relationship between CEO shareholdings and CEO compensation is proposed.

H_2: There is a negative relationship between CEO shareholding and CEO compensation of listed companies in Nigeria.

Development of Hypothesis Three.

Another important determinant that can effect CEO compensation is the firm performance. Several literatures on CEO compensation are more concerned on aligning CEO compensation with firm performance. The focus has been on strengthening the relationship between performance and CEO compensation on the ground that executive compensation should be given on the basis of performance (Shah *et al.,* 2009). In academic research, performance is measured by different variable related to profit, while return on equity (ROE) is used to measure firm performance in academic research executive compensation. The attempt to strengthen the linkage between CEO pay and firm performance is to align executive pay with the interest of shareholders and thereby improve the governance of the firm as described in agency theory (Jensen and Meckling (1976). Better way of achieving this alignment is prioritize the use of equity incentives in executive compensation contracts. This will lead to changes in executive wealth to changes in stock price. The result of this is we are going to have an executive compensation that will maximize shareholders wealth (Shah *et al.,* 2009).

Profitability is said to be major determinant of CEO compensation (Kubo, 2001). Based on the literature, firms should compensate their CEO on basis of how much they bring in the firm. Previous studies have used return on asset (ROA) and return on equity (ROE) as measures of firm performance (Kubo, 2001). According to Kibet, Neddy and Irene (2014) profitability of the firms is a better determinants of CEO compensation. The study stated that firm profitability is positively related to executive compensation (salary). However other studies showed no relation between CEO compensation and firm performance (Fleming & Stellios, 2002). Also, Tosi, Werner, Katz, and Gomez-Mejia (2000) findings indicated weak relationship between CEO compensation and profitability. Similarly, Kubo (2001) showed weak relation between CEO pays and company profitability in Japanese firms. Chalmers and colleagues (2006) showed that return on assets was positively associated with all CEO compensation components.

Kato and Long (2006) examined the sensitivity of executive compensation to firm performance of listed companies on the stock markets in China, USA and Japan. Their findings indicated that executive compensation of Chinese firms had a stronger correlation with performance and shareholder value than was in USA and Japan. They however submitted that their findings do not suggest however, that Chinese executives are better compensated to pursue shareholder's interest than in USA or Japan, as much of the executive compensation in USA are in the form of stock options, as against cash. Aduda (2011) examined the relationship between executive compensation and firm performance among commercial banks listed at the National Stock Exchange. The study considered functional form relationship between the level of executive remuneration and accounting performance measures by suiting a regress model that relates pays and performance. It was found out that accounting measures of performance are not key consideration in determining executive compensation among the banks in Kenya and that size is a key criterion in determining executive compensation as it was significantly but negatively relates to compensation.

Meanwhile, Akewushola and Saka (2018) focused on the examination of financial performance as the determinants of CEO compensation system, and evidence from selected diversified firms in Nigeria. According to the study, the determinants and composition of CEO compensation has been very topical and controversial in practice and theory. The firms used for this research design 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 revealed that profitability and size of firm have significant influence on what is to be paid as CEO compensation. However, it was observed that profitability has a greater influence on the compensation.

Executive compensation has also been heavily criticized for having negative effects on firm performance on the ground that top executives are overpaid (Gomez-Mejia, 1994). At the

center of this criticism is the CEO compensation which has attracted widespread attention and according to Felton (2004) CEO compensation has become major issue in corporate governance. Critics have expressed concern over non-beneficial on CEO pay because it is not closely tied to firm performance (Bebchuk and Fried, 2004).

The human capital theory views human as a factor of production. Murphy (2002) posited that human capital theory sees people working in a firm as a factor of production and that higher managerial skill and position depict executive pay. The CEOs' human capital plays an important role level in contributing to the organisation performance. As the case for other resources, it appears that organisational human capital may have a stronger impact on outcomes, such as innovation and competitive advantage which in turn would lead to better financial performance. As a good reward base system, when organization financial performance increases, it is expected that the human capital resources that facilitate this achievement should be rewarded. Hence, this study expect positive relationship between firm performance and CEO compensation.

H_3 There is a positive relationship between firm performance and CEO compensation of listed companies in Nigeria.

Development of Hypothesis Four.

Several academic literatures have shown that a strong relationship exist between CEO compensation and firm size. Part of these literatures are that of Roberts (1959) and McGuire & colleagues (1962). In their studies, the above authors argued that there is close relationship between CEO compensation and firm size when measured with total assets. This is to say that CEOs are more compensated when the firm record high resources in term of assets. Therefore, CEOs will put lesser efforts on profit maximization and put more on sales and increase assets (Shah, Javed and Abbas, 2009). Firm size and job complexity required skills and the number of hierarchical structures and ability to pay are other factors that have great influence on CEO

compensation. In an attempt to establish relationship between firm size, job complexity and CEO compensation, Hijazi and Bhatti (2007) found that CEO compensation is a dependent on firm size and job complexity as well as company's ability of pay which are closely related. The study stated that firm size has negative influence on CEO compensation.

In another study, Dan, Hsien-Chang and Lie-Huey (2013) empirically tested the determinants of executive compensation. In order to understand more of the fact, the study examined some companies that suffer from the "fat cat problem", they are defined or known as firms with very low performance while their Chief Executive Offers (CEOs) receive high compensation. Based on a sample of 903 US firms between 2007 and 2010, it was found that there was a substitution effect between CEO compensation and firm size, and that larger firms give higher pay to their CEOs. The study found that firm size is significantly positively associated with CEO compensation. According to Dan, Hsien-Chang and Lie-Huey (2013) firm size appears to be the most significant determinant of CEO compensation and that there is no linkage between pay and performance. Guest (2010) also revealed that among larger commercial banks, size is a key criterion in determining executive compensation as it is significant and negatively related to compensation. Meanwhile, Akinsulere and Saka (2018) revealed that no significant relationship exist between firm size and CEO compensation.

Based on the identified gaps in the previous literatures, and to further confirm the relationship firm size and CEO compensation, this study therefore develops hypothesis between the two variables.

H_4: There is a negative relationship between firm size and CEO compensation of listed companies in Nigeria.

Development of Hypothesis Five.

Another determinant of CEO compensation among listed companies is the size of the board. However, there is an unclear connection between board size and executive compensation (Menozzi *et al.*, 2011). According to them, level of expertise of firms with larger number of directors on its board are likely wide, but this could also lead to the failure of the board as it can become ineffective in coordinating and accomplishing their role of monitoring the top management due to oversize of the board. Due to the uncertainty of influence of board size on CEO compensation, very few studies have recognize board size as determinant for CEO compensation. To buttress this point, Firth *et al*. (2007) when testing their hypothesis submitted that "no relation exists between CEO pay and board size". Meanwhile, Guest (2010) who examined a well detailed and long period dataset of 1,880 UK companies over the period 1983-2002 reported a positive relationship between board size and the rate of increase in CEO compensation, providing support for the argument that large boards suffer from the problems of less efficient decision-making and poor communication. In addition, Kibet, Neddy and Irene (2015) established that though there was evidence of negative relationship between board size and CEO compensation, no significant relationship was discovered between the variables.

According to agency theory, to align the interest of executive directors with the shareholders' interest, there are needs for monitoring mechanisms. Among these monitoring mechanisms is the introduction of more independent directors on the board, which consequently increases the number of board size. The size of the board may affect the effectiveness of the board in monitoring management activities. For example, when the board size is too large, more view, opinions, independent and professional ideas and perception can be brought to board to be analyzed. However, contrary to agency theory that monitoring reduces agency problem, the advantages of increase in board size for effective monitoring of executive directors may be

overwhelmed by the efficiency losses in communication, decision-making and coordination between board members as the number of board members increases. In other words, a large board may in effect reduce the effectiveness of board monitoring and therefore be associated with higher CEO compensation (Dan, Kuo and Wang, 2013).

Since agency theory expect negative relationship between board size and CEO compensation, the hypothesis was formulated in that direction.

H_5 ***There is negative relationship between board size and CEO compensation of listed companies in Nigeria.***

Despite the recognition of the importance of compensation in organizations, views on CEO 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 funds of organisations are involved in executive compensation perhaps makes it the most controversial issue in organizations today (Akewushola & Saka, 2018).

DATA AND METHODOLOGY.

This chapter focuses on the collection of data, research design, variable definition and the method for data analysis.

Data

To accomplish the objectives of this study, annual reports of listed companies covering 2016 to 2018 was analyzed. The choice of these periods is borne out of the fact that the period was more recent, and annual reports of the listed companies in Nigeria are readily available during this period. It was to enable the research capture recent data from listed non-financial companies in Nigeria. Data on necessary required financial and non-financial information such as total assets, return on asset, board compensation, board size, CEO shareholding and CEO compensation, would be provided and/or extracted from the selected firms' annual reports.

There are 164 listed companies on Nigeria Stock Exchange. To be included in the sample, the sample firms must have all the required financial and non-financial information, such as board compensation, total assets, profit, CEO compensation, number of share held by directors and board size data. This study analysed 50 listed companies on Nigerian Stock Exchange (NSE) and the sample would consist of 150 observations.

Research Design

A research design consists of the methodology and procedures employed to conduct scientific research. In order to have a holistic view about this topic, descriptive research design was employed. The study used panel data which comprises cross sectional and time series data for fifty companies from the period of 2016 to 2018. Secondary data collected from the published financial reports of companies listed in the Nigerian Stock Exchange over the period of three (3) years were used. The method of using secondary published data is archival, and as such the

researcher do not have the capacity to influence the data, hence the data is more reliable and unbiased (Usman, 2010).

Variable Definition.

Board and CEO Compensation: The term CEO compensation is used to indicate the Chief Executive Officer gross/total earnings in the form of financial rewards, benefits and allowances. Compensation structure takes into consideration qualification, skills, experience, knowledge, attitude and prevailing rates in the labour market or industry. Compensation allotted to the members of the board and reimbursement or giving them back their expenses whenever they travel, their hotel bills and few other expenses are known as business expenses which are known as board compensation (Cascio, 1995)**.** Compensation is direct cash payments and indirect payments. Salary, benefits, bonuses, perquisites and shares of or call options on the company stock are what made up of CEO compensation, and they are usually structured in a way that it take care of government regulation, tax law, the desires of the organization and the CEO, and rewards for performance (Emmanuel et al., 2017). The board and CEO compensation represents all the salary, bonus and allowances during the years other consideration. The compensation represents the total board compensation during the year. The amount is stated in thousands of Naira.

Board size: This is the number of individuals on the main board. Overseeing and monitoring of management is the main responsibilities of the board of directors, so that the management can improve decision making and pursue selfless strategies. Among other things, the board size determines the effectiveness of the board (John and Senber, 1998). Since board is expected to be monitor and bring under due control CEO's excessiveness, including the one associated with CEO pay, there is expectation for negative impact of board size on CEO compensation.

Firm size: This is defined in terms of total assets owned by each firm. It is measured by the log of total assets of the respective firms. The firm size is more predictable than firm

performance in determining executive pay. Tosi *et al.* (2000) argued that "the basic idea in the theory of managerialism is that executives are more contented relating their pays to firm size than firm performance". According to Firth *et al.* (2006) firm size is "most consistent and enduring result from myriad study of CEO compensation that firm size is positively and significantly associated with compensation levels". However, firm size is predictable to have a strong positive influence on CEO compensation.

CEO Shareholding: A CEO can also be a shareholder of the company. CEO shareholding is the percentage of shares held by the CEO and his/her spouse.

Firm Performance: Firm performance can be measured by Return on Equity (ROE) (Lambert and Larcker, 1987; Baber *et al.*, 1996) and return on assets (ROA) (Lin and Lin, 2014; Core and Larcker, 2002; Sloan, 1993), which are lagged one year in order to avoid measuring the effect of compensation on performance (Lin and Lin, 2014). The paid director compensation in one year usually determined through previous year performance of the firm can be accounted for by the lagged performance. Previous studies on executive compensation and corporate governance revealed that ROA indicates firm's efficiency in utilizing its assets, and ROA as a proxy for firm performance (Sloan, 1993; Finkelstein and Hambrick, 1996; Finkelstein and Boyd, 1998; Larcker, 2002; Carpenter and Sanders, 2002). ROE on the other hand, is the Net Income divide by Total Equity and shows firm's competence of making profits from every unit of equity (Usman, 2010). Many factors such as economy, industry, inflation etc, determines a firm's performance, but REO remains the most important. Like ROA, the ROE has also been used in previous studies as a proxy for firm performance (Johnson, 1982; Baber *et al.,* 1996; Finkelstein and Boyd, 1998; Ozkan, 2007). The amount is stated in thousands of Naira.

Methodology.

The hypotheses are tested using pooled ols regression with the aids of Statistical Package for Social Sciences (SPSS) version 23.

The Model for the study is as stated below;

$$CEOCOM_{it} = \beta_0 + \beta_1 BOARDCOM_{it} + \beta_2 CEOSHR_{it} + \beta_3 FPERM_{it} + \beta_4 FSIZE_{it} + \beta_5 BSIZE_{it} + \mathcal{E}t$$

Where:

$CEOCOM_{it}$ = CEO compensation of firm $_i$ in period $_t$

$BOARDCOM_{it}$ = *Board compensation* of firm $_i$ in period $_t$

$CEOSHR_{it}$ = *CEO shareholding* of firm $_i$ in period $_t$

$FPERM_{it}$ =*Firm performance* of firm $_i$ in period $_t$

$FSIZE_{it}$ = *Firm size* of firm $_i$ in period $_t$

$BSIZE_{it}$ = *Board size* of firm $_i$ in period $_t$

$\beta 1$- $\beta 5$ = *Coefficient of the parameter estimate*

εt = *Error term*

β_0 = *The intercept*

DATA ANALYSIS AND DISCUSSION OF FINDINGS.

This chapter presents the research findings on the determinants of CEO compensation among the listed companies in Nigeria. The study was conducted on fifty (50) listed companies in Nigeria where secondary data from year 2016 to 2018 were used. Linear regression was used to confirm the relationship between study dependent and independent variables.

Descriptive Analysis.

The information presented in table 4.1 below shows the descriptive statistics for the variables included in the study to identify the determinants of CEO compensation among the listed companies in Nigeria. The table reports the mean, maximum, minimum, standard deviation and the number of observations for each variable.

Table 4.1 Descriptive Statistics

Variables	No. of Observation	Minimum	Maximum	Mean	Std. Deviation
CEOCOM	150	29.00	1635540	74919	174.462722
BOARDCOM	150	140.00	1575020	185040	286.329721
CEOSHR	150	0.0025	65.0800	10.726	15.9770025
FPERM	150	-0.5520	0.5682	0.0417	0.1194701
FSIZE	150	5.2120	9.7750	7.6352	1.1249977
BSIZE	150	5.0000	22.0000	10.0000	3.4469063

SOURCE; Author's computation with the aid of SPSS Version 23

The descriptive statistics results presented in table 4.1 was from a sample of 50 companies listed on the Nigeria stock exchange for a period of three (3) years ranging from 2016 to 2018. The table 4.1 above indicates that the minimum and maximum values for CEO compensation

during the period was N29,000 and N1.6billion respectively. The average value of CEO compensation stood at N74million during the period. Meanwhile board compensation had minimum and maximum values N140,000 and N1.6billion respectively. The average value of board compensation was N185million. The table also shows that on average the CEO shareholding was 10.73% with the minimum and maximum values of 0.25% and 65.08% respectively. The firm performance was measured with the return on asset (ROA), and the value showed that on average the ROA for the sampled companies was 0.0417. This shows that, on average, about 4.17% of the assets invested by the studied companies was earned as a return. The firm size was measured with log of total assets, and the average value during the study period was 7.6352, with the minimum and maximum value of 5.2120 and 9.7750 respectively. In addition, the study revealed that on average, the board size of the sampled firms was 10 members. It was further showed that the minimum and maximum number of the sampled firm during the period was 5 and 22 members respectively.

Correlation Analysis.

Correlation analysis was used to describe the degree to which dependent variable was related to the independent variables in this study. Correlation analysis was conducted in this study to reveal the direction of association of the variables under study. The Pearson correlation between variables used as determinants of CEO compensation and compensation value among listed companies in Nigeria has been presented in Table 4.2 below.

Table 4.2 Correlations Analysis

		CEOCOM	BOARDCOM	CEOSHR	FPERM	FSIZE	BSIZE
CEOCOM	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	150					
BOARDCOM	Pearson Correlation	0.953***	1				
	Sig. (2-tailed)	0.000					
	N	150	150				
CEOSHR	Pearson Correlation	-0.216***	-0.235***	1			
	Sig. (2-tailed)	0.008	0.004				
	N	150	150	150			
FPERM	Pearson Correlation	0.201**	0.180**	-0.185**	1		
	Sig. (2-tailed)	0.014	0.027	0.023			
	N	150	150	150	150		
FSIZE	Pearson Correlation	0.660***	0.733***	-0.335***	0.122	1	
	Sig. (2-tailed)	0.000	0.000	0.000	0.138		
	N	150	150	150	150	150	
BSIZE	Pearson Correlation	0.507***	0.569***	-0.324***	-0.040	0.746***	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.631	0.000	
	N	150	150	150	150	150	150

****, ** and *** indicate significant at 10%, 5% and 1% level respectively***
SOURCE; Author's computation with the aid of SPSS Version 23

Table 4.2 above shows the correlation relationship for the proxies used to identify the determinants CEO compensation (CEOCOM) among the listed companies in Nigeria. The results from the table revealed that board compensation (BOARDCOM) has a positive and significant relationship with the CEO compensation. This positive relationship between board compensation and CEO compensation was supported by the coefficient of correlation (r) of 0.953 at the p-value of 0.000. This means that the relationship between board compensation and CEO compensation among the listed companies in Nigeria during the study period was significant at 1% significant level (P-value = 0.000 < 1%).

Also, the results from the analyzed data indicated that CEO shareholding (CEOSHR) has negative and significant relationship with the CEO compensation. The negative relationship between CEO shareholding and CEO compensation was supported by the coefficient of correlation (r) of -0.216 at the p-value of 0.008. This means that the relationship between CEO shareholding and CEO compensation among the listed companies in Nigeria during the study period was significant at 1% significant level (P-value = 0.000 < 1%). In addition, the results from the table indicated that firm performance (FPERM) has positive and significant relationship with the CEO compensation. The positive relationship between firm performance and CEO compensation was supported by the coefficient of correlation (r) of 0.201 at the p-value of 0.014. This means that the relationship between firm performance and CEO compensation among the listed companies in Nigeria during the study period was significant at 5% significant level (P-value = 0.014 < 5%).

The results also revealed the relationship between firm size and CEO compensation. The results from the table indicated that firm size (FSIZE) has positive and significant relationship with the CEO compensation. The positive relationship between firm size and CEO compensation was supported by the coefficient of correlation (r) of 0.660 at the p-value of 0.000. This means that the relationship between firm size and CEO compensation among the listed companies in Nigeria during the study period was significant at 1% significant level (P-value = 0.000 < 1%). Furthermore, table 4.2 indicated that board size (BSIZE) has positive and significant relationship with the CEO compensation. The positive relationship between board size and CEO compensation was supported by the coefficient of correlation (r) of 0.507 at the p-value of 0.000. This means that the relationship between board size and CEO compensation among the listed companies in Nigeria during the study period was significant at 1% significant level (P-value = 0.000 < 1%).

Regression Analysis.

Regression results for the determinants of CEO compensation among the listed companies in Nigeria have been presented in the Table 4.3 below. In order to examine the impact relationship between the dependent and the independent variables, and to also test the formulated hypotheses, pooled multiple regression analysis was used since the data had both time series and cross sectional characteristics.

Table 4.3.1: ANOVA Result

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	88.915	5	17.783	297.301	0.000***
	Residual	8.613	144	0.060		
	Total	97.529	149			

a. Predictors: (Constant), BSIZE, FPERM, CEOSHR, BOARDCOM, FSIZE

b. Dependent Variable: CEOCOM

****, ** and *** indicate significant at 10%, 5% and 1% level respectively***

SOURCE; Author's computation with the aid of SPSS Version 23

The above Table 4.3.1 presents the F-statistics for the studied variables. According to the F-statistic, in Table 4.3.1, the positive value of 297.301 at a significance level of 1% (sig. value= 0.000 < 1%), is an indication that the model used in this study was fit and reliable. This finding indicated that a significant relationship exists between the weighted linear composite of the independent variables, as specified by the model and the dependent variable; CEO compensation. This implies that the joint prediction of board compensation, firm performance, CEO shareholding, firm size and board size is significant. Therefore, the model applied for this study is significantly good enough in predicting the outcome variable.

Table 4.3.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.955	0.912	0.909	12.2445711	1.920

a. Predictors: (Constant), BSIZE, FPERM, CEOSHR, BOARDCOM, FSIZE

b. Dependent Variable: CEOCOM

SOURCE; Author's computation with the aid of SPSS Version 23

Table 4.3.2 above shows the **R**-value of 0.955. This value is a coefficient between all independent variable proxies and the dependent variable. The overall strength of the relationship between the set of independent and the dependent variables is reflected by this multiple **R**-statistic.

The coefficient of determination or $\mathbf{R^2}$ value of 0.912 provides an indication of the proportion of variance in the dependent variable that is accounted for or explained by independents. This R-squared (R^2) value of 0.912 or 91.2%, means that about 91.2% of the dependent variable (CEO compensation) variance can be explained by the regression in the model. However, the Durbin Watson (D.W) statistics for the study variables was 1.920, it can therefore be concluded that there is no serial correlation in the model specification.

Table 4.3.3: Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.041	0.164		0.248	0.805		
BOARDCOM	0.995	0.036	1.008	27.322	0.000***	0.450	2.221
CEOSHR	-0.014	0.137	-0.003	-0.105	0.916	0.844	1.185
FPERM	0.187	0.177	0.028	1.052	0.295	0.894	1.119
FSIZE	-0.055	0.033	-0.077	-1.683	0.095*	0.295	3.387
BSIZE	-0.002	0.009	-0.009	-0.229	0.082*	0.414	2.417

a. Dependent Variable: CEOCOM

****, ** and *** indicate significant at 10%, 5% and 1% level respectively***

SOURCE; Author's computation with the aid of SPSS Version 23

Regression results, in Table 4.3.3, showed positive relationship between CEO compensation and board compensation (t-value = 27.32; Beta= 1.008). The relationship between CEO compensation and board compensation was significant at 1% (p-value = 0.000) significance level. The result of this finding is consistent with the research results obtained from previous studies such as Olaniyi and Obembe (2015) and Obasan (2012). However, the results contradict the studies of Akinsulere and Saka (2018) and Kibet, Neddy and Irene (2014).

Also, the results in Table 4.3.1 showed negative relationship between CEO shareholding and CEO compensation (t-value= -0.105; Beta= -0.003). The relationship between CEO shareholding and CEO compensation was not significant as the p-value of 0.916 has greater than the acceptable significance level. This finding is consistent with the research results obtained from previous studies such as Ayodele (2012). Meanwhile, the results contradict the studies of Hartzell and Starks (2003) and Kibet, Neddy and Irene (2014) among others. Regression result indicated that positive relationship exist between firm performance and CEO compensation (t-value= 1.052; Beta= 0.028). The relationship between firm performance and CEO compensation was not significant as the p-value of 0.295 has greater than the acceptable

significance level. The result of this finding is consistent with the research results obtained from previous studies such as Chalmers and Colleagues (2006) and Fleming and Stellios (2002). However, the results contradict the studies of Akewushola and Saka (2018) and Neddy and Irene (2014) among others.

Furthermore, the results showed negative relationship between firm size and CEO compensation (t-value= -1.683; Beta= -0.077). The relationship between firm size and CEO compensation was significant at 10% significance level (p-value= 0.095). The result of this finding is consistent with the research results obtained from previous studies such as Hijazi and Bhatti (2007) and Guest (2010). Meanwhile, the results contradict the studies of Dan, Hsien-Chang and Lie-Huey (2013) and Akinsulere and Saka (2018) among others. Regression result indicated that negative relationship exist between board size and CEO compensation (t-value= -0.229; Beta= -0.009). The relationship between board size and CEO compensation was significant at 10% significance level (p-value = 0.082). The result of this finding is consistent with the research results obtained from previous studies such as Firth *et al*. (2007) and Kibet, Neddy and Irene (2015) who showed negative relationship between board size and CEO compensation. However, the results contradict other studies such as Guest (2010) who reported a positive relationship between board size and the rate of increase in CEO compensation.

Collinearity Statistics was carried out to check the risk of multicollinearity in the study. Multicollinearity is measured by variance inflation factors (VIF) and tolerance. If variance inflation factors value exceeding 10.0, or tolerance value less than 0.2, then there is a problem of multicollinearity (Henseler et al., 2016). However, with the Variance Inflation Factor (VIF) values of 2.221, 1.185, 1.119, 3.387 and 2.417 for board compensation, CEO shareholding, firm performance, firm size and board size respectively, and all less than 10.00, there is no presence of multicollinearity among the variables of this study.

Discussion and Test of Hypotheses.

The purpose of this study was to identify the determinants of CEO compensation among the listed companies on Nigeria Stock Exchange. The study employed board compensation, CEO shareholding, firm performance, firm size and board size as the independent variables.

Hypothesis one was formulated inline on managerial power theory. The hypothesis stated that there is a positive relationship between board compensation and CEO compensation of listed companies in Nigeria. According to managerial power theory, CEOs' power may supersede the power board of directors, when this happens, they will dominate the negotiation process and their priority would be to negotiate for compensation that better serve their own interests. As CEOs build in more power base in the organization and by gaining more influence on voting control over time, they may exert influence over the composition of the board and this result to asking or demanding compensation packages that will be to their own interests instead of the shareholders' interest (Pandher & Currie, 2007; Ozkan, 2011).

Regression results, in Table 4.3.3, showed positive relationship between CEO compensation and board compensation (t-value = 27.32; Beta= 1.008). The relationship between CEO compensation and board compensation was significant at 1% (p-value = 0.000) significance level. Hence, based on this results, the hypothesis that there is a positive relationship between board compensation and CEO compensation of listed companies in Nigeria was accepted. This result is consistent with the managerial power theory, and it shows that board compensation is a determinant of CEO compensation among the listed companies in Nigeria. Also, the result of this finding is consistent with the research results obtained from previous studies such as Olaniyi and Obembe (2015) and Obasan (2012) Olaniyi and Obembe (2015) found that board compensation has positive relationship with the CEO compensation. Also, Obasan (2012) found that executive remuneration have direct impact on board compensation. According to Ayodele (2012), board compensation was also found to be positively influenced CEO's

compensation. Meanwhile, the finding of this study is not in line with other previous studies such as Akinsulere and Saka (2018) who in their study argued that no significant relationship exist between board compensation and CEO compensation. In addition, Kibet, Neddy and Irene (2014) in their study stated that board compensation has no significant influence on CEO compensation.

The hypothesis two was formulated based on the agency theory principles. According to agency theory, CEOs with greater shareholdings in the firm have stronger incentives to boost the firm's stock value. Consequently, when this happens, less incentive compensation is needed for aligning the interests of such CEOs and shareholders. The agency relationship problem can then be reduced with CEOs having interest in the company. That is, CEO shareholdings can act as a substitute for CEO compensation (Pandher & Currie, 2007). Therefore, agency theory predicts negative relationship between CEO compensation and CEO shareholdings.

The regression results in Table 4.3.3 showed negative relationship between CEO shareholding and CEO compensation (t-value= -0.105; Beta= -0.003). However, the relationship between CEO shareholding and CEO compensation was not significant as the p-value of 0.916 has greater than the acceptable significance level. Hence, since the relationship was not significant, the hypothesis that there is a negative relationship between CEO shareholding and CEO compensation of listed companies in Nigeria was rejected. Agency theory predicts significant negative relationship between CEO shareholding and CEO compensation, insignificant relationship was found in this study, hence, this contradicts agency theory. This means that when CEOs have shares in the companies, this would not have any significant effect on CEO compensation. The result of this finding is consistent with the research results obtained from previous studies such as Ayodele (2012). Meanwhile, the findings of this study contradict other previous studies such as Hartzell and Starks (2003) who provided empirical evidence for a significant relationship between executive ownership and the pay-for-performance sensitivity

of managerial compensation. Also, Kibet, Neddy and Irene (2014) found that CEO shareholding has a positive and significant influence on CEO compensation. Obsan (2012) showed that the presence of a large CEO shareholding is associated with a large sensitivity of cash based executive compensation to changes in shareholder value, while in firms with a less concentrated ownership, modifications in managerial compensation depend upon changes in accounting returns in prior years.

The study formulated another hypothesis which is in line with the human capital theory. The hypothesis therefore, stated that there is a positive relationship between firm performance and CEO compensation among listed companies in Nigeria. Regression results indicated that positive relationship exist between firm performance and CEO compensation (t-value= 1.052; Beta= 0.028). However, the relationship between firm performance and CEO compensation was not significant as the p-value of 0.295 has greater than the acceptable significance level. Therefore the hypothesis that there is a positive relationship between firm performance and CEO compensation of listed companies in Nigeria was rejected, and it is concluded that no significant relationship exist between firm performance and CEO compensation among the listed companies in Nigeria. Thus, firm performance is not a determinant of CEO compensation among the listed companies in Nigeria. This findings contradict the human capital theory. Human capital theory expects significant relationship between firm performance and CEO compensation. The theory sees people working in a firm as a factor of production and that higher managerial skill and position depict executive pay. According to the theory, the CEOs' human capital plays an important role level in contributing to the organisation performance. As a good reward base system, when organization financial performance increases, it is expected that the human capital resources that facilitate this achievement should be adequately rewarded (Murphy, 2002). The result of this study therefore suggests that an increase in firm performance would have no significant relationship with CEO compensation. The result of this

finding is consistent with the research results obtained from previous studies such as Fleming and Stellios (2002) who showed that no relation between CEO compensation and firm performance. This study results also consistent with the studies such as Aduda (2011) who examined the relationship between executive compensation and firm performance among commercial banks listed at the National Stock Exchange. It was found that accounting measures of performance are not key consideration in determining executive compensation among the banks in Kenya. Meanwhile, the finding of this study contradicts other previous studies such as Akewushola and Saka (2018) who focused on the examination of financial performance as the determinants of CEO compensation system, and evidence from selected diversified firms in Nigeria. The study revealed that profitability has significant influence on what is to be paid as CEO compensation. Also, according to Kibet, Neddy and Irene (2014) profitability of the firms is a better determinants of CEO compensation. The study stated that firm profitability is positively and significantly related to executive compensation (salary).

The hypothesis four of the study stated that there is a negative relationship between firm size and CEO compensation among the listed companies in Nigeria. The results from the regression analysis showed negative relationship between firm size and CEO compensation (t-value= -1.683; Beta= -0.077). The relationship between firm size and CEO compensation was significant at 10% significance level (p-value= 0.095). The result of this study suggests that large firms with large value of assets would pay less CEO compensation. Therefore, the hypothesis that stated that there is a relationship relationship between firm size and CEO compensation among the listed companies in Nigeria was accepted. Firm size is a determinant of CEO compensation among the listed companies in Nigeria. The result of this finding is consistent with the research results obtained from previous studies such as Hijazi and Bhatti (2007) who found that CEO compensation is dependent on firm size, and the study stated that firm size has negative influence on CEO compensation. Guest (2010) also revealed that among

larger commercial banks, size is a key criterion in determining executive compensation as it is significantly but negatively related to compensation. However, the result of this study is not in line with some other studies such as Akinsulere and Saka (2018) who revealed that no significant relationship exist between firm size and CEO compensation.

In line with the agency theory, the study formulated the hypothesis five that there is negative relationship between board size and CEO compensation of listed companies in Nigeria. According to agency theory, to align the interest of executive directors with the shareholders' interest, there are needs for monitoring mechanisms. Among these monitoring mechanisms is the introduction of more independent directors on the board, which consequently increases the number of board size. The size of the board may affects the effectiveness of the board in monitoring management. When the board size increases, more resource networks and independent and professional views can be brought to board. Therefore, agency theory predicts negative relationship between board size and CEO compensation.

The regression result indicated that negative relationship exist between board size and CEO compensation (t-value= -0.229; Beta= -0.009). The relationship between board size and CEO compensation was significant at 10% significance level. Hence, the hypothesis that there is a negative relationship between board size and CEO compensation among the listed companies in Nigeria was accepted. This results is consistent with the agency theory, and it thus means that board size is a determinant of CEO compensation. The result of this finding is not consistent with the research results obtained from previous studies such as Firth *et al*. (2007) when testing their hypothesis submitted that no relation exists between CEO compensation and board size. In addition Kibet, Neddy and Irene (2015) established that though there was evidence of negative relationship between board size and CEO compensation, no significant relationship was discovered between the variables. Meanwhile, the result consistent with the findings of Guest (2010) who examined a comprehensive and long period dataset of 1,880 UK

firms over the period 1983-2002 and reported a significant relationship between board size and CEO compensation.

CONCLUSION AND RECOMMENDATIONS.

The final chapter of the research presents the concluding remarks of the study as well as the suggested recommendations.

Conclusion.

Executive compensation packages have been viewed as important in mitigating the conflict of interest between managers and shareholders in any corporation. It has been widely recognized that compensation packages could potentially play an important role in motivating top manager. However, the global financial crisis in 2008 sheds light on the significance of reviewing the compensation packages of top executives in every organization. Therefore, it is important to identify the major determinants of CEO compensation among the listed companies on Nigeria Stock Exchange. The study used panel data which were the secondary data obtained from the annual reports of the selected Nigerian companies. The annual reports of fifty (50) companies were reviewed from 2016 to 2018.

The study employed board compensation, CEO shareholding, firm performance, firm size and board size as proxies for measuring the effect of independent variable on CEO compensation. Statistical Package for Social Sciences (SPSS) version 23 was used to analyse the data for the study. Regression results showed positive relationship between CEO compensation and board compensation. The relationship between CEO compensation and board compensation was significant at 1% significance level. In consistent with the managerial power theory, this result implies that an increase in the board compensation would have direct effect on CEO compensation. Hence, it was concluded that board compensation is a determinant of CEO compensation among the listed companies in Nigeria.

In addition, the results showed no relationship between CEO shareholding and CEO compensation among the listed companies in Nigeria. Agency theory predicts significant

negative relationship between CEO shareholding and CEO compensation, it was therefore concluded that this finding contradicts the agency theory. Hence, it was concluded that CEO shareholding is not a determinant of CEO compensation. The findings of the study also revealed that positive relationship exist between firm performance and CEO compensation. However, the relationship between firm performance and CEO compensation was not significant. Contrary to the human capital theory, the insignificant relationship between firm performance and CEO compensation was an indication that firm performance is not a determinant of CEO compensation among the listed companies in Nigeria.

Furthermore, the results showed negative relationship between firm size and CEO compensation among the listed companies in Nigeria. The relationship between firm size and CEO compensation was significant at 10% significance level. It was therefore concluded that large firms with well-established remuneration principles would not be able to pay their CEO abnormal or excessive remuneration. Hence, it was concluded that firm size is a determinant of CEO compensation among the listed companies in Nigeria. It was also concluded that significant negative relationship exist between board size and CEO compensation among the listed companies in Nigeria. In line with agency theory, for monitoring purposes, when the board size increases, it will involve more independent directors which may not allow irrelevant or excessive pay to the company's CEO. Hence, it was concluded that board size is a determinant of CEO compensation among the listed companies in Nigeria.

Recommendations

The study has delivered insights of the major determinants of CEO compensation among the listed companies in Nigeria. Board compensation, CEO shareholding, firm performance, firm size and board size were used to examine the CEO compensation. As evidenced in the study results, board compensation has a significant positive relationship with CEO compensation. Hence, it is recommended that board should generally review the compensation structure of

the board and CEO to a level that would not be negatively affect firm performance and survival. Board of directors should monitor and review the compensation of the CEO to a level that is justified and commensurate to firm performance.

Also, CEO shareholding has an insignificant relationship with CEO compensation. Moreover, board size had a significant negative relationship with CEO compensation. As such, it is recommended that it is utmost necessary for firms to increase the number of member on the board. Many of this members should be independent directors in order to impede CEOs from exerting power and influence over board directors by controlling factors such as their career opportunities. In this way, the board will have the ability to effectively monitor and oversee the CEO and control CEO remuneration packages since they will be subject to less CEO influence. Firm performance was found to have an insignificant relationship with CEO compensation. The pay setting process and the effectiveness of pay system of the CEOs should be examined. The pay should be at a level that does not negatively influence organization performance. Firm should link reward to corporate and individual performance. Board should oversee and monitor CEO remuneration to a point that it does not negatively influence company's performance. In addition, there should be a sound framework and appropriate contractual arrangement that will guide the CEO pay among the listed companies in order to ensure better practices of corporate governance among the Nigerian listed companies.

Further research on the determinants of CEO compensation should aim at increasing the scope of the study. They should aim to collecting a larger sample size. This is possible by either increasing the number of sample firms or extending the sample period. Finally, the future studies should consider the interaction between corporate governance and CEO compensation in an avenue for more research.

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APPENDIX I

DATA EXTRACTED FROM ANNUAL REPORTS OF THE LISTED COMPANIES IN NIGERIA

All Values (except number of ordinary shares and board size) are in Thousand Naira

S/N	Company	Year	Profit/Loss	Total Assets	CEO Shares	Board Size	Total Shares	Board Compensation	CEO Compensation
1	Flour Mill Nigeria Plc	2016	10,425,786	233,296,607	10,315,922	14	2,624,253,188	156,777	98,887
		2017	9,829,046	343,933,158	10,328,253	14	2,624,253,188	143,333	79,023
		2018	9,244,729	322,604,582	12,827,621	14	4,100,395,606	234,555	99,862
2	Unilever Plc	2016	3,071,885	50,172,484	1,055,976	9	5,745,005,417	970,305	183,727
		2017	7,450,085	121,084,365	2,633,807	9	5,745,005,417	219,513	1,039,788
		2018	10,552,140	131,843,373	2,555,976	9	5,745,005,417	330,107	1,635,543
3	Nigeria Breweries Plc	2016	28,396,777	367,639,915	1,434,299	16	7,929,100,888	1,099,224	255,808
		2017	33,009,292	382,726,540	572,696	17	7,996,902,051	1,386,557	340,207
		2018	19,437,944	388,766,316	612,696	17	7,996,902,051	727,047	190,465
4	Honeywell Plc	2016	(3,023,852)	76,046,576	5,822,813	15	7,930,197,658	53,850	24,888
		2017	4,426,978	124,835,013	5,722,813	15	7,930,197,658	61,092	31,092
		2018	143,000	128,559,000	5,652,813	14	7,930,197,658	78,333	34,982
5	Dangote Sugar Plc	2016	14,198,693	175,593,979	664,655,093	10	12,000,000,000	344,453	60,873
		2017	37,822,609	196,064,664	664,655,093	9	12,000,000,000	352,444	100,333
		2018	25,830,941	178,523,711	665,699,093	10	12,000,000,000	453,222	97,003
6	NASCON Plc	2016	2,415,184	24,603,267	9,178,632	10	2,649,438,000	144,138	69,981
		2017	5,343,591	30,123,247	8,928,673	10	2,649,438,000	170,744	70,125
		2018	4,420,217	30,270,429	7,429,005	10	2,649,438,000	187,755	93,451
7	Guinness Plc	2016	(2,015,886)	136,992,444	1,123,361	13	1,505,888,819	274,141	123,000
		2017	1,923,720	146,038,216	1,354,245	14	1,505,888,819	455,300	186,000
		2018	6,717,605	153,254,968	1,633,096	14	2,190,383,188	962,571	461,000
8	Champion Breweries Plc	2016	530,389	9,961,240	508,110	12	7,829,496,000	78,999	22,000
		2017	517,562	10,088,861	508,110	12	7,829,496,000	63,262	16,585
		2018	(263,807)	10,487,010	508,110	12	7,829,496,000	53,010	15,075
9	PZ Cussons Plc	2016	389,999	58,279,602	4,872,050	11	3,970,477,045	218,774	69,449
		2017	2,235,631	73,039,610	4,466,475	11	3,970,477,045	276,110	91,168
		2018	1,630,557	74,576,119	4,616,475	11	3,970,477,045	314,392	120,471
10	Cadbury Nigeria Plc	2016	(296,403)	28,409,000	648,000	9	1,878,201,962	218,582	129,603
		2017	299,998	28,423,121	648,000	9	1,878,201,962	207,983	117,855
		2018	823,085	27,528,040	648,000	7	1,878,201,962	248,830	128,140
11	VITAFOAM Plc	2016	412,386	13,098,555	552,000,000	8	2,400,000,000	60,212	30,001
		2017	190,540	12,974,483	552,000,000	8	2,400,000,000	60,872	30,178
		2018	486,120	15,156,727	552,000,000	8	2,400,000,000	66,134	33,283
12	Nestle Plc	2016	7,924,968	169,585,932	56,255	8	792,656,252	260,723	132,421
		2017	33,723,730	146,804,128	56,255	8	792,656,252	280,531	169,616
		2018	43,008,026	162,334,422	56,255	8	792,656,252	313,438	210,478

13	Morison Industries Plc	2016	(78,585)	412,896	120,000	9	304,360,000	12,851	6,098
		2017	(25,676)	432,123	120,000	9	304,360,000	13,454	5,998
		2018	150,000	543,111	120,000	9	304,360,000	13,423	6,983
14	Ekocorp Plc	2016	79,600	3,657,413	112,935,954	8	997,202,000	11,710	30,000
		2017	1,673,744	6,086,196	112,935,954	8	997,202,000	3,208	18,548
		2018	1,987,333	9,044,234	112,935,954	8	997,202,000	5,444	10,232
15	Parma Deko Plc	2016	(110,292)	2,324,045	151,851,000	6	433,860,000	7,800	4,982
		2017	(6,928)	2,195,147	151,851,000	6	433,860,000	7,982	3,761
		2018	155,000	2,678,555	151,851,000	6	433,860,000	8,921	6,093
16	Fidson Healthcare Plc	2016	443,787	16,666,935	446,534,443	9	1,500,000,000	75,189	35,000
		2017	1,578,547	17,446,718	446,534,443	9	1,500,000,000	77,694	35,000
		2018	1,982,343	17,972,998	446,534,443	9	1,500,000,000	77,291	35,000
17	Union Diagnostic & Clinical Plc	2016	145,894	4,030,844	750,000	8	1,200,000	11,000	5,999
		2017	156,234	5,433,123	750,000	8	1,200,000	10,764	5,987
		2018	165,211	6,876,222	750,000	8	1,200,000	12,001	7,891
18	Nigeria-German Chemicals Plc	2016	148,622	4,083,301	175,000	6	1,000,000	6,599	2,565
		2017	123,881	4,676,222	175,000	6	1,000,000	7,699	2,988
		2018	156,000	5,677,870	175,000	6	1,000,000	7,021	4,098
19	Glaxo Smithkline Consumer Nig. Plc	2016	(3,705,508)	33,504,109	394,639,740	8	1,195,878,000	12,000	6,002
		2017	(2,344,223)	35,676,115	394,639,740	7	1,195,878,000	11,908	5,877
		2018	126,799	43,908,226	394,639,740	7	1,195,878,000	13,009	4,565
20	Neimeth Int'l Pharm Plc	2016	65,093	2,668,730	120,681,508	11	2,000,000,000	13,000	8,000
		2017	(411,484)	2,280,354	120,681,508	11	2,000,000,000	13,200	6,301
		2018	89,777	2,982,555	120,681,508	11	2,000,000,000	11,600	4,652
21	Lafarge Africa Plc	2016	20,778,348	600,555,765	3,454,110	13	5,575,775,442	167,991	56,030
		2017	(13,223,626)	616,169,940	3,241,940	14	5,575,775,442	183,534	61,093
		2018	4,141,764	577,692,296	4,935,198	14	8,673,428,465	170,344	59,081
22	Premier Paints Plc	2016	(33,556)	320,042	80,048,850	8	123,000,000	11,857	5,674
		2017	(53,903)	284,085	80,048,850	9	123,000,000	13,110	6,922
		2018	(55,432)	283,898	80,048,850	9	123,000,000	13,230	5,872
23	First Aluminium Nig. Plc	2016	165,420	9,245,829	83,666	6	2,110,359,242	19,667	4,856
		2017	42,264	9,524,990	83,666	7	2,110,359,242	12,979	6,534
		2018	128,332	9,763,622	83,666	6	2,110,359,242	13,229	6,982
24	Presco Plc	2016	21,735,466	83,161,837	857,596	9	1,000,000,000	25,172	10,454
		2017	25,403,614	98,324,096	857,596	9	1,000,000,000	35,506	10,993
		2018	29,888,120	102,092,220	857,596	9	1,000,000,000	34,987	9,872
25	Tripple Gee&Company Plc	2016	11,654	1,679,001	151,787,421	6	494,954,000	16,220	5,987
		2017	10,239	1,878,076	151,787,421	6	494,954,000	16,442	7,098
		2018	23,450	1,765,165	151,787,421	6	494,954,000	16,442	5,990
26	Livestock Feeds Plc	2016	(143,999)	5,873,332	630,000,000	7	3,000,000,000	5,672	2,873
		2017	(240,717)	5,260,126	630,000,000	7	3,000,000,000	6,219	3,987
		2018	(455,327)	4,411,092	630,000,000	6	3,000,000,000	5,833	3,772
27	Thomas Wyatt Nigeria Plc	2016	(39,462)	409,882	2,637,723	6	220,000,000	140	29

		2017	(41,972)	490,405	2,637,723	6	220,000,000	170	33
		2018	(98,530)	432,378	2,637,723	6	220,000,000	375	102
28	Greif Nigeria Plc	2016	390,888	687,999	122,366	5	42,640,000	1,675	876
		2017	49,424	786,664	122,366	5	42,640,000	1,531	776
		2018	(262,589)	475,731	122,366	5	42,640,000	1,398	523
29	CAP Plc	2016	1,876,222	7,654,111	224,000,000	7	700,000,000	65,666	17,655
		2017	1,498,730	5,013,990	224,000,000	7	700,000,000	69,633	18,455
		2018	2,029,343	6,311,246	224,000,000	7	700,000,000	74,183	15,813
30	Beta Glass Plc	2016	4,763,335	40,765,333	25,437	5	499,972,000	20,233	5,009
		2017	4,115,142	38,211,613	25,437	6	499,972,000	21,949	5,190
		2018	5,052,805	46,079,629	25,437	6	499,972,000	23,640	5,885
31	Arbico Plc	2016	5,793	6,763,333	46,035,000	6	148,500,000	3,424	867
		2017	61,661	5,351,996	46,035,000	6	148,500,000	2,963	744
		2018	(973,671)	6,980,578	46,035,000	6	148,500,000	4,611	1,153
32	Okomu Oil Palm Plc	2016	9,876,220	36,787,330	2,678,200	11	953,910,000	56,787	23,441
		2017	9,314,322	31,273,705	2,678,200	11	953,910,000	55,218	24,544
		2018	8,501,849	38,417,953	2,678,200	11	953,910,000	59,867	26,770
33	Smart Product Nigeria Plc	2016	7,634	177,651	250,000	5	45,000,000	2,432	840
		2017	8,703	162,790	250,000	5	45,000,000	2,350	822
		2018	11,840	165,946	250,000	5	45,000,000	2,625	890
34	UPDC Real Estate Investment	2016	1,512,139	32,974,170	470,000	13	2,668,269,500	4,600	1,200
		2017	2,208,347	31,447,871	470,000	13	2,668,269,500	4,400	1,120
		2018	2,644,763	33,406,944	470,000	13	2,668,269,500	4,000	1,120
35	Conoil Plc	2018	2,566,765	60,897,246	480,990	13	346,976,000	40,469	17,876
		2017	2,304,627	62,855,084	480,990	13	346,976,000	69,813	21,098
		2016	4,280,549	69,833,464	480,990	13	346,976,000	27,442	9,765
36	Etaerna Plc	2018	1,989,899	53,136,461	417,326,400	8	1,304,145,000	67,000	21,098
		2017	2,812,941	48,045,732	417,326,400	8	1,304,145,000	33,682	13,654
		2016	2,400,172	31,101,289	417,326,400	8	1,304,145,000	152,826	40,585
37	Forte Oil Plc	2018	660,832	69,640,238	157,275,512	7	1,310,629,267	43,850	15,872
		2017	990,696	62,117,629	157,275,512	7	1,310,629,267	41,965	15,009
		2016	5,442,482	73,458,995	157,275,512	6	1,310,629,267	122,538	22,001
38	MRS Oil Plc	2018	(1,427,448)	54,283,202	28,492	10	152,393,000	28,950	12,876
		2017	(996,609)	58,536,266	28,492	10	152,393,000	20,692	9,090
		2016	2,287,347	81,364,815	28,492	10	152,393,000	87,664	25,652
39	Oando Plc	2018	(17,695,310)	236,366,708	683,727,660	12	6,215,706,000	1,575,024	568,000
		2017	(30,599,529)	213,845,118	683,727,660	12	6,215,706,000	1,165,108	340,000
		2016	(27,934,427)	208,279,221	683,727,660	12	6,215,706,000	727,134	332,000
40	Total Nig. Plc	2018	12,098,463	132,520,783	946,484	9	169,761,000	248,508	69,982
		2017	11,795,283	107,981,873	946,484	9	169,761,000	259,105	93,098
		2016	20,353,076	136,928,160	946,484	9	169,761,000	203,110	54,927
41	GTBank Plc	2016	124,199,874	2,613,340,074	67,196,515	16	29,431,179,224	247,127	51,897
		2017	158,727,705	2,824,928,985	62,512,254	14	29,431,179,224	269,580	56,612
		2018	166,919,765	2,712,521,494	62,512,254	15	29,431,179,224	233,900	49,119
42	FirstBank Nigeria Plc	2016	12,243,000	282,831,000	824,111,280	10	35,895,292,792	768,000	161,280
		2017	37,708,000	269,621,000	871,710,007	10	35,895,292,792	989,000	207,690
		2018	59,667,000	270,324,000	871,710,007	10	35,895,292,792	1,017,000	213,570

43	ZenithBank Plc	2016	119,285,000	4,739,825,000	2,998,771,633	14	31,396,493,786	404,000	133,320
		2017	173,791,000	5,595,253,000	4,597,672,262	14	31,396,493,786	158,000	52,140
		2018	193,424,000	5,955,710,000	4,597,672,262	13	31,396,493,786	302,000	99,660
44	UBA Plc	2016	47,541,000	2,539,585,000	2,254,442,599	19	36,279,526,321	40,000	13,200
		2017	41,396,000	2,931,826,000	2,448,714,466	18	34,199,421,366	33,000	10,230
		2018	41,047,000	3,591,305,000	2,448,714,466	22	34,199,421,366	34,000	10,540
45	FCMB Plc	2016	3,730,260	1,172,778,078	222,373,388	10	19,802,710,781	18,974	5,882
		2017	1,524,886	1,186,524,939	416,236,388	12	19,802,710,781	15,932	4,939
		2018	3,552,392	1,431,298,022	416,236,388	11	19,802,710,781	19,627	6,084
46	WEMA Plc	2016	2,591,800	421,221,036	1,234,382,912	12	38,574,466,000	65,785	53,654
		2017	2,301,158	384,779,809	1,234,382,912	12	38,574,466,000	76,925	64,350
		2018	3,359,259	477,915,742	1,234,382,912	12	38,574,466,000	106,049	99,657
47	Access Bank Plc	2016	61,677,124	3,483,865,564	2,868,408,307	14	28,927,971,631	386,684	87543
		2017	51,335,460	3,499,683,980	2,848,448,478	14	28,927,971,631	521,268	108387
		2018	73,596,295	3,968,114,609	2,848,448,478	15	28,927,971,631	870,680	209002
48	Fedelity Bank Plc	2016	5,457,000	1,298,141,000	350,437,526	14	28,962,585,692	393,000	79,822
		2017	17,768,000	1,379,214,000	393,985,153	14	28,962,585,692	370,000	67,800
		2018	22,926,000	1,719,883,000	393,985,153	15	28,962,585,692	262,000	45989
49	Sterling Bank Plc	2016	6,019,000	830,805,000	9,009,482,555	15	28,790,418,124	304,000	50,000
		2017	8,039,000	1,068,798,000	9,047,509,288	14	28,790,418,124	281,000	46,000
		2018	9,739,000	1,085,876,000	9,047,509,288	11	28,790,418,124	371,000	41,000
50	Union Bank Plc	2016	16,053,000	1,123,483,000	10,614,199	15	16,935,806,471	412,000	79,006
		2017	13,176,000	1,334,921,000	30,318,188	14	16,935,806,471	343,000	89,098
		2018	18,438,000	1,324,297,000	71,535,807	16	29,120,752,788	275,000	68,760

APPENDIX II

SPSS OUTPUTS

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CEOCOM	150	.030	1635.540	7.44522E1	174.462722
BOARDCOM	150	.140	1575.020	1.83843E2	286.329721
CEOSHR	150	.0025	65.0800	1.065458E1	15.9770025
FPERM	150	-.5520	.5682	.041550	.1194701
FSIZE	150	5.2120	9.7750	7.645153E0	1.1249977
BSIZE	150	5.0000	22.0000	1.010667E1	3.4469063
Valid N (listwise)	150				

Correlations

		CEOCOM	BOARDCOM	CEOSHR	FPERM	FSIZE	BSIZE
CEOCOM	Pearson Correlation	1	.953**	-.216**	.201*	.660**	.507**
	Sig. (2-tailed)		.000	.008	.014	.000	.000
	N	150	150	150	150	150	150
BOARDCOM	Pearson Correlation	.953**	1	-.235**	.180*	.733**	.569**
	Sig. (2-tailed)	.000		.004	.027	.000	.000
	N	150	150	150	150	150	150
CEOSHR	Pearson Correlation	-.216**	-.235**	1	-.185*	-.335**	-.324**
	Sig. (2-tailed)	.008	.004		.023	.000	.000
	N	150	150	150	150	150	150
FPERM	Pearson Correlation	.201*	.180*	-.185*	1	.122	-.040
	Sig. (2-tailed)	.014	.027	.023		.138	.631
	N	150	150	150	150	150	150
FSIZE	Pearson Correlation	.660**	.733**	-.335**	.122	1	.746**
	Sig. (2-tailed)	.000	.000	.000	.138		.000
	N	150	150	150	150	150	150
BSIZE	Pearson Correlation	.507**	.569**	-.324**	-.040	.746**	1
	Sig. (2-tailed)	.000	.000	.000	.631	.000	
	N	150	150	150	150	150	150

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BSIZE, FPERM, CEOSHR, BOARDCOM, FSIZE[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: CEOCOM

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.955[a]	.912	.909	12.2445711	1.920

a. Predictors: (Constant), BSIZE, FPERM, CEOSHR, BOARDCOM, FSIZE

b. Dependent Variable: CEOCOM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.915	5	17.783	297.301	.000[a]
	Residual	8.613	144	.060		
	Total	97.529	149			

a. Predictors: (Constant), BSIZE, FPERM, CEOSHR, BOARDCOM, FSIZE

b. Dependent Variable: CEOCOM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.041	.164		.248	.805
	BOARDCOM	.995	.036	1.008	27.322	.000
	CEOSHR	-.014	.137	-.003	-.105	.916
	FPERM	.187	.177	.028	1.052	.295
	FSIZE	-.055	.033	-.077	-1.683	.095
	BSIZE	-.002	.009	-.009	-.229	.082

a. Dependent Variable: CEOCOM

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.836291	5.705688	4.299011E0	.7724947	150
Residual	-4.4629338E-1	1.1326524E0	-7.7632345E-16	.2404325	150
Std. Predicted Value	-3.188	1.821	.000	1.000	150
Std. Residual	-1.825	4.631	.000	.983	150

a. Dependent Variable: CEOCOM

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	BOARDCOM	.450	2.221
	CEOSHR	.844	1.185
	FPERM	.894	1.119
	FSIZE	.295	3.387
	BSIZE	.414	2.417

a. Dependent Variable: CEOCOM

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	BOARDCOM	CEOSHR	FPERM	FSIZE	BSIZE
1	1	4.364	1.000	.00	.00	.01	.01	.00	.00
	2	.967	2.125	.00	.00	.16	.60	.00	.00
	3	.606	2.684	.00	.00	.61	.31	.00	.01
	4	.047	9.654	.08	.01	.18	.05	.00	.59
	5	.012	19.462	.46	.69	.01	.04	.00	.12
	6	.005	30.994	.45	.29	.02	.00	1.00	.28

a. Dependent Variable: CEOCOM