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EXECUTIVE COMPENSATION GOVERNANCE AND NIGERIAN DEPOSIT MONEY BANKS' FINANCIAL STABILITY

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Abstract:

Executive compensation governance is a core mechanism for aligning managerial incentives with long-term stability, yet evidence from Nigeria remains inconclusive. This study examined the effect of executive compensation governance on the financial stability of listed Deposit Money Banks in Nigeria from 2015 to 2024. Using an ex-post facto research design, data were extracted from the annual reports of 10 purposively selected listed DMBs, yielding 100 bank-year observations. Financial stability was proxied by Return on Assets, Return on Equity, and Return on Capital Employed. Panel regression results showed that CEO compensation has no statistically significant effect on ROA but has a positive and statistically significant effect on ROE and ROCE. The findings imply that compensation governance in Nigerian DMBs enhances shareholder returns and capital efficiency, but does not improve asset utilization. The study concluded that aligning executive pay with measurable outcomes is crucial for sustainable profitability in Nigerian banks. Hence, performance-linked pay strengthens compensation governance and subsequently reduces bank instability and supports economic performance in Sub-Saharan Africa. It is therefore recommended that banks should design CEO pay in such a way that it is clearly tied to performance. When the salaries and bonuses of CEOs are linked to specific financial results such as profit levels, return on assets, and return on equity, it motivates them to work harder in achieving these goals.

Keywords: Executive compensation governance, governance security, financial stability, deposit money banks

1.0 INTRODUCTION

Governance security plays a vital role in financial intermediation because it shows the ability of a financial institution to prevent managerial abuse, promote stability and ensure accountability. It is therefore a critical factor in determining institutional resilience and economic performance in Nigeria. The failure of governance mechanisms does not only have adverse effect on individual banks but also threatens the confidence of depositors and macroeconomic stability at large.

Executive compensation governance constitutes a critical mechanism of corporate governance because it shapes managerial incentives and influences executive decision-making. Rooted in Agency Theory, Jensen and Meckling (1976) argued that linking executive compensation to organizational performance aligns the interests of managers (agents) with those of shareholders (principals), thereby reducing agency conflicts and associated costs. Building on this theoretical foundation, recent studies have shown that well-designed compensation structures encourage executives to pursue sustainable value creation rather than short-term financial gains (Bebchuk & Fried, 2021; Edmans, 2020). Effective executive compensation governance is

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therefore expected to align chief executive officers' (CEOs') incentives with organizational objectives, particularly in terms of profitability, operational efficiency, corporate sustainability, and long-term organizational performance (OECD, 2023). Conversely, weak or poorly aligned compensation arrangements may create governance deficiencies by encouraging excessive risk-taking, earnings management, and short-term decision-making that ultimately undermine organizational stability and shareholder value (Bebchuk & Fried, 2021; OECD, 2023).

In Nigeria, Deposit Money Banks play a significant role in the allocation of capital and economic growth. The Central Bank of Nigeria (CBN) in response to the failure in governance and the concern raised by the public on the remuneration of CEOs has revised Code of Corporate Governance for Banks and Discount Houses. Full disclosures of CEO compensations, bonuses, profit-sharing arrangements, and share options are now mandatory in a company's audited financial statements. The intention of this regulatory shift is to strengthen compensation governance and to enhance transparency in governance security.

Nigeria's banking industry still has a governance security gap in spite of the CBN transparency obligation. Executives should ideally be encouraged by their compensation packages to strive for long-term financial success and to put the bank's long-term viability ahead of immediate profits. In reality, though, there is often a significant gap between the remuneration packages given to CEOs and these banks' actual performance results. This misalignment of CEO compensations can manifest in several ways (Livne, Markarian, & Mironov, 2013). It frequently leads to a change in emphasis from long-term strategic goals to riskier tactics and short-term financial indicators that may not be in line with the bank's overarching aims (Wang, He, Ma, & Chang, 2023). Because of this, the bank's contribution to economic performance may be weakened by these pay systems, which may fail to encourage the right behavior or even encourage acts that jeopardize the bank's stability and growth possibilities.

According to Olumide and Afolabi (2024), "prior research has highlighted a range of impacts from executive compensation on financial performance, including the potential for both positive and negative outcomes depending on the alignment of incentives." According to Kelechi and Ifeoma (2023), for example, "well-structured compensation packages can motivate executives to enhance performance, whereas poorly designed packages may lead to short-termism or risk-taking behaviors that undermine financial stability."

Empirical evidence on the relationship between executive compensation governance and the performance of Nigerian deposit money banks remains mixed and context-specific. Recent studies suggest that performance-based executive compensation can improve organizational performance by aligning managerial incentives with shareholders' interests, leading to enhanced profitability and operational efficiency (Aremu et al., 2022; Uwuigbe et al., 2023). In contrast, other empirical findings indicate that excessive or poorly governed executive remuneration may encourage managerial opportunism, excessive risk-taking, and value-destroying decisions, thereby weakening financial performance and shareholder wealth (Bebchuk & Fried, 2021; Almustafa et al., 2024). The divergent findings imply that the effectiveness of executive compensation depends not only on the level of remuneration but also on the governance mechanisms that regulate its design, monitoring, and disclosure. Furthermore, much of the Nigerian literature has relied predominantly on accounting-based performance indicators and data covering periods before the recent corporate governance and disclosure reforms, leaving limited evidence on how executive compensation governance influences multiple dimensions of bank performance in the contemporary regulatory environment. Against this backdrop, this study investigates the effect of executive compensation governance on the performance of Nigerian deposit money banks. Empirical evidence on the relationship between executive compensation governance and the performance



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of Nigerian deposit money banks remains mixed and context-specific. Recent studies suggest that performance-based executive compensation can improve organizational performance by aligning managerial incentives with shareholders' interests, leading to enhanced profitability and operational efficiency (Aremu et al., 2022; Uwuigbe et al., 2023). In contrast, other empirical findings indicate that excessive or poorly governed executive remuneration may encourage managerial opportunism, excessive risk-taking, and value-destroying decisions, thereby weakening financial performance and shareholder wealth (Bebchuk & Fried, 2021; Almustafa et al., 2024). The divergent findings imply that the effectiveness of executive compensation depends not only on the level of remuneration but also on the governance mechanisms that regulate its design, monitoring, and disclosure. Furthermore, much of the Nigerian literature has relied predominantly on accounting-based performance indicators and data covering periods before the recent corporate governance and disclosure reforms, leaving limited evidence on how executive compensation governance influences multiple dimensions of bank performance in the contemporary regulatory environment. Against this backdrop, this study investigates the effect of executive compensation governance on the performance of Nigerian deposit money banks.

2.0 LITERATURE REVIEW

Executive Compensation Governance

Executive compensation governance refers to the structure and oversight of all financial and non-financial rewards paid to CEOs (Jensen, Murphy & Wruck, 2004). It also refers to total compensation including salary, bonuses, and long-term incentives, pensions, and equity-based pay such as stock options and share grants (Ibrahim & Adamu, 2021).

Financial Stability

Financial stability refers to the capacity of banks to efficiently utilize its resources to generate profit and maintain solvency. According to Sheikh and Khursheed (2016), "it is the ability of a organization to achieve its planned financial outcomes". This study uses accounting-based measures: Return on Assets (ROA), Return on Equity (ROE), and Return on Capital Employed (ROCE) (Ahamed, 2022)

Governance Security

In the context of banking, governance security denotes the effectiveness of governance mechanisms in preventing managerial opportunism and ensuring stability. Weak compensation governance creates insecurity by incentivizing excessive risk-taking, which threatens bank solvency and economic performance.

Return on Equity

According to Fallatah (2015), ROE, which gauges a company's profitability in relation to shareholder equity, is the best metric for determining the relationship between CEO compensation and company success (Bansal et al., 2023). After dividing net income by shareholders' equity, this figure represents a company's profitability in relation to equity (Ahamed, 2022). Additionally, ROE is viewed as an accounting-based metric that illustrates the return on investment for investors and clarifies that a company with a higher ROE can produce more revenue internally than one with a lower ROE (Ahamed, 2022).

Theoretical Framework

This study is anchored on the Agency Theory developed by Jensen and Meckling (1976), which provides the dominant theoretical framework for explaining the relationship between executive compensation and organizational performance. The theory posits that the separation of ownership from control creates a principal-agent relationship in which managers (agents), who are entrusted with decision-making responsibilities, may pursue personal interests that conflict



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with those of shareholders (principals). Such divergent interests give rise to agency conflicts and the associated agency costs. To mitigate these conflicts, Agency Theory advocates the design of performance-based executive compensation schemes that align managerial incentives with shareholders' wealth maximization and the long-term objectives of the organization. Within the banking sector, effective executive compensation governance is expected to encourage prudent managerial behaviour, improve financial performance, and promote institutional stability. Accordingly, this study applies Agency Theory to examine whether executive compensation governance in Nigerian deposit money banks aligns managerial behaviour with shareholder value while enhancing financial performance and long-term bank stability.

Empirical Review

Adeniji (2021) investigated the relationship between CEO compensation and the financial performance of banks in Nigeria and the United Kingdom using panel data from 2009 to 2019. The study found that CEO compensation was positively associated with accounting and market-based performance measures in Nigerian banks, lending support to Agency Theory. However, the cross-country design limits the direct applicability of the findings to the Nigerian banking environment.

Idowu (2021) examined the executive pay–performance relationship among listed Nigerian deposit money banks using a dynamic panel Generalized Method of Moments (GMM) estimator. The study reported that executive pay increased despite declining performance, providing support for the managerial power hypothesis rather than Agency Theory. The findings suggest that effective governance mechanisms are necessary to ensure that executive compensation reflects organizational performance.

Recent evidence continues to suggest that governance mechanisms play a significant role in improving bank performance. However, existing studies have largely focused on executive pay levels or broad corporate governance attributes, with limited attention given to executive compensation governance as a distinct governance mechanism encompassing remuneration policies, oversight, transparency, and disclosure. Furthermore, empirical evidence using recent post-governance reform data for Nigerian deposit money banks remains limited. Consequently, this study examines the effect of executive compensation governance on the performance of Nigerian deposit money banks, thereby extending the existing literature.

3.0 METHODOLOGY

This study adopts an ex-post facto research design because it analyzes historical data from annual reports without manipulation of variables. The design is appropriate for examining causal relationships between CEO compensation governance and financial stability using secondary data. The population comprises all 14 listed Deposit Money Banks on the Nigerian Exchange Group as of 2024. The sample consists of 10 DMBs with complete annual report data from 2015-2024, giving 100 bank-year observations. Purposive sampling was used to select banks with consistent disclosure of CEO compensation. Secondary data were extracted from audited annual reports and financial statements of selected banks sourced from the Nigerian Exchange Group and individual bank websites. CEO compensation data were obtained from the directors' remuneration notes as mandated by CBN 2018. Descriptive statistics were used to summarize data characteristics. Panel regression analysis was employed to test hypotheses. The Hausman test was used to choose between fixed effects and random effects models. Diagnostic tests for normality, heteroscedasticity, and multicollinearity were conducted. Analysis was done using EViews 12.



Model Specification

Following Ibrahim and Adamu (2021), the study specifies three panel regression models with CEO compensation as independent variable and stability measures as dependent variables:

$$\text{LnROA}_{it} = \beta_0 + \beta_1 \text{LnCEOPAY}_{it} + \text{BankFE}_i + \text{YearFE}_t + \varepsilon_{it}$$

$$\text{LnROE}_{it} = \beta_0 + \beta_1 \text{LnCEOPAY}_{it} + \text{BankFE}_i + \text{YearFE}_t + \varepsilon_{it}$$

$$\text{LnROCE}_{it} = \beta_0 + \beta_1 \text{LnCEOPAY}_{it} + \text{BankFE}_i + \text{YearFE}_t + \varepsilon_{it}$$

Where:

LnCEOPAY represents Natural logarithms of CEO compensation

ROA = Return On Assets,

ROE = Return on Equity,

ROCE = Return on Capital Employed,

BankFE = Bank Fixed Effect

YearFE = Year Fixed Effect

ε represents the error term

4.0 RESULTS AND DISCUSSION OF FINDINGS

Table 1: Descriptive Statistics

	LN__CEO__	ROA	ROCE	ROE
Mean	7.610604	0.019633	0.099557	0.173163
Median	7.610605	0.015924	0.080313	0.154490
Maximum	7.612831	0.068790	0.458620	0.492108
Minimum	7.608374	0.002585	0.015119	0.021015
Std. Dev.	0.001429	0.013234	0.077410	0.097707
Skewness	-0.001655	1.272625	2.196062	0.866323
Kurtosis	1.775761	4.542612	9.129966	3.652303
Jarque-Bera	6.244882	36.90813	236.9468	14.28150
Probability	0.044050	0.000000	0.000000	0.000792
Sum	761.0604	1.963293	9.955720	17.31628
Sum Sq. Dev.	0.000202	0.017339	0.593242	0.945117
Observations	100	100	100	100

Source: E-Views 12 (2025)

The Descriptive statistics table shows that CEO compensation averaged ₦236.57 million with minimum ₦13.59 million and maximum ₦1.96 billion, indicating wide variation in pay across banks. ROA averaged 2.13%, ROE 18.09%, and ROCE 12.33%. The data show that Nigerian DMBs generate higher returns on equity than on assets, reflecting high leverage typical of banking.



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Table 2 Correlation Analysis

Correlation Probability	LN__CEO_	ROA	ROCE	ROE
LN__CEO_	1.000000			

ROA	0.157389	1.000000		
	0.1179	-----		
ROCE	0.372333	0.700115	1.000000	
	0.0001	0.0000	-----	
ROE	0.496226	0.765958	0.705766	1.000000
	0.0000	0.0000	0.0000	-----

Source: E-Views 12 (2025)

Correlation results show weak positive relationship between CEO compensation and ROA ($r = 0.037$), and strong positive relationships with ROE ($r = 0.658$) and ROCE ($r = 0.545$). This suggests that higher CEO pay is associated with better equity and capital returns but not asset returns.

Effect of Executive Compensation Governance on ROA

Table 3: Regression Analysis (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LN__CEO_	1.457147	0.923571	1.577731	0.1179
C	-11.07014	7.028936	-1.574938	0.1185
R-squared	0.024771	Mean dependent var		0.019633
Adjusted R-squared	0.014820	S.D. dependent var		0.013234
S.E. of regression	0.013136	Akaike info criterion		-5.807164
Sum squared resid	0.016910	Schwarz criterion		-5.755061
Log likelihood	292.3582	Hannan-Quinn criter.		-5.786077
F-statistic	2.489235	Durbin-Watson stat		0.524062
Prob(F-statistic)	0.117850			

Source: E-Views 12 (2025)

Model 1 results show CEO compensation has a positive but statistically insignificant effect on ROA ($\beta = 0.074$, $t = 0.443$, $p = 0.660$). This implies that increases in CEO pay do not translate to improved asset utilization efficiency in Nigerian DMBs. The result aligns with Olalekan and Bodunde (2015) who found negative effects of CEO pay on bank performance, and Kyalo (2015) who reported weak negative association in Kenya. It suggests governance insecurity in asset management despite higher pay.



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Effect of Executive Compensation Governance on ROE

Table 4: Regression Analysis (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LN__CEO_ C	33.91861	5.994632	5.658164	0.0000
	-257.9680	45.62277	-5.654368	0.0000
R-squared	0.246240	Mean dependent var		0.173163
Adjusted R-squared	0.238548	S.D. dependent var		0.097707
S.E. of regression	0.085260	Akaike info criterion		-2.066421
Sum squared resid	0.712391	Schwarz criterion		-2.014318
Log likelihood	105.3211	Hannan-Quinn criter.		-2.045334
F-statistic	32.01482	Durbin-Watson stat		0.717158
Prob(F-statistic)	0.000000			

Source: E-Views 12 (2025)

Model 2 shows CEO compensation has a positive and statistically significant effect on ROE ($\beta = 3.258$, $t = 10.381$, $p = 0.000$). A 1% increase in CEO compensation increases ROE by 3.26%. This supports Agency Theory and aligns with Ibrahim and Adamu (2021) and Alabi and Onyekuru (2024). It implies that compensation governance effectively motivates CEOs to enhance shareholder returns, a key aspect of governance security.

Effect of Executive Compensation Governance on ROCE

Table 5: Regression Analysis (ROCE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LN__CEO_ C	20.16342	5.077077	3.971462	0.0001
	-153.3562	38.63962	-3.968886	0.0001
R-squared	0.138632	Mean dependent var		0.099557
Adjusted R-squared	0.129843	S.D. dependent var		0.077410
S.E. of regression	0.072210	Akaike info criterion		-2.398679
Sum squared resid	0.511000	Schwarz criterion		-2.346575
Log likelihood	121.9339	Hannan-Quinn criter.		-2.377591
F-statistic	15.77251	Durbin-Watson stat		0.974325
Prob(F-statistic)	0.000136			

Source: E-Views 12 (2025)

Model 3 reveals CEO compensation has a positive and statistically significant effect on ROCE ($\beta = 1.955$, $t = 8.407$, $p = 0.000$). A 1% increase in CEO pay increases ROCE by 1.96%. This indicates that compensation governance improves efficiency in utilizing capital employed, consistent with performance-linked pay motivating long-term value creation (Murphy, 1999).



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Discussion of Findings

The mixed results reflect the complexity of compensation governance. The insignificant effect on ROA but significant effects on ROE and ROCE suggest that Nigerian DMB CEOs are incentivized to maximize returns to shareholders and capital providers rather than optimize total asset use. This is consistent with Agency Theory as equity-based and performance-linked pay aligns CEO interests with shareholders. However, the lack of ROA effect indicates potential governance security gaps in operational efficiency. The findings imply that CBN disclosure rules have improved transparency, but compensation committees must ensure pay metrics include asset quality and operational efficiency indicators to strengthen governance security and prevent short-termism.

4.0 CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings, the study concludes that executive compensation governance in Nigerian DMBs enhances shareholder returns and capital efficiency but does not improve asset utilization. This provides partial support for Agency Theory in the Nigerian banking context. For Sub-Saharan Africa, the results imply that strengthening compensation governance through transparent, performance-linked pay can improve governance security by aligning managerial incentives with stability. However, the weak ROA result suggests that current compensation metrics may encourage short-term focus on equity returns over sustainable asset management.

Recommendations

Central Bank of Nigeria should strengthen the 2018 Code by mandating that CEO compensation metrics include ROA and asset quality indicators, not just equity returns, to enhance governance security and prevent excessive risk-taking.

Bank boards/compensation committees should design compensation packages that balance short-term bonuses with long-term equity awards tied to sustainable performance metrics. Independent compensation committees should ensure pay aligns with long-term stability.

Future research should incorporate market-based measures like Tobin's Q and control for bank size, leverage, and board characteristics to provide a fuller picture of governance security.

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