The Influence of Highest Paid Director on Financial Performance of Listed Banks in Nigeria

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Abstract

The study is on the relationship between highest paid director and financial performance of banks in Nigeria from 2008 to 2022. In establishing the relationship, correlational research design was employed. The research encompasses listed banks in Nigeria. Utilizing secondary data from annual reports and accounts, a panel regression using feasible generalised least square (FGLS) was used to test the hypotheses due to presence of heteroskedasticity since Hausman and Lagrange Multiplier test choose random effect. The study was anchored on pay performance theory on the two models of financial performance which include NIM and Tobin's Q. The findings reveal that highest paid director has a negative and significant relationship with financial performance of banks in Nigeria. In the same vein, the study could establish a positive relationship between total compensation and financial performance. The study's findings yield recommendations for enhancing financial performance of Nigerian banks. There is a need for control on executive compensation of banks as these are vital to the financial performance of banks in Nigeria.

Introduction

The financial performance of banks in Nigeria remains a crucial concern, especially considering the impact on shareholder wealth and overall economic stability. Statistical evidence underscores the urgency of addressing performance issues within the sector. According to recent data from the Central Bank of Nigeria, the return on equity (ROE) for many banks has stagnated below the industry benchmark of 15%, with some institutions even recording negative ROE figures. Furthermore, analysis of non-performing loans (NPLs) reveals a worrying trend, with the average NPL ratio exceeding 10% for several banks, indicating significant credit risk exposure.

Moreover, when assessing profitability metrics such as net interest margin (NIM) and efficiency ratios, many Nigerian banks trail behind their regional and global counterparts. For instance, comparative analysis shows that Nigerian banks often exhibit lower NIMs and higher cost-to-income ratios compared to peers in other emerging markets. These statistics underscore systemic inefficiencies that hinder profitability and erode shareholder value.

Additionally, a comparative examination of market capitalization reveals disparities between Nigerian banks and leading international financial institutions. While global banks experience steady growth in market capitalization, Nigerian banks struggle to maintain investor confidence, resulting in stagnant or declining market valuations over time.

Hence, it is incumbent upon company executives, acting as designated stewards of shareholders, to manage the company in the shareholders' best interests rather than for their personal enrichment. Their compensation is designed to motivate them to play a pivotal role in enhancing firm performance. Despite its significance, research on the correlation between compensation and performance remains insufficient, necessitating further studies, particularly given the prevalent performance challenges faced by many banks in Nigeria.

Furthermore, executive compensation has increasingly come under scrutiny from various stakeholders such as the media, shareholders, policymakers, and government regulators. This scrutiny led the Central Bank of Nigeria (CBN) to mandate full disclosure of all compensation, bonuses, profit-sharing arrangements, and share options for executives in annual audited financial statements. Questions have arisen regarding why executives continue to receive bonuses and perks even when their companies experience losses and declining shareholder value.

In recent years, there has been a growing debate about the compensation and bonuses awarded to chief executive officers (CEOs), prompting questions about their rationality and justification. Past practices have seen CEOs' pay increase without commensurate improvements in performance. Some countries like Britain and Spain have introduced legislation such as "say on pay" to empower shareholders to influence CEO pay. However, the issue of executives receiving exorbitant sums is not new. Investors expect high-paid CEOs to deliver performance, but there has been a trend of escalating CEO pay regardless of performance.

Moreover, it is argued that when executives hold substantial shares in the organizations they manage, their interests align with those of other shareholders, motivating them to pursue higher financial performance. Executive directors with larger shareholdings are expected to seek increased returns, thereby enhancing financial performance. Thus, high executive compensation coupled with significant share ownership can potentially improve financial performance.

Despite previous studies on executive compensation and performance, the issue remains contemporary and contentious in the literature, with conflicting perspectives necessitating further investigation. This underscores the importance of examining the impact of compensation on the financial performance of banks in Nigeria, particularly as many listed deposit money banks have experienced poor financial performance, leading to mergers or acquisitions by other banks. Therefore, it is crucial to explore the extent to which executive compensation affects the financial performance of these banks

Based on the argument above therefore, this study formulates the following hypotheses to achieve the objectives of the study.
i. H_{01}: Highest-paid director has no significant effect on the financial performance of listed banks in Nigeria.
ii. H_{02}: Total compensation has no significant effect on the financial performance of listed banks in Nigeria.

Conceptual Framework

The dependent variable is financial performance, which is the variable of primary concern, in which the variance (changes) will be attempted to be explained by the two independent variables: Highest-paid director and Total Compensation. This relationship is diagrammatically represented below.

Figure 1: Research Framework
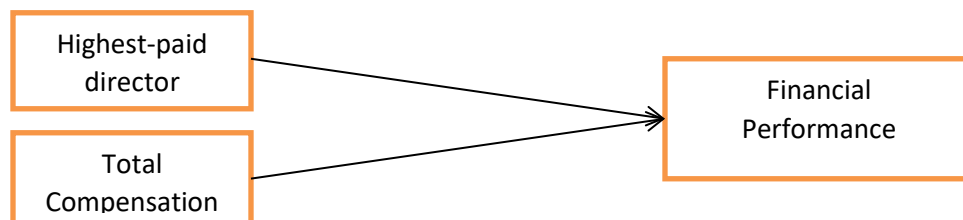
Source: Author's Design, 2024

Concept of Executive Compensation

Executive compensation, also known interchangeably as executive pay or remuneration, encompasses salary and incentive pay, as highlighted by Okpo et al, (2023). Incentive pays, which may consist of both cash and non-cash rewards, constitutes a significant aspect of finance and accounting that has yet to receive considerable attention in developing countries such as Nigeria. Typically, compensation takes various forms, including basic pay such as salary or non-financial rewards, as noted by Yamina & Mohamed (2017). According to Emmanuel et al. (2017), the primary objective of compensation is to motivate, attract, and retain talented individuals to achieve organizational goals.

Various descriptions of compensation exist. For instance, Qiao and Wang (2016) characterize compensation with its goals, highlighting it as an individual subjective experience that involves a mutually beneficial two-way process between the organization and its members. They view compensation as a tool to help management support the company's strategy and goals, as well as a means of communicating messages to top management and supporting desired behaviors.

For the purposes of this study, compensation refers to all forms of incentives, whether mandated by statute or otherwise, paid to executive officers engaged in managerial, operational, and technical functions within an organization, with the aim of rewarding and motivating them to enhance performance. However, this study will adopt the classification of compensation provided by Jensen et al, (2004), which categorizes them into the company's cash payments—comprising time-related fixed pay, pension, and performance-based pay—and equity-based pay, which includes options and share-based compensation.

Concept of Financial Performance

Performance measures encompass both financial and operational aspects. According to Turakpe and Fiiwe (2017), the choice between these alternatives depends on the objectives set, indicating that assessing firm performance solely through financial indicators should be supplemented with an evaluation based on non-financial indicators, aligning with the goal of sustainable development.

Financial performance is defined as a company's ability to achieve planned outcomes compared to projected outputs, encompassing metrics related to shareholder return, market performance, and financial results (Khursheed & Sheikh, 2022). Nhon (2018) characterizes financial performance as the capacity to operate efficiently, profitably, sustainably, and to adapt to environmental opportunities and threats. Zhou & Bu (2020) further emphasize that performance is gauged by the efficiency with which resources are utilized to achieve objectives, with poor asset performance often leading to overall low performance for many firms.

Aduda (2011) highlights financial performance indicators such as profit maximization, asset profitability, and maximizing shareholder value as essential aspects of firm effectiveness. Meanwhile, operational performance measures like sales growth and market share expansion provide a broader perspective, focusing on factors that ultimately influence financial performance. The choice of performance measurement depends on the information integrated into the measurement system and the instruments utilized. Classical indicators such as ROI, leverage, ROE, operating expenses ratio, and assets turnover have traditionally been used in financial analysis to gauge performance (Turakpe and Fiiwe, 2017).

However, the assessment of firm performance is increasingly shifting towards considering indicators that reflect management quality, corporate culture, effectiveness of executive compensation policies, and the quality of shareholder communication systems (Chen et al., 2023). There is a growing trend towards evaluating performance based on value creation, aligning with the broader goal of sustainable development. This approach offers a more comprehensive assessment of organizational performance, providing greater recognition and incentives for both management and employees who contribute to creating sustainable value.

Theoretical Review

The logic underpinning the pay-for-performance theory suggests that linking compensation to performance can motivate individuals to achieve or oversee higher levels of performance (Nulla, 2015; Huang, 2023). Moreover, it is tempting to propose that these challenges can be addressed through improved compensation schemes or enhanced strategies to align executive pay with stock performance (Wang et al., 2021).

Empirical Review

This section reviews empirical literature in relation to the variables of the study. The empirical review of literature relevant to compensation, human capital efficiency, and financial performance are extensively reviewed.

Highest-paid Director and Financial Performance

Oyerogba et al, (2016) examine the impact of executive compensation on firms' profitability of listed companies in Nigeria using a period of ten years ranging from 2004 to 2013. Variables used include directors' cash incentives, non-cash incentives and bonus issue of share and earnings per share of the selected companies. The results revealed that a significant positive relationship exists between the directors' cash incentives, bonus issues of shares, and earnings per share. The relationship between non-cash incentive and earnings per share was insignificant implying that non-cash incentive does not significantly influence the earnings per share of companies in Nigeria.

Ruparelia and Njuguna (2016) determine the effect of board remuneration on financial performance, focusing on commercial banks, insurance companies and investment companies listed at the Nairobi Securities Exchange from 2003 to 2013. Secondary data was obtained from audited financial statements for the 11 years ending 2013. A linear regression model was used on pooled cross-sectional time-series data to draw the inferences of the study. The results point to significant variations in the level of board remuneration across the companies and a significant relationship between board remuneration and DY, but not ROA, ROE, and EPS.

Yamina and Mohamed (2017) examine the impact of firm performance on executive compensation in France with a sample of 90 companies included in the SBF 120 over 2004. The study examines whether there is a significant link between overall executive compensation and corporate performance, and then determines the relationship between the fixed and variable part of the compensation with performance. The findings highlight in particular the level of total executive compensation that is linked with relatively improved performance.

Otekunrin et al. (2018) examined the relationship between directors' compensation and firm performance using selected general insurance companies as a case study. Regression analysis was used to analyse the data got from the firms under study. The results showed that a significant relationship exists between annual directors' compensation and firm performance of the general insurance companies under study.

Aslam et al (2019) investigated the interrelationship between pay and performance of CEOs/board of directors in an emerging market, Pakistan. Findings of the study show that director's cash remuneration and bonuses have a positive effect on the EPS. Also, a positive and significant relationship was found to exist amongst the variables.

Ahmed, Bahamman, and Abdulkarim (2020) investigated the moderating effect of selected board attributes on the relationship between directors' remuneration and financial performance of listed insurance companies in Nigeria. Results found that directors' remuneration is positively and significantly related to financial performance.

Zhou and Bu (2020) studies the relationship between the performance of directors, remuneration, and company performance Chinese listed companies. The results show that directors' meeting attendance is positively correlated with company performance; and there is no obvious correlation between directors' negative opinions and company performance; directors' remuneration is significantly positively correlated with company performance.

Rahayu et al (2022) sought to analyze the relationship between the director pay slice and firm financial performance. The study partially found that director pay slice and the existence of a remuneration committee are positively and significantly related to the company's current and future performance.

Total Compensation and Financial Performance

Demirer and Yuan (2014) examine effect of executive compensation on firm performance in the U.S. restaurant industry. Using executive compensation data for publicly traded restaurant firms for the period 1999–2010, their results suggest that compensation in the form of bonuses and non-equity affects restaurant firm performance positively. Results also reveal that compensation in the form of salary affects restaurant firm performance negatively.

Buachoom (2017) determine the two-direction relationship between financial firm performance and executive compensation in Thai listed companies. The System GMM, with concern about the endogeneity problem of the simultaneous relationship, is applied. The samples composed of 5,139 firm-years observations for 15 years from the years 2000 to 2014 of 432 non-financial firms in the Thai stock market. It shows that compensation of executives in Thai firms corresponds to firm performance, and compensation of executives leads to an improvement in subsequent performance of Thai listed firms.

Olaniyan (2015) examines the effects of executive compensation on the performance of non-financial firms in Nigerian Stock Exchange (1996-2012). ROA, ROE and Tobin's Q were used as a measure of firm performance, and panel data reveals a negative significant relationship between executive compensation and firm performance.

Ogbeide and Akanji (2016) examined executive remuneration and firms' performance in Nigeria. Specifically, the study seeks to ascertain the nexus between executive remuneration, firm size and board size variables and the performance of quoted companies. The population of the study consists of all the quoted firms as at 31st December, 2014. Panel Generalized Least Square (EGLS) with fixed effect was used for the purpose of empirical validations. The study found that executive remuneration has negative but insignificant effect on firm performance.

Yuan et al (2017) examine the relationship between Financial Characteristics; Corporate Governance; Executive Compensation; Say on Pay Votes. The study found that there is a stronger association between high CEO pay and low say-on-pay vote support for firms with negative financial performance. It was also found that market-to-book ratio is significantly lower for companies that failed say-on-pay votes. Furthermore, regulated industries such as financial services are more likely to receive unfavourable say-on-pay votes.

Qiu and Mo (2020) sought to investigate how executive compensation structure and corporate social responsibility influence the long-term and short-term firm financial performance, this study constructs and empirically tests a moderating model using panel data of 2,136 Chinese listed firms during the year 2015-2018. The result show that a long-term compensation focus is positively related to the long-term financial performance, and a short-term compensation focus is negatively related to the short-term financial performance, respectively.

Wang and Ni (2023) explored the relationship between executive compensation and corporate performance using panel data of 1,816 manufacturing listed companies in China from 2015-2019 using a hierarchical regression

approach. The results showed that executive compensation incentive has a positive impact on corporate financial performance. The independence of the board of directors in corporate governance negatively regulates the relationship between executive compensation incentive and corporate financial performance.

Reddy (2023) studied CEO compensation dynamics in the public sector and private sector publicly listed firms in New Zealand. The research used descriptive statistics and OLS regression to analyze the compensation-performance relationship for the period 2005 to 2012. Our findings show that CEOs in the private sector publicly listed firms are receiving higher remuneration benefits.

Albuquerque et al (2023) developed a new measure of compensation contract complexity in their study and found that complexity relates to factors capturing firm complexity as well as the inclusion of contract provisions to address principal-agent conflicts. Firms that allow for ex-post renegotiation have simpler contracts, and external pressures are associated with greater contract complexity.

Methodology

The study employs quantitative and deductive approaches due to the data being represented in figures, aligning with the positivist paradigm. This paradigm allows the researcher to assess the accuracy (validity) and consistency (reliability) of measurements or procedures, as well as facilitating the generalization of findings.

A correlational research design was employed, deemed suitable for studying relationships. The population of the study comprises all listed banks in Nigeria as of December 31st, 2022. Criteria were established to determine the sample size, including banks being listed throughout the study period and not undergoing takeovers/mergers at the time of the study. Thirteen banks met these criteria. Secondary data sources were utilized, primarily drawn from the published annual reports and accounts of the listed Deposit Money Banks in Nigeria, which represent the sample of the study.

Model Specification

The following models have been adopted from Nhon (2020) following the works of literature reviewed in respect of the variables.

NIM_{it} $= \beta_0 + \beta_1 HPDI_{it} + \beta_2 TCOM_i + e_{it}$………………………………….(i)

$Tobin's\ Q_{it}$ $= \beta_0 + \beta_1 HPDI_{it} + \beta_2 TCOM_{it} + e_{it}$………….………………………....(ii)

Where:

NIM $=$ Net Interest Margin (Financial Performance)

Tobin's Q $=$ Tobin's Q (Financial Performance)

HPDI $=$ Highest Paid Director

TCOM $=$ Total Compensation

e $=$ Error term

i and t $=$ banks i and year t

$\beta_1 - \beta_2$ $=$ Coefficients of the Explanatory Variables

Method of Data Analysis

Panel regression technique is employed for the study. A regression is used in assessing the effect of directors' compensation on financial performance of listed deposit money banks in Nigeria. The feasible generalized least square is used on the random effect models due to the presence of heteroskedasticity in the NIN model. The study utilized Akaike information criterion on the regression to access the effect of two scenarios of the models and how the independent variables impact the dependent variables under these models. The estimation used Stata 13 platform for analysis because this package is more informative, that is, it provides variability, less collinearity and more degrees of freedom.

Table 2: Variables and Measurement

Variable	Status	Measurement	Sources
Performance	Dependent	Net Interest Margin and Tobin's Q	Abdeljawad & Bahlaq (2023); Abdallah & Bahloul (2023)
Total Compensation	Independent	The compensation of all the Executive Directors	Nzunga et al, (2022); Chen et al (2023)
Highest Paid Director	Independent	Pay of the Highest Paid Director after the CEO	Krauter & Sousa (2013); Wan & Ni (2023); Okpo et al, (2023)

Source: Author's Compilation, 2023

Descriptive Statistics

The following Table 3 presents the descriptive statistics where the minimum, the maximum the mean, the standard deviation, the skewness and the kurtosis of the data set for the variables used in the study are described.

Table 3: Descriptive Statistics

Variable	Min	Max	Mean	Sd	Skewness	Kurtosis
NIM	-20543	1	-105.0951	1471.133	-13.85659	193.005
TobinsQ	0.018067	0.854294	0.280987	0.206677	0.826023	2.80927
HPDI	0	577000	89758.97	84772.82	2.249144	10.7538
TCOM	0	1887000	432327.8	338969.7	1.067592	4.34717

Source: *Stata Output, 2023*

Table 3 reports the descriptive statistics for the dependent and independent variables. While the dependent variables are financial performance measured as net interest margin (NIM) and Tobin's Q. The independent variables are: CEO compensation (COEP) and chairman's compensation (CCOM). The result shows that NIM and Tobin's Q of banks in Nigeria has a mean value of -105.0951 and 0.280987 respectively, implying that it gives a negative value for NIM and positive value for Tobin's Q, which indicates loss and gains for the banks in respect of NIM and Tobin's Q respectively. Their standard deviations are 1471.133 and 0.206677 respectively. This implies that, the variation of the data set in the variables is moderates since the value of the standard deviations are closer to the mean value. Also, considering the minimum and maximum values of -20543 and 1, 0.018067 and 0.854294 therefore, it implies that at some point within the study period, at least one of the firms used in the study has reported a loss.

Meanwhile, the skewness and the kurtosis for NIM and Tobin's Q are -13.85659 and 193.005, 0.826023 and 2.80927 respectively, suggesting that the values are within the range of skewness and kurtosis assumptions. Even though the data of the explained variables seem to be kurtotik, the standard deviation of the data set falls within 3 standard

deviation which shows that 99.7% of the observed data indicates a normality distribution of the said data based on Gaussian theory of normality (Vargha et al, 2013).

In the case of highest paid director, Table 3 also indicates that the banks in Nigeria have average value of 89758.97 for highest paid director with minimum and maximum values of 0.0 and 577000 respectively. This implies that some directors in Nigerian banks are paid up to N577000. The minimum of N0 indicates that some directors have not being paid for some period. The peakness of the data is indicated by the kurtosis value of 10.7538 which is relatively moderate suggesting that the coefficient of kurtosis could be normal in the distribution of the data set. Furthermore, the coefficient of skewness of 2.249144 implies that the data is positively skewed. However, even though the data set is skewed, is still close to zero which implies that the data set meets the symmetrical distribution assumption.

In addition, the table indicates that the average total compensation for all banks in Nigeria is 432327.8 which indicates that, most of the banks paid their compensation totally to the amount up to N432327.8. Meanwhile the minimum and maximum values are 0 and 1887000 respectively. The peakness of the total compensation data is indicated by the kurtosis value of 4.34717 which suggest some element of normality since the value is moderate. However, the coefficient of skewness 1.067592 implies that the data is normal since it meets the symmetrical distribution assumption.

Correlation Matrix

Table 4 presents the correlation matrix where the relationship between the dependent variable and the explanatory variables and the relationship among the explanatory variables themselves are analysed.

Table 4: Correlation Matrix

	NIM	Tobin's Q	HPDI	TCOM
NIM	1			
Tobin's Q	0.0450	1		
HPDI	0.0550	-0.13250	1	
TCOM	0.0670	-0.24390	0.7356	1

Table 4 is the correlation matrix that shows the strength and the direction between the dependent variables net interest margin (NIM) and Tobin's Q and the explanatory variables which include highest paid director (HPDI) and chairman's compensation (TCOM).

The table shows that on one hand all the explanatory variables are either positively or negatively weak associated with NIM and Tobin's Q since they are all less than ±0.5. This suggests that it is possible to undertake a study in the area, since correlation exist between the each of the explanatory factors and both NIM and Tobin's Q in respective of the strength of the relationship (Vargha et al., 2013).

On the other hand, understanding the extend of the correlation between the explanatory variables themselves is also important as it provides a signal to the possibility of the existence or absence of multicollinearity. Though no conclusion can be made until the Variance Inflation Factor (VIF) test is conducted. From the table, the correlation between highest paid director and total compensation is found to be positively correlated with the correlation. This implies that, the above independent variables seems to be free from multicollinearity since their correlation co-efficient are all greater than to 0.5. However, only when VIF is conducted, the study will not conclude that multicollinearity exist.

Diagnostic Tests

This study conducted the following diagnostic test; multicollinearity test to identify if there are high correlations among independent variables, which can cause issues in regression models, heteroscedasticity test to check for the presence of non-constant variance in the residuals, Hausman specification test to select between fixed and random

effect model and Breusch Pagan Langrangian multiplier test to select between random effect and pooled OLS model provided random effect was selected based on the Hausman test result.

Multicollinearity Test

This test was carried out to check whether there is high correlation between and among the independent variables. To formally substantiate the absence of multicollinearity between the independent variables, collinearity diagnostics are observed and that the variance inflation factors indicate no multicollinearity. This could be seen in Table 5 below

Table 5: Multi-collinearity Test Results

Variable	VIF	1/VIF
HC	1.58	0.631841
TCOM	2.46	0.405802
Mean VIF	2.02	

Source: Computed using STATA 13 software

Heteroskedasticity Test

This test was conducted to check whether the variability of the error terms is constant or not. If heteroskedasticity is present in the model Ordinary Least Square (OLS) and panel regression may not be suitable for the analysis and could be considered insufficient to be the best estimator. Going by the model one of the studies which NIM model as presented in Table 6 below there is clear presence of heteroskedasticity in the model.

Table 6: Heteroskedasticity on NIM Model

Modified Wald test for groupwise heteroskedasticity in fixed effect regression model

Ho: sigma(i)^2 = sigma^2 for all i

Variables: fitted values of ROA

chi2(36)	= 17651
Prob > chi2	= 0.000

Source: Computed using STATA software

The result of the test on NIM model reveals that there is a presence of heteroskedasticity because the probability of the chi square is statistically significant at 1% indicating that the model is heteroskedastic.

Hausman Test

After due consideration of the above models, the selection of the model is followed by the Hausman's test where the study proposed Random Effect on NIM model. The result of the Hausman' test is represented in Table 7. This is done to determine which model Fixed and Random Effect is appropriate.

Table 7: Hausman's Test on NIM Model

	Coefficients		
Variables	(b)	(B)	Standard
	Fixed	Random	Error
Test: Ho: difference in coefficients not systematic			
chi2(8)	=	0.36	
Prob > chi2	=	1.00	

As seen from the Table 7, there is no sufficient evidence to reject the null which said that the random effect model is appropriate since the Hausman test is not statistically significant as the probability value is greater than the 10%

level of significant.Therefore, this study select and compare Random Effect model and Pooled OLS using Breusch and Pagan Lagrangian Multiplier Test for Random Effects presented in Table 8.

Breusch and Pagan Lagrangian Multiplier

Thus, this study considered LM test to compare between Pooled OLS and Random Effect since Hausman Test choosed Random Effcet model. Thus, the LM test result is presented in Table 8 as seen below:

Table 8: Breusch and Pagan Lagrangian multiplier test for random effects

Test: Estimated Results:		
chibar2(01)	=	587
Prob > chibar2	=	0.00

From the table therefore, Random Effect model is to be considered base on the LM's test. This could be considrd in the absence of heteskedasticity however, all the ROA model is heteroskedacstic thus, the Random Effect model could not longer be considered suitable techniques for the study therefore, the model that can adress the heteroskedaticity in Random Effect model is Feasible Generalised Least Square (FGLS) model. This is because, time is greater than cross section of the study as the number of banks are 13 while the time period is 15 years. Thus, this study run the FGLS model base on the recommendation of Abdullah et al, (2023) and finally, the FGLS model is hereby presented and discussed next.

AIC and BIC Criteria for NIM and Tobin's Q Models

Among the criteria to select the best model is Akaike's Information Criterion (AIC) and Bayesian Information Criterion (BIC) (Dziak, Coffman, Lanza, Li, & Jermiin, 2020) where the lower the AIC and BIC the better the model as suggested by the authors. In the case of this study the AIC and BIC criteria is employed to select the best model among the NIM and Tobin's Q models presented in Table 9 below.

Table 9: Akaike's Information Criterion and Bayesian Information Criterion

	NIM	Tobin's Q
AIC	-555	-196
BIC	-523	-163

Table 9 presents the Akaike's information criterion and Bayesian information criterion for NIM and Tobin's Q models where the lowest AIC value is -555.1925 and that of BIC value as presented in the result are -522.5140 which all negative values. Therefore, since the Akaike's information criterion and Bayesian information criterion for NIM model is the lowest among the two models, then the NIM model is said to be the best model base on the AIC and BIC criteria. In this case, NIM model is to be interpreted as the model of the study.

Presentation, Analysis and Discussion of Regression Results

This section presents the regression result of the dependent variable (firm performance which is measured in terms of net interest margin (NIM) and all the independent variables of the study which include highest paid director (HPDI) and total compensation (TCOM). The study presents the result of NIM model. Based on the models, the study follows with the analysis of the relationship between dependent variable and each independent variable. The summary of the FGLS regression result obtained from the NIM model of the study are presented in Table 10 below:

Table 10: Feasible Generalised Least Squares (FGLS) Regression Result NIM

NIM	Coef.	Std. Err.	Z	P>z
HPDI	-0.1807512	0.1040120	-1.740	0.082
TCOM	0.0000002	0.0000001	3.180	0.001
Constant	0.3191745	0.0257743	12.380	0.000
Wald chi2(9)	24.78			
Prob > chi2				0.003

Source: *Stata 13 Output*

The regression result is shown Table 10. where the result is derived from the equation formulated and employed based on NIM model as performance measurement while highest paid director (HPDI) and total compensation (CCOM) are the explanatory variables as seen in equation presented in model specification of the study.

Highest Paid Director and Financial Performance

One of the major factors to consider on financial service firms is the highest paid director which measure the highest amount paid to directors on board. This could promote financial stability that could result to economic efficiency as a result of more motivations by the director due to the high remuneration. Even though all the directors are to be paid there is need to confirm if the more remuneration the more the participation of directors fully in their role hence the more the performance of firms. This is because, the less the directors commitment could result to failure of the firms due to some factors which include less attention of director to the affairs of the firm which could result to financial crisis. The said highest paid director could improve financial performance which in the case of this study is NIM. Therefore, the third variable presented in the result of the NIM model is highest paid director. Also recall that, hypotheses is formulated in respect of highest paid director and the performance based on pay performance and agency theories coupled with many researchers view that there is no relationship between highest paid director and financial performance which is measure as NIM.

From the regression result obtained from Table 10, in respect of highest paid director and banks financial performance for the NIM model shows that highest paid director has a beta coefficient of -0.1807512. This is clear indication that, highest paid director has negative relation with NIM since the parameter is negative. Moreover, the said relationship between highest paid director and NIM is significant in influencing financial performance of banks in Nigeria. This is because, the p-value of the highest paid director in respect of the NIM is less than 10%. This implies that there is sufficient evidence beyond reasonable doubt that highest paid director has a negative relationship with performance measured as NIM since the relationship is significant. Therefore, the hypothesis formulated on and NIM is said to be rejected.

Total Compensation and Financial Performance

Among the variables associated with financial performance banks which is vital to consider is the total compensation of the directors on board which oversees the affairs of the firms including watching the performance of the said firms. It was established in the literature that, total compensation could have influence on financial performance of firms. As earlier stated CAMA 2020, provides the compensations of board members which comprise of two or more directors. This is because, the directors have responsibility to look at all the affairs of the company both financial and operational aspect of the company. More directors could result to more financial performance of the firms. Thus, the higher the total compensation for the directors on board the better the performance which in the case of this study is NIM. Recall that, hypotheses is formulated on total compensation and financial performance. Thus, this study argued based on pay performance and agency theories coupled with many researchers view that there is a relationship between total compensation and financial services firm performance which is measure as NIM.

From the regression result obtained from Table 10, in respect of total compensation and firm financial performance shows that total compensation has a beta coefficient of 0.0000002. This is clear indication that, total compensation has positive relationship with financial performance measured as NIM since the parameter is positive. The said

relationship between the total compensation and NIM is significant at 5% in explaining financial performance of financial banks in Nigeria. This is because, the p-value of the total compensation in respect of the NIM is less than 5%. This implies that there is sufficient evidence to suggest that total compensation has a positive relationship with performance measured as NIM since the relationship is significant. Therefore, the hypothesis formulated on total compensation and financial performance is rejected. As seen from the parameter, the said relationship is positive since the parameter looks positive as seen in NIM model result in Table 7 above, therefore, this study established beyond reasonable doubt that the relationship exists between total compensation and banks financial performance in Nigeria.

Base on the result found thus, this study concludes that there is relationship between total compensation and financial performance in Nigeria since the result in respect of the said relationship is significant. This implies that, as one Naira of the total compensation increases by one the financial performance of banks in Nigeria will increase by 0.0000002 other things being equal. The result is supported by many scholars (Hajawiyah, & Fitriani, 2019; Rahman & Ali, 2022).

Conclusion

Based on the findings from the analysis carried out, the study concludes as follows:

CEO Pay significantly influences financial performance of banks in Nigeria. This means that number of directors pay on board affect the financial performance of banks in Nigeria. A resultant, an increase in the highest paid director would lead to a decrease in financial performance of banks in Nigeria. Hence, this study concludes that increase in highest paid director will decrease financial performance of banks in Nigeria. In addition, total compensation significantly influences the financial performance of banks in Nigeria. Which implies that as the total compensation increases, the financial performance of banks in Nigeria will increase as the relationship is positive.

The results of the empirical analysis strongly support the theoretical paradigm adopted in this study. This research thus concludes that, where management opportunism is checkmate by monitoring mechanisms, financial performance of listed financial services firms in Nigeria can be increased.

Research Recommendations

In line with the findings and the conclusions of this study, the study recommends that: Governance codes regulators such as Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) should emphasize or regulate compensation of executive directors on board as it makes the directors more responsible in their decision which improves the compliance with disclosure requirement. In addition, the regulators can put more monitoring mechanism as some of the firms did not pay for the compensation which can be seen in the descriptive statistics where some firms have zero compensation which could perhaps be one of the reasons for the negative parameter in relation to the financial performance problems in Nigeria.

Limitations of the Study

The result of this study is subject to some limitation due to the following factors.

1. Despite the contributions of the study, it has some limitations like other empirical studies. The study's two independent variables do not adequately reflect all of the factors that affect financial performance of banks in Nigeria. There is need for more variables.
2. Also, data extracted from the annual report could be inadequate to address the problem at hand, therefore it could not accurately reflect the true measurement of the variables. This is because of the scope of the study is between 2008 and 2022.

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