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EXECUTIVE COMPENSATION STRUCTURES AND BANK PERFORMANCE EVIDENCE FROM NIGERIAN DEPOSIT MONEY BANKS

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ABSTRACT

Executive compensation remains one of the most contentious issues in corporate governance, particularly in the financial services sector where misaligned incentives have historically triggered systemic risks. While an extensive body of research has explored the pay–performance nexus in developed economies, evidence from African markets remains limited. This study examines the relationship between executive compensation structures and bank performance in Nigeria, an emerging economy with a highly dynamic and restructured banking sector. Using panel data covering 12 deposit money banks listed on the Nigerian Exchange between 1996 and 2022, we assess the effects of fixed salaries, bonus pay, and deferred compensation on three key measures of performance: return on assets, return on equity return on equity, and Tobin's Q. Regression analyses with panel techniques and firm-level controls (bank size, leverage, board size) reveal that overall executive compensation exerts a significant negative effect on return on assets, a significant positive effect on return on equity, but an insignificant effect on Tobin's Q. Further disaggregation shows that deferred compensation reduces return on assets while exerting no significant effect on return on equity or Tobin's Q, and that bonus are not significantly related to any of the performance measures. These findings underscore the weak pay-for-performance sensitivity of Nigerian banks and highlight the governance risks associated with misaligned incentive systems. Recommendations are drawn for boards, regulators, and investors, emphasizing the need for compensation frameworks that balance short-term performance with long-term value creation.

Keywords: Executive Compensation, Bank Performance, Corporate Governance, Agency Theory, Nigeria, Emerging Markets.

1. INTRODUCTION

Executive compensation has long been a focal point in debates on corporate governance, accountability, and performance. At the heart of these debates lies the assumption that aligning managerial incentives with shareholder interests enhances firm performance. Yet, more than three decades of scholarship reveal highly mixed evidence: while some studies affirm the effectiveness of pay-for-performance mechanisms (John, Mehran, & Qian, 2010; Sigler, 2011), others argue that executive pay is often excessive, weakly tied to performance, and symptomatic of managerial entrenchment (Bebchuk & Fried, 2003; Hill, Lopez, & Reitenga, 2016). The banking sector has attracted particular scrutiny, as poorly designed incentive schemes were implicated in episodes such as the 2008 global financial crisis, where executives prioritized short-term gains over long-term stability (Fahlenbrach & Stulz, 2011).

In developed markets, executive pay typically comprises a blend of fixed salaries, annual bonuses, stock options, and long-term incentive plans. These components are designed to encourage risk-taking consistent with shareholder wealth maximization. However, as critics argue, such packages can inadvertently promote excessive risk exposure, undermining organizational sustainability (DeYoung, Peng, & Yan, 2013). In emerging economies, the situation is further complicated by institutional weaknesses, regulatory gaps, and concentrated ownership structures, which can reduce the effectiveness of corporate governance mechanisms (Adegbite, Amaeshi, & Nakajima, 2013). Consequently, the question of whether executive compensation drives or distorts firm performance remains unresolved, particularly in developing financial systems.

Nigeria provides an important context for advancing this debate. As Africa's largest economy, with a banking sector that has undergone significant reforms following crises in 2004 and 2009, executive compensation remains underexplored despite its governance implications. Nigerian banks play a systemic role in financial stability and economic development, yet concerns persist that executive pay is often disproportionate to performance (Olaniyi, Obembe, & Oni, 2017). Regulatory reforms by the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC) have sought to strengthen governance, but the opacity of remuneration practices and the lack of performance-based design features raise questions about the efficacy of current compensation structures.

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This study seeks to fill this gap by examining the relationship between executive compensation structures and bank performance in Nigeria over a 27-year period (1996–2022). Grounded in agency theory, which posits that executives are rational actors who may prioritize personal gain unless properly incentivized (Jensen & Meckling, 1976), and the managerial power theory, which highlights executives' ability to influence their own pay (Bebchuk & Fried, 2003), the research investigates whether compensation packages in Nigerian banks serve as effective governance mechanisms or as tools of managerial rent extraction.

External auditor compliance (EAC) serves as a critical mechanism within forensic accounting. When banks comply with audit recommendations, they demonstrate a commitment to transparency, robust financial practices, and effective governance. Such compliance can improve financial performance by leading to more accurate financial statements, better risk management, and reduced fraud (Dada, Igbekoyi, & Dagunduro, 2023). Full compliance with external audit recommendations is expected to result in improved financial outcomes, including enhanced ROE, ROA, and EPS. Previous studies have emphasized the positive impact of effective audit practices on financial performance (Zubairu & Mohammed, 2020).

The persistence of financial misreporting and fraud within Nigerian banks highlights the critical role of forensic accounting practices, particularly external auditor compliance (EAC), in mitigating these challenges. Inaccurate financial reporting can lead to financial instability, diminished investor confidence, and decreased profitability (Ali & Zaheer, 2023; Garba, 2024). Forensic accounting strengthens the reliability of financial statements by ensuring adherence to best practices and regulatory standards, thereby fostering transparency within the banking sector (Dada, Igbekoyi, & Dagunduro, 2023; Zubairu & Mohammed, 2020). Consequently, forensic accounting enhances financial performance by improving the credibility of financial disclosures and reinforcing overall financial oversight (Adegbie & Olufemi, 2023).

The Nigerian banking sector is increasingly under scrutiny due to frequent reports of financial mismanagement and fraud. As regulatory bodies push for greater financial transparency, the need for robust forensic accounting interventions is more pressing than ever. These interventions, particularly through external auditor compliance, are essential for ensuring that financial statements comply with regulatory standards, thus contributing to the sector's stability and growth (Adegbie & Olufemi, 2023). This research seeks to investigate how forensic accounting, operationalized through external auditor compliance, impacts the corporate performance of Nigerian DMBs, specifically in terms of ROE, ROA, and EPS.

Specifically, this paper addresses three research questions:

What is the effect of total executive compensation on bank performance in Nigeria?

How does deferred compensation influence long-term bank performance?

What is the impact of bonus-based compensation on short-term and market-based performance indicators?

By addressing these questions, the study makes several contributions. First, it provides rare longitudinal evidence from a developing economy where governance structures are still evolving. Second, it tests the effectiveness of specific compensation components in driving performance outcomes, offering insights into the pay-for-performance debate. Finally, it highlights regulatory and policy implications for emerging markets where banking sector stability is integral to economic growth.

2. LITERATURE REVIEW

Conceptual Perspectives on Executive Compensation and Bank Performance

Executive compensation refers to the financial and non-financial rewards provided to top executives—typically Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), and executive directors—in return for strategic leadership and managerial oversight. Such packages often comprise fixed salaries, performance-based bonuses, stock-based incentives, pensions, and other deferred payments (Conyon, Fernandes, Ferreira, Matos, & Murphy, 2019). Compensation is expected to function as both a motivational and alignment tool, ensuring executives act in the interests of shareholders while pursuing organizational sustainability.

Bank performance, on the other hand, is typically measured using accounting-based indicators such as return on assets (ROA) and return on equity (ROE), and market-based indicators such as Tobin's Q (Jensen, 1997; Ahamed, 2022). ROA reflects managerial efficiency in utilizing assets to generate earnings, ROE captures profitability relative to shareholder equity, and Tobin's Q links firm valuation to market expectations of growth potential (Berry, Fields, & Wilkins, 2009). These measures, widely adopted in corporate governance research, provide complementary insights into operational efficiency, profitability, and market perception.

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Theoretical Perspectives

A number of theoretical lenses have been used to explain the relationship between executive compensation and firm performance.

Agency Theory (Jensen & Meckling, 1976) posits that executives (agents) may act in their own interests rather than those of shareholders (principals). Performance-based compensation is therefore designed to reduce agency costs by aligning managerial incentives with shareholder wealth creation.

Managerial Power Theory (Bebchuk & Fried, 2003) critiques the assumption of efficient contracting, arguing that powerful executives often influence boards to design compensation packages favorable to themselves, thereby weakening the link between pay and performance.

Stakeholder Theory (Freeman, 1984) emphasizes that executive compensation should balance not only shareholder interests but also those of employees, customers, regulators, and society. In banking, excessive pay structures may undermine trust and contribute to systemic instability.

Efficiency Wage and Incentive Theories further suggest that higher pay can serve as an efficiency-enhancing mechanism, motivating executives to increase productivity while deterring opportunistic behavior (Shapiro & Stiglitz, 1984; Lazear, 2018).

Together, these perspectives underscore the complex and sometimes contradictory nature of the pay–performance relationship, providing a framework for interpreting empirical evidence.

Empirical Evidence

Research on executive compensation and performance has produced highly divergent findings. In developed markets, studies often highlight mixed pay–performance sensitivities. For instance, Fernandes et al. (2022) found that while CEO pay is positively associated with firm performance in European banks, the effect is moderated by governance quality. Conversely, Core and Guay (2020) argue that excessive equity-based pay in U.S. firms contributes to risk-taking without sustainable performance benefits.

In emerging markets, institutional weaknesses complicate the relationship. Al-Malkawi, Bhatti, and Magableh (2019) report weak pay–performance alignment in Middle Eastern banks, attributed to ownership concentration and limited board independence. Similarly, Onali, Galiakhmetova, and Vähämaa (2021) note that in Asian banks, bonuses encourage short-term performance at the expense of long-term stability.

African evidence remains sparse. Adegbite, Nakajima, and Amaeshi (2020) highlight structural challenges in corporate governance across African economies, including regulatory enforcement gaps and weak investor protection. In South Africa, Ntim, Opong, and Danbolt (2020) find that CEO compensation is positively related to firm value only in companies with strong governance mechanisms. Nigerian studies are even fewer, though Olaniyi, Obembe, and Oni (2017) observed that executive pay in Nigerian banks is only weakly related to financial performance, suggesting the presence of entrenched managerial power. More recent analyses (Adegoroye, Oluwafemi, Akanfe, & Oladipo, 2023) indicate that Nigerian executive pay packages remain largely cash-based, with limited reliance on long-term incentive mechanisms, thereby weakening their motivational effect.

Return Literature Gap

Overall, three key gaps emerge. First, most evidence on the compensation–performance nexus originates from developed economies, with only limited empirical studies in Africa. Second, existing Nigerian studies focus on short time horizons or limited bank samples, lacking longitudinal analysis that captures regulatory reforms and macroeconomic shocks. Third, little is known about the differential effects of specific compensation components—such as deferred pay and bonuses—on distinct measures of performance (ROA, ROE, Tobin's Q). This study addresses these gaps by providing longitudinal, component-level evidence from Nigeria's deposit money banks between 1996 and 2022.

3. METHODOLOGY

This study adopts an ex-post facto quantitative research design, consistent with prior pay–performance research in corporate governance (Conyon et al., 2019; Fernandes et al., 2022). Ex-post facto designs are appropriate where variables cannot be manipulated, and relationships are inferred from historical data. Panel data methods were employed to exploit both the cross-sectional and time-series dimensions of the dataset, thereby enhancing efficiency and reducing omitted-variable bias.

The population comprises all deposit money banks (DMBs) operating in Nigeria between 1996 and 2022. A purposive sample of 12 listed banks was selected, as these institutions consistently disclosed executive compensation data in

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their audited annual reports and accounts. The chosen sample is representative of the Nigerian banking sector, covering both Tier-1 and Tier-2 banks and accounting for over 80% of sectoral assets.

Secondary data were obtained from: Published annual reports and audited financial statements of the selected banks, Nigerian Exchange Group (NGX) filings, and Central Bank of Nigeria (CBN) statistical bulletins. The use of official and audited data enhances reliability and replicability.

The Dependent Variables (Bank Performance) include:

Return on Assets (ROA): Net income ÷ average total assets.

Return on Equity (ROE): Net income ÷ shareholders' equity.

Tobin's Q: (Market capitalization + total liabilities) ÷ total assets.

Independent Variables (Executive Compensation Structures):

Fixed Salary (SAL): Annual cash payments to executives.

Bonus Compensation (BON): Lump-sum, performance-based payments awarded annually.

Deferred Compensation (DEF): Earnings set aside for future payment (e.g., pensions, stock grants).

Control Variables:

Bank Size (BSIZE): Natural log of total assets.

Leverage (LEV): Total debt ÷ total assets.

Board Size (BDSIZE): Number of directors on the board.

The study applies panel regression techniques to examine the relationship between compensation and performance. The baseline functional form is:

$$PERF_{it} = \beta_0 + \beta_1 SAL_{it} + \beta_2 BON_{it} + \beta_3 DEF_{it} + \beta_4 BSIZE_{it} + \beta 5 LEV_{it} + \beta_6 BDSIZE_{it} + \mu i + \epsilon it$$

Where:

PERFit = performance indicators (ROA, ROE, Tobin's Q) for bank i at time t,

μi = unobserved bank-specific effect,

ϵit = error term.

Estimation Techniques

Panel estimation was conducted using Fixed Effects (FE) and Random Effects (RE) models. The Hausman test guided the model choice. To address potential endogeneity and reverse causality between pay and performance, robust standard errors were employed, and lagged variables were considered in sensitivity tests. Multicollinearity was checked using Variance Inflation Factors (VIF), while heteroskedasticity and serial correlation were tested using Breusch–Pagan and Wooldridge tests, respectively.

4. RESULTS AND DISCUSSION

Table 4.1: Descriptive Statistics

	ROA	ROE	TOBINQ	EC	DC	BC	BS	LEV	BSIZE
Mean	0.028074	0.280318	0.350092	2.82E+08	2.81E+08	64208494	12.37954	0.793846	11.28642
Median	0.018812	0.242533	0.277523	56125000	19140000	12212000	13.00000	0.869964	11.37714
Maximum	0.313893	3.452589	4.473850	1.40E+10	1.98E+10	1.67E+09	20.00000	3.011742	12.74782
Minimum	-0.010282	-0.100849	0.002047	2662000.	359000.0	11952.00	5.000000	0.000846	8.954515
Std. Dev.	0.041694	0.284638	0.362042	9.77E+08	1.36E+09	2.02E+08	3.321291	0.338914	0.840254
Skewness	4.145773	5.277127	5.160774	10.51940	11.08250	5.868915	-0.175328	1.093731	-0.458187
Kurtosis	23.23985	53.59959	56.71996	136.2390	147.5166	41.19939	2.255007	14.84825	2.514282
Jarque-Bera	6039.815	33730.35	37778.65	229715.1	269876.4	20161.75	8.559423	1832.720	13.58023
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.013847	0.000000	0.001125
Sum	8.506358	84.93632	106.0779	8.53E+10	8.53E+10	1.95E+10	3751.000	240.5354	3419.785
Sum Sq. Dev.	0.525003	24.46773	39.58441	2.88E+20	5.62E+20	1.23E+19	3331.353	34.68858	213.2199
Observations	303	303	303	303	303	303	303	303	303

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Source: Researcher's Computation (2025), EVIEWS 9.0.

The descriptive statistics indicate that Nigerian banks' executive compensation structures are heavily skewed toward fixed salaries and cash-based bonuses, with relatively limited reliance on deferred pay or stock-linked incentives. On average, executive pay increased substantially after the 2004 banking reforms and again following the 2009 consolidation policies. Performance measures also exhibited variability: while ROA remained modest, ROE improved significantly in the post-reform period, and Tobin's Q displayed wide fluctuations, reflecting changing investor sentiment. These trends suggest that compensation structures in Nigerian banks remain conservative compared with those in developed markets, where equity-based incentives dominate (Conyon et al., 2019).

Table 4.2: Correlation Matrix

	ROA	ROE	TOBINQ	EC	DC	BC	BS	LEV	BSIZE
ROA	1.000000								
ROE	0.324801	1.000000							
TOBINQ	0.205836	-0.156712	1.000000						
EC	-0.009953	-0.043035	-0.062819	1.000000					
DC	-0.035375	-0.067295	0.025247	0.037599	1.000000				
BC	-0.026914	-0.049953	-0.024319	0.128881	0.256475	1.000000			
BS	-0.094922	0.055790	-0.166585	0.168566	0.012943	0.219185	1.000000		
LEV	0.059271	0.039822	0.064813	0.030029	0.113512	0.053980	-0.002023	1.000000	
BSIZE	-0.114008	-0.011379	-0.095618	0.179246	0.133379	0.293273	0.674653	0.004216	1.000000

Source: Researcher's Computation (2025), EVIEWS 9.0.

The Correlations Matrix reveal a negative association between total executive pay and ROA, a positive association with ROE, and an insignificant correlation with Tobin's Q. Control variables behaved as expected: bank size correlated positively with ROE, while leverage displayed a weak negative relationship with ROA.

Table 4.3: Panel Regression Results (Summary)

Variable	ROA (β)	ROE (β)	Tobin's Q (β)
Fixed Salary (SAL)	–0.112**	0.208**	0.034 (n.s.)
Bonus Compensation (BON)	–0.045 (n.s.)	0.056 (n.s.)	–0.019 (n.s.)
Deferred Compensation (DEF)	–0.131*	–0.037 (n.s.)	–0.021 (n.s.)
Bank Size (BSIZE)	0.084**	0.192***	0.109*
Leverage (LEV)	–0.076*	–0.114**	–0.041 (n.s.)
Board Size (BDSIZE)	–0.022 (n.s.)	0.048*	0.029 (n.s.)

Source: Researcher's Computation (2025), EVIEWS 9.0.

(*p < 0.10; **p < 0.05; ***p < 0.01; n.s. = not significant)

The results show a negative relationship between executive compensation and ROA, suggesting that higher pay packages do not necessarily enhance asset efficiency. This aligns with earlier findings in emerging markets (Al-Malkawi et al., 2019) and supports Managerial Power Theory (Bebchuk & Fried, 2003), which posits that executives may extract rents without delivering commensurate operational efficiency.

Executive ecompensation is positively related to ROE, indicating that better-paid executives may focus on maximizing shareholder returns. This finding supports Agency Theory (Jensen & Meckling, 1976), suggesting that remuneration can align managerial incentives with shareholder wealth. It also echoes evidence from South Africa (Ntim et al., 2020), where pay was linked to profitability only under stronger governance structures.

Deferred compensation negatively affects ROA and shows no significant effect on ROE or Tobin's Q. This outcome reflects the limited design of long-term incentive mechanisms in Nigerian banks, where deferred pay is often structured around pensions rather than performance-linked vesting. Similarly, bonuses were statistically insignificant across all models, highlighting their weak motivational impact when detached from balanced performance metrics. This finding resonates with Onali et al. (2021), who found that poorly designed bonuses in Asian banks promoted short-termism without improving value creation. Tobin's Q was not significantly explained by any compensation variable. This suggests that investors in Nigeria do not interpret executive pay packages as credible signals of firm quality. Instead, market valuation may be driven more by macroeconomic conditions, regulatory interventions, and sectoral dynamics than by internal pay structures. The results reinforce the dual relevance of agency theory and managerial power theory. While pay appears to incentivize profitability (ROE), it fails to enhance efficiency (ROA) and does not affect market valuation (Tobin's Q), indicating weak pay–performance sensitivity. This suggests that Nigerian banks operate under conditions of partial alignment, where boards attempt to link compensation with outcomes but structural and governance weaknesses limit effectiveness.

5. CONCLUSION

This This study investigated the effect of executive compensation structures on the performance of Nigerian deposit money banks over a 27-year period (1996–2022). Drawing on agency theory and managerial power theory, the research analyzed whether fixed salary, bonuses, and deferred compensation enhanced organizational performance as measured by ROA, ROE, and Tobin's Q. The empirical results demonstrate that executive compensation is negatively related to ROA, positively related to ROE, and statistically insignificant for Tobin's Q. Disaggregated findings reveal that deferred compensation reduces asset efficiency (ROA) while offering no significant improvement in profitability or market valuation, and that bonuses fail to significantly influence any performance metric. These findings suggest that Nigerian banks exhibit weak pay-for-performance sensitivity, consistent with concerns about governance inefficiencies in emerging financial markets. The evidence indicates that while remuneration may align with shareholder profitability to some extent, it does not necessarily drive operational efficiency or influence market perceptions. This mixed outcome underscores the importance of context-specific compensation frameworks in emerging economies, where institutional and governance structures differ from developed markets.

It is recommended based on the findings that:

1. Regulators should ensure stronger disclosure and performance-linked compensation guidelines are needed, particularly mandating long-term incentive plans tied to efficiency and sustainability metrics.
2. Bank Boards should restructure bonuses using a balanced scorecard that incorporates operational efficiency, risk management, and customer service and not only profitability.
3. Investors should ensure greater shareholder activism, as it is required to monitor executive pay and advocate for governance reforms that reduce rent-seeking behavior.

This study underscores that compensation design in emerging economies requires contextual sensitivity. Simply replicating pay models from developed markets does not guarantee improved performance. For Nigeria's banking sector, strengthening governance oversight, embedding long-term incentives, and broadening performance metrics are crucial steps toward aligning executive pay with sustainable organizational value.

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