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Executive Compensation and Firms' Financial Performance: Analytical Approach in Nigeria

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Abstract. This study ascertained the relationship that exists between executive compensation and firms' financial performance in Nigeria. The data for the study was gathered form the annual reports and accounts of companies quoted on the floor of the Nigerian Stock Exchange for a period of nine years ranging from 2014 to 2022. From the regression result conducted it was found that Executive compensation had a positive relationship with firm performance when proxied using returns on equity and return on asset. It is however negatively related with Tobin's Q Firm size had a positive relationship with return on asset, Tobin's and return on equity; Board independence had a negative impact on firm performance (return on asset and return on equity) for the measures of performance but was positively related with Tobin's Q. Leverage was found to exhibit a negative relationship with firm performance. Leverage had a negative relationship with firm performance (return on equity and Tobin's Q). Therefore, it is recommended that executive compensation is a vital element that should not be undermined in an organization due to the fact that it has been established from the analysis carried out that this variable is a key driver of financial performance in organizations.

Keywords: Executive compensation, firm performance, Firm size, Leverage, and board Independence

1. Introduction

Executive compensation is one of the numerous factors that can impact a firm's performance. According to Abedin (2022), executive compensation got its first attention when researchers recognized the existence of agency issues between shareholders (principals) and managers (agents). Olaniyan (2015) asserts that executive compensation is often used as a means of making even the interest of managers and that of shareholder. The idea is to compensate executive in line with their performances. Executive compensation therefore implies the compensation package provided to the management of a firm so as to encourage a better firm performance. According to Adegoroye, Sunday, Soyinka, and Ogunmola (2017), the connection between the performance of a firm and executive compensation has dominated accounting and finance research for nearly three decades but without harmony on the state of the relationship as evidenced in Abowd (2020); Leonard (1900); Lewellen, Loderer, and Blum (1992); Mehran (1995); and Sigler and Haley (1995) just to mention a few. Obasan (2012) is of the view that one of the most important tactics in the human resource management is compensation; as it affects organizational productivity, efficiency and growth (Ayodele, 2012; Jegede 2012; Kurawa & Saidu 2014; Olalekan & Bodunde 2021; Omoregie & Kelikume 2016; Ogbeide & Akanji 2016; Saidu, Bello, & Jubril 2017). Extant literature revealed mixed results between executive compensation and firm performance. For example, some studies reported positive relationship (Conyon & He, 2011; Olaniyan, 2015; Sigler, 2011) while other studies reported negative relationship (Basu, hwang, Mitsudone, & Weintrop, 2007; Jiang, Habib, & Smallmon, 2009; Tariq, 2010). Furthermore, Ayodele (2021) reported no relationship between executive compensation and firm performance. The mixed

results of the past studies maybe due to the sample used. Majority of past studies have been done in developed countries (Jiang et al., 2009) Coughlan & Schmidt, 1985; Kao, Li, & Yu, 2013; Ozkan, 2011) while little studies have been done in developing countries especially Nigeria (Olaniyan, 2022). This study fills this gap in the literature.

Furthermore, one of the possible factors that can determine the outcome of an empirical research in this line of study is the choice of measurement of the dependent variable. In this line of study, several firm performance measures such as Return on Assets (ROA), Return on equity (ROE), Tobin's Q, Profit after Tax (PAT), earnings per Share (EPS), Net profit Margin and Return on Investment (ROI) could be used as the dependent variable. However, most prior studies took a single measure of firm performance without considering a combination of two or more of the measures of firm performance to ascertain if there will be difference in the results.

1.1 Research Hypothesis

The hypotheses of this study are stated below in null form. There is no significant relationship between.

1. Executive compensation has no significant effect on firm performance.
2. There is no significant relationship between firm size and firm performance
3. Board independence has no significant effect on firm performance.
4. Leverage has no significant relationship with firm performance.

2. Literature Review

2.1 Firm Performance

Kajola (2008) describes firm performance as an indispensable concept which connotes the way in which a firm's financial resources are carefully utilized in order to attain its general goal. Firm performance can also be described as how well an organization can make use of its resources as a principal mode of business to generate revenue (Samina & Ayub, 2013). Odiwo, Chukwuma and Kifordu (2016) assert that firm performance is the effective and efficient manner in which managers of organizations utilize resources to achieve set objectives. However, firm performance in this context refers to the financial performance of a firm. Mutuma (2016) asserts that financial performance is a measure of the ability of a firm to use its assets in its ordinary course of business to generate a stream of economic benefits to its shareholders. Similarly, Lindstron and Svensson (2016) opine that financial performance implies the financial result or financial worth of a firm and can be reflected in different measurements. Several proxies have been used to measure firm performance. Existing studies on executive compensation practices and firm performance have employed market-based measures such as Stock price; accounting- based measures such as Return on equity (ROE), Return on Assets (ROA); and Tobin's Q as proxies for firm performance as evidenced in Sigler (2011), Jaafar, Wahab and James (2012), Yongli and Dave (2012), Ismail, Yabai nd Hahn (2014), Olaniyan (2013), Kazan (2016) and Azutoru, Obinne and Umudike (2017).

2.2 Executive Compensation

Compensation is the rewards that the workers in an organization earn based on the value of their jobs, their individual contributions, and their performance (Obasan 2020).

The reward could be cash – based on otherwise. Executive compensation is a wide term for the reward given to the executive of a firm. In every organization, the board of directors is saddled with the responsibility of deciding the compensation amounts of CEOs, but must be subject to shareholders' approval. This usually takes place at the annual general meeting (AGM) of shareholders (Basu, Hwang, Mitsudome & Weintrop, 2007). According to Shin, Lee, and Joo (2009), executive compensation consists of the monetary reward and other non- monetary rewards the executive of a firm receives for their services to the organization. These rewards could be in the form of salary, bonuses, and shares offers or call options on the company's stock. Omoregie and Keilkume (2016) asset that executive compensation is the remuneration package provided to the Chief Executive Officers (CEOs) and other executives that are saddled with the responsibilities of managing the firm. The executive compensation packages usually consist of salary, annual bonus, perks and stock options. The compensation package could likewise involve guarantee such as severance contract, change in control provision and pension. Saidu et al, (2017), executive compensation refers to all forms of rewards from different sources accruing to a firm's top management staff and directors. The rewards are either short or long term in nature. Some components of executive compensation like salary, allowances and insurance benefits are fixed, while the likes of bonuses and shares are paid on bases consistent with profit and other measures of financial performance.

Executive compensation encompasses salary and incentive pay (cash and non-cash package) (Ayodele, 2012). According to Oyerogba, Riro and Memba (2016), there are three (3) main components of executive compensation and these include directors' cash incentive, directors' non- cash incentive and directors' equity-based compensation. Erick, Kefah and Nyaoga (2014) explain that good compensation schemes motivate CEOs to make prudent decisions that maximize shareholders' wealth. In other words, compensation service as a motivator that encourages the employees of a firm to carry out their responsibilities efficiently and effectively. Adegoroye et al (2017) noted that the aim of executive compensation Is to reward appropriate performance. A clear compensation policy will connect the terms of performance to the company's strategy, continuity and long-term steady value creation.

2.3 Executive Compensation and Firm Performance

Several studies have been carried out by prior researchers in relation to the relationship that exists between executive compensation and firm performance in different regions and industries (although more of the studies titled towards the banking sector) using different parameters to achieve their aims. Some of these prior studies are reviewed below with a view to observing the trend of the findings on the subject matter. Jiang, Habib and Smallmon (2009) examined CEO compensation and firm performance. The study sample consisted of companies listed on New Zealand Stock Market, New Zealand Alternative Market over the 2001- 2005 period. They reported a negative relationship between CEO compensation and firm performance. Adam, Almeida and Ferreira (2005) investigated CEO and corporate performance. The result revealed a positive relationship between CEO and corporate performance. Coughlan and Schmidt (1985) examined executive compensation and firm performance and their result showed that executive compensation is significantly related to performance of the firm.

Basu, et al (2007) examined compensation of CEO and firm performance in Japan. The study found that compensation and performance were negatively related. Tariq (2010) investigated the connection between CEO compensation and companies' performance in Sweden. The data for the study involved the biggest thirty (30) firms in Sweden for a period of five (5) years (2004-2008). The result of the study revealed that CEO's pay had a negative and insignificant relationship with the performance of the firm. Ozkan (2011) conducted a study to ascertain the relationship between CEO pay and the performance of firms in the United Kingdom (UK). The result of the study showed a positive and significant relationship between CEO cash compensation and firm performance. The study also revealed an insignificant positive relationship between aggregate compensation and firm performance. Adithipyangkul, Alon and Zhang (2011) investigated compensation and corporate performance in China. The result revealed a positive relationship between executive compensation and firm performance. Herdan and Szczepanska (2011) evaluated the directors' remuneration and firm performance. The result of their study showed that directors' pay is positively related to companies' performance.

Sigler (2011) examined CEO compensation and firm performance. The result of the study revealed that total CEO compensation has a significant positive relationship with the performance of a firm measured by ROE. Suherman, Wulan and Agung (2011) examined firm performance, corporate governance and executive compensation. The sample of the study included thirteen financial companies listed on the Indonesian Stock exchange during the period 2007 - 2009. The inferential statistics result revealed that the probability for ROA, a measure for firm performance was 0.0001, thus implying that executive compensation is significantly positive related to firm performance. Aduda (2011) examined executive compensation and firm performance. The results revealed that executive compensation is negatively related to banks' performance although not statistically significant. Conyon and He (2011) in their study determined the relationship between executive compensation and corporate governance in China's public trade firms. The study found that executive compensation is positively related to firm performance probability for ROA, a measure for firm performance was 0.0001, and thus implying that executive compensation is significantly positively related to firm performance. Aduda (2011) examined executive compensation and firm performance. The results revealed that executive compensation is negatively related to banks' performance although not statistically significant; Conyon and He (2011) in their study determined the relationship between executive compensation and corporate governance in China's public trade firms. The study found that executive compensation is positively related to firm performance.

2.4 Board Independence and Firm Performance

Ilaboya and Obaretin (2015) noted that a board is said to be independent when the number of independent,

non-executive directors that are not associated with top executives of the firm are more. In other words, board independence refers to the proportion of the total number of independent non-executive directors to the total number of directors (Prabowo & Simpson, 2011). It can also be described as the level of the presence of independence directors or presence of non-executive directors in the board (Abdullah & Nasir, 2004). John and Senbet (1998) argue that boards of directors will be more self-standing if they have more non- executive directors. Tornyeva and Wereko (2012) noted that the mix of executive and non-executive directors constituting a firm's board is very important for the firm's performance.

Evidence from the study of Khan and Awan (2012) shows a significant positive relationship between independent directors and firm performance measured by ROA, ROE and Tobin's Q. They argue that the higher the percentage of outside directors the better the performance of the firm. These results established the view of agency theory which proposes that independent board members and firm performance. Johl, Kaur and Cooper (2013) found a negative relationship between board independence and firm performance. That is, the higher ratio of non-executive directors does not always affect the effectiveness of the organization.

Adebayo, Ayeniand Oyewole (2013) investigated corporate governance and organizational performance of Nigerian listed companies. Data were collected from fifteen (15) manufacturing firms and fifteen (15) financial and service institutions covering the period 2005-2010. Board independence, board size, and Chief executive Duality were used as proxies for corporate governance mechanisms while Earnings per share (EPS) and Return or Equity (ROE) were used as measures of organizational performance. The ordinary least squares (OLS) regression technique was employed to analyze the data gathered. The result of the study showed that there exists a positive significant relationship between board independence and organizational performance. Faisal and Abdul (2015) in their study found that board independence was negatively correlated with the present and subsequent operating performance as measured by ROA and Tobin's Q Zabri, Ahmad and Wah (2016) examined the impact of corporate governance practices on firm performance using top 100 public listed companies in Malaysia. Board size and Board independence were used as proxies for corporate governance practice while firm performance was measured by return on asset (ROA) and return on equity (ROE). Descriptive and correlation analysis were employed to analyze the data gathered. The result of the study revealed that board size has significantly weak negative relationship with ROA but it was found to be insignificant to ROE. Also, the findings showed that there was no relationship between board independence and firm performance. From the point of view of an agency, the independent directors are essential for monitoring and safeguarding shareholders' interests to reduce the agency problems and improve the performance of the firm.

2.5 Leverage and Firm Performance

Mishra and Dasgupta (2019) examined leverage and firm performance. The study sample consisted of 400 firms over a period of 27years from 1990 to 2016. This study consisted of firms from Germany, France, Japan, Argentina and Sri Lanka. The study reported a negative relationship between leverage and firm perofmrnace. Ashrat and Ahmad and Mehmood (2017) examined financial leverage and firm performance. The sample of the consisted of 10 public listed companies out of the 16 companies from fuel and energy sector of Karachi Stock Exchange. Regression was used to analyze the data for the study. The study found a positive relationship between financial leverage and firm performance. Chadha and Sharma (2015) examined capital structure and firm performance. The sample of the study consisted of 422 listed Indian manufacturing companies on Bombay Stock Exchange from 2000-2004 to 2012-2013. Regression was used to analyze the data for the study. The study found that financial leverage has no effect on firm financial performance. Weill (2007) examined leverage and corporate performance. The sample consisted of 1836 manufacturing companies from 7 European countries. Regression was used. The result of the study revealed that the relationship between leverage and firm performance varies across countries. Ahmed. Awais and Kashif (2018) examined financial leverage and firm performance. The result revealed a significant between leverage and firm performance.

Ku and Yen (2016) examined financial leverage and corporate performance. The study sample consisted of 6.630 non-financial Taiwanese public traded companies during the 2008-2012 periods. Regression was used to analyze the data for the study. The study found that financial leverage is not related to corporate performance. Dzafic and Polic (2019) investigated leverage and firm growth. The data for the study were collected from the financial statement of Bosnia and Herzegovina from 2008-2016. Random effects model regression was used to analyse the data for the study. The study found that 10% increase of the indebtedness ratio generates 4% fall of sales income. Ibhagui and Olokoyo (2018) examined leverage and firm

performance. The study sample consisted to 101 non-financial firms from 26 subsections for period 2003-2007. Regression was used. The result revealed a negative relationship between leverage and firm performance. Olokoyo (2013) examined capital structure and corporate performance. The sample of the study consisted of 101 non-financial firms in Nigeria from 2003-2007. Regression was used in the study. The study found a significant negative relationship between leverage and firm performance.

2.6 Stakeholder Theory

Freeman (1984) propounded the stakeholder theory. The theory postulates that in present- day organization, managers are believed to have an indirect connection with the shareholders and other stakeholders (Kock, Santalo & Diestre, 2012). Stakeholder theory is an extension of the agency theory which expects board of directors to defend only the shareholders' interest (Mitiku, 2015). The stakeholder theory was established so as to fill the perceived inadequacy found in agency theory which recognizes shareholders as the only interest group of a firm. Thus, stakeholder theory extends the narrow focus of agency theory on shareholders' interest to stakeholders' interest so as to take into consideration the interests of many different groups and individuals, including interest groups related to social, environmental and ethical considerations (Freeman, Wicks & Parmar, 2004). Stakeholders denote any group who has an authentic claim on a firm. A company has several stakeholders and among them are: shareholders, employees, suppliers, managers, customers, union host community etc. every stakeholder of a company generation value for the company. This theory therefore suggests that the alignment of interests between CEOs and the principal is very important. In order to stimulate managers, appropriate incentive systems should be introduced. With these systems, CEOs are financially rewarded for maximizing shareholders' interests. Thus, this theory suggests that it is important to reward executives so as to achieve better firm performance.

3. Methodology

3.1 Research Design

This study employed the ex-post facto research design, the population of the study consisted of all the firms listed on the Nigerian Group of Exchange in the period 2014-2022. As at December 31st 2022; there were a total of one hundred and seventy (172) firms listed on the floor of NGE (www.nge.com.ng). This number comprised of both the fifty-seven (57) financial firms and one hundred and thirteen (115) non-financial firms with focus on the manufacturing and oil & gas sectors. Simple random sampling technique was used in selecting each firm from the population of 115 since the study was concentrating on non-financial firm listed on the floor of NGE. However, the sample size of this study was based on 50% of the total population which amounts to fifty-eight (58) firms. This study made use of secondary data which was which extracted from the annual financial reports and accounts of the sampled firms for a period of nine (9) years 2014-2022. Also, relevant NGE fact-book was used for data collection for the period under consideration.

3.2 Model Specification

This study adopted the model developed by Olaniyan (2020) in examining the effect of executive compensation on the performance of non-financial firms in Nigeria stock Exchange (2012-2020). The model is stated thus; Firm $\text{performi} = \alpha_1 + \alpha_2 \text{lecp}_2\text{it} + \alpha_3 \text{Ltst3}_{it} + \mu_{it}$

Therefore, the three specifications model for this study was expressed as:
$ROA_{it} = \beta_0 = \beta_1 EXCOMP_{it} + \beta_2 BIND_{it} + \beta_3 LEV_{it} + \mu_{it}$ …….model 1
$ROE_{it} = \beta_0 = \beta_1 EXCOMP_{it} + \beta_2 BIND_{it} + \beta_3 LEV_{it} + \mu_{it}$ …….. model 2
$TOBHINQ_{it} = \beta_0 = \beta_1 EXCOMP_{it} + \beta_2 BIND_{it} + \beta_3 LEV_{it} + \mu_{it}$ …. model 3

Operationalization of Variables

The table below shows the description of variables used in this study in the order of dependent variables and independent variables.

S/N	Variables	Acronym	Measurement	Type of variables	Authors	Apriori sign
1.	Firm Performance	FP	Return on Assets (ROA) = Net profit before interest x100 Shareholders' fund And Tobin's Q = Total market value Total assets	Dependent	Yongli and Dave. (2012)	
2.	Executive compensation	EXCOMP	Total value of salary, bonuses, life and health assurance, bonus stock accruing to executive directors.	Independent	Coughlan and Schmidt. (1985)	+
3.	Board independence	Bind	Ratio of independent non-executive directors to the total number of directors on the Board.	Independent	Abbasi-Kalantari and Abbasi (2012)	+
4.	Leverage	LEV	Total debt to asset ratio	Independent	Ibhagui & Olokoyo (2018)	+

Source: *Researcher's Compilation (2023).*

4. Data Analysis and Interpretation

Table 1: Descriptive Statistics

	ROA	TOBIN Q	EXCOMP	BIND	LEV
Mean	5.380909	1,427196	10106467	0.522116	1,014173
Median	2.139403	0.350000	6478042.	0.470588	0.333804
Maximum	72.81025	119,5400	4.76E+08	0.916667	154.9089
Minimum	0.010095	1.18E-07	0.000000	-66497549	0.100000
Std. Dev.	8.055871	4.863410	9.919164	35615447	0.083681
Skewness	2.735542	20.06898	10.21443	10.10147	1.706807
Kurtosis	15.34352	404.5117	107.8609	112.2619	9.972883
Jarque- Bera	3099.018	2767986	191645.7	209887.4	1024.656
Probability	0.000000	0.000000	0.000000	0.000000	0.000000

Source: *Researchers Compilation, 2023*

The table 1 above gives a description of the measures of central tendency, measures 0 dispersion and measure of normality. From the result above it was observed that the mean value of return on asset stood at a value of 5.3. The standard deviation measuring the spread of the distribution stood at a value of 8.05. The Jarque Bera measuring the normality of the distribution was found to have a probability value of 0.00 therefore indicating that the variable is normality distributed. Return on equity was found to have a mean value of 0.60, the standard deviation measuring the spread of the distribution stood at a value of 4.8. The standard deviation which accounts for the normality of the distribution stood at a value 4.863410. Tobins Q was found to have a mean value of 1.42, and a standard deviation of 9.91. The Jarque Bera statistics was found to have a probability value of 0.00 therefore indicating that the variable is normally distributed. Executive compensation was found to have a mean value of 10106467. The standard deviation value measuring the spread of the distribution revealed that the variables normally distributed. The Jarque-Bera measuring the normality of the distribution stood at a value 3099.018. However, all the independent variables were found to have a Jarque-Bera probability value of 0.00 therefore indicating that they are normality distribution.

Table 2: Correlation Result: Executive Compensation and Firm Value in relation to Tobin's Q

Correlation observation	probability	TOBINQ	EXCOMP1	BIND1	LEV
TOBINQ	r value	1.000000			
	P value	-----			
	N	403			
EXCOMP1	r value	-0.021369	1.000000		
	p value	0.6689	-----		

	N	403	403		
BIND1	r value	0.251436	0.216545	1.000000	
	p value	0.0000	0.0000	-----	
	N	403	403	403	
LEV	r value	-0.011361	-0.010106	0.039376	1,000000
	p value	0.8201	0.8397	0.4305	-----
	N	403	403	403	403

Source: *Eviews, 10, 2023*

From the table 2 above it was observed that the executive compensation was found to have a negative relationship with Tobins Q. It was also not found to be statistically significant when tested at 5% level of significance. Board independence was found to have a positive relationship with Tobins Q. it was also found to be statistically significant when tested at 5% level of significance. Firm size was found to have a negative relationship with Tobins Q. it was also not found to be stat stoically significant at 5% level of significance. Leverage was found to have a negative relationship with Tobins Q. it was also not found to be statistically significant at 5% level of significance.

Table 3: Correlation Result: Executive Compensation and Firm Value in relation to Return on Asset.

Correlation probability observation		TobinQ	EXCOMP1	BIND1	LEV
ROA	r value	1.000000			
	P value	-----			
	N	408			
EXCOMP1	r value	-0.042520	1.000000		
	p value	0.3917	-----		
	N	408	408		
BIND1	r value	0.-0.327320	0.215351	1.000000	
	p value	0.0000	0.0000	-----	
	N	408	408	408	
LEV	r value	-0.036671	-0.009763	0.045762	1.000000
	p value	0.4601	0.8441	0.3565	-----
	N	408	408	408	408

Source: *Eviews, 10, 2023*

From table 3 above it was observed that the executive compensation was found to have a negative relationship with ROA. It was also not found to be statistically significant 5% level of significance. Board independence had a negative relationship with ROA. It was also statistically significant at 5% level of significance. Firm size was found to have a positive relationship with ROA. It was also found to be statistically significant at 5% level of significance. Leverage was found to have a negative relationship with ROA. It was also not found to be statistically at 5% level of significance.

Table 4: Executive Compensation and Firm profitability

Variable	Coefficient	Std. error	t-statistic	Prob.
EXCOMP 1	2.85E-09	1.49E-09	1.914268	0.0567
BIND 1	-0.609161	0.250288	-2.433837	0.0156
LEV	0.000139	0.000155	0.893166	0.3726
C	0.731071	0.233561	3.130110	0.0019
AR (2)	0.202112	0.307538	0.307538	0.5116
R-squared	0.887468			
Adjusted R-squared	0.866236			
F- statistic	41.79778			
Durbin –Watson stat	1.708278			

Source: *Eviews, 10, 2023*

From the result of the analysis carried out it was observed that the executive compensation has a positive relationship with firm performance. It was also statistically significant at 5% level of significance. Board independence had a negative impact on firm performance. It therefore implies that on the average a unit change in board independence will lead to a 60% decrease in firm performance. Leverage had a positive relationship with firm performance. It was however not statistically significant at 5% level of significance.

Furthermore, an examination of the summary statistics showed that the coefficient of determination depicted as R^2 had a value of 0.88 therefore indicating that the model accounts for 88% of the systematic variation exhibited by the variables while the remaining 12% left on accounted for was captured by the stochastic error term. The F-statistics meaning the overall significance stood at a value of 41.7 with an associate probability value of 0.00 indicating that the model is highly statistically significant. The Durbin Watson statistics measuring the presence of autocorrelation in the model stood at a value of 1.7 indicating that on the average there is the absence of autocorrelation in the model.

Table 5: Regression Result: Executive Compensation and Firm Profitability.

Variable	Coefficient	Std. error	t-statistic	Prob.
EXCOMP 1	-1.26E-08	1.54E-08	-0.818764	0.4135
BIND 1	32,03207	7.258858	4.412825	0.0000
LEV	-0.010220	0.057270	-0.178448	0.8585
C	-16.27147	4.261174	-3.818541	0.0002
AR (2)	0.238247	0.048046	4.958748	0.0000
R-squared	0.148240			
Adjusted R-squared	0.136072			
F- statistic	12.18279			
Durbin –Watson stat	2.056831			

Source: *Eviews, 10, 2023*

The second result was carried out to ascertain the impact of executive compensation on firm performance as a variable when measured using Tobins Q. Leverage had a negative relationship with firm performance. It was however not statistically significant at 5% level of significance. The summary statistics revealed that the coefficient of determination depicted as R2 had a value of 0.14 indicating that the model accounts for 14% of the systematic variation exhibited by the dependent variable. The F- statistics had a value of 12.18 with an associated probability value 0.00

therefore indicating that on the average the model is jointly statistically significant. The Durbin Watson statistics which accounts for the presence of autocorrelation was found to have of 2.0 which was less than the threshold value of 2 therefore indicating the absence of autocorrelation in the model.

Table 6: Regression Result: Executive Compensation and Firm profitability (Return on Equity).

Variable	Coefficient	Std. error	t-statistic	Prob.
LOG (EXCOMP)	0.424127	0.099782	4.250540	0.0000
BIND	-2.465609	0.861446	-2.862173	0.0045
LEV	-0.001023	0.013354	-0.076603	0.9390
C	-9.696720	1.587000	-6.110094	0.0000
AR(1)	0.293989	0.052087	5.644194	0.0000
R-squared	0.210196			
Adjusted R-squared	0.198977			
F- statistic	18.73607			
Durbin – Watson stat	1.814243			
Variable	Coefficient	Std. error	t-statistic	Prob.
LOG (EXCOMP)	0.424127	0.099782	4.250540	0.0000
BIND	-2.465609	0.861446	-2.862173	0.0045
LEV	-0.001023	0.013354	-0.076603	0.9390
C	-9.696720	1.587000	-6.110094	0.0000
AR(1)	0.293989	0.052087	5.644194	0.0000
R-squared	0.210196			
Adjusted R-squared	0.198977			
F- statistic	18.73607			

Source: *Eviews, 10, 2023*

The result in table 6 showed that executive compensation had a positive relationship with return on equity. It was also statistically significant at 5% level of significance. Board independence that a negative relationship with firm performance (Return on equity). It was also statistically significant at 5% level of significance. Leverage was found to have a negative relationship with firm performance. It was not statistically significant when tested at 5% level of significance in influencing return on equity. The coefficient of determination which accounts for systematic variation that will be exhibited by the dependent variable stood at a value of 0.22%. Therefore, indicating that the model accounts for 21% of the systematic variation exhibited by the dependent variable the F-statistics a value of 18.7 with an associated probability value of 0.00 which was less than the 5% value therefore indicating that the model is statistically significant at 5% level of significance. The Durbin Watson statistics which accounts for the presence of autocorrelation stood at a value of 1.8 therefore indicating that on the average there is the absence of autocorrelation in the model.

5. Discussion of Findings

From the result of the analysis carried out it was observed that firm size had a positive relationship with return on asset. It was however not statistically significant at 5% level of significant. Executive compensation had a positive relationship with firm performance. This result is consistent with prior studies (Adams et al., 2005; Adithipyangkul et al., 2011 & Siglet, 2011). It was also statistically

significant when tested at 5% level of significance. Board independence had a negative impact on firm performance. It therefore implies that on the average a unit change in board independence will lead to a 60% decrease in firm performance. This result is tandem with prior studies (Faisal & Abdul, 2005). This result is inconsistent with prior studies but found positive relationship between board independence and firm performance (Abbasi et al., 2013; Khan & Awan, 2012). Leverage had a negative relationship with firm performance. It was however not found to be statistically significant at 5% level of significance. This result is inconsistent with prior studies (Ashrat et al., 2017). However, the result is consistent with prior studies that found a negative relationship between leverage and firm performance (Olokoyo, 2013). Leverage had a negative relationship with firm performance. It was however not statistically significant at the 5% level of significance. The result showed that executive compensation had a positive relationship with return on equity. It was also statistically significant when tested at 5% level of significance. Board independence had a negative relationship with firm performance (ROE). It was also statistically significant when tested at 5% level of significance. It was also not statistically significant at 5% level of significance.

6. Summary of Findings

From the result of the analysis carried out it was observed that:

1. Executive compensation had a positive relationship with firm performance when proxied using returns on equity and return on asset, this was found to be statistical significant difference at 5% level of significant ($P<0.05$). However, Tobin's Q was negatively related. It was not statistically significant at 5% level of significance ($P>0.05$).
2. Board independence had a negative impact on firm performance when proxied using return on asset and return on equity but was positively related with Tobin's Q. They were found to be statistically significant at 5% level of significant ($P<0.05$).
3. Leverage was found to exhibit a negative relationship with firm performance (return) on equity and Tobin's Q), however, return on asset was positively related. It was not statistically significant at 5% level of significance ($P>0.05$).

7. Conclusion

This study was carried out to ascertain the relationship that exists between executive compensation and firm performance. Compensation is the reward that the workers in an organization earn based on the value of their jobs, their individual contribution, and their performance (Obasan 2021). The reward could be cash-based or otherwise. Executive compensation is a wide term for the reward given to the executives of a firm. In every organization is a wide term for the reward given to the executive of a firm. In every organization, the board of directors is saddled with the responsibility of deciding the compensation amounts of CEO, but must be subject to shareholders' approval. The result revealed that executive compensation has an impact on firm performance. Based on the findings the following recommendations are given below.

8. Recommendations

1. Executive compensation had a positive relationship with firm performance when proxied using returns on equity and return on asset. It was however negatively related with return onTobin's Q. it therefore implies that executive compensation is an internal element that is affected by the level of employee activities in the organization.
2. Board independence had a negative impact on firm performance. This therefore implies that the independence of the board is a critical element that should be taken into consideration because the inclusion of non-executives on the board of an organization will reduce the level of manipulation in the organization and in turn increase the level of financial reporting.
3. Leverage was found to exhibit a negative relationship with firm performance. It is therefore recommended that firms which want to pursue performance should lower their level of fixed debt financing in their capital structure in the long run.

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