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Financial Performance, Governance Characteristics and CEO Compensation: Evidence from the UK and Nigerian Banks

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Author's Declaration

The candidate confirms that the work submitted is their own and the work has not been submitted for any other qualification at this or any other institution. The researcher would like to credit the authors whose references have been used in this research work.

Chapter 5 was used in Adeniji, A. (2021), 'Executive pay and banks financial performance; evidence from Nigeria and UK banks' *Accounting Forum* (submitted).

Abbreviations

CBN- Central Bank of Nigeria

CEO- Chief Executive Officer

CEO pay/CEO remuneration/CEO compensation: used interchangeably to mean same thing

EPS-Earnings per share

EU-European Union

FSA-Financial services authority

LSE-London stock exchange

MTBV-Market to book value

NAICOM-National Insurance Commission

NDIC-Nigerian Deposit Insurance Corporation

NSE-Nigerian stock exchange

OLS-Ordinary least square

PENCOM-Pension Commission

PPE-Pay performance elasticity

PPS-Pay performance sensitivity

ROA-Return on assets

ROE-Return on equity

ROI-Return on Investment

S&P 500-Standard and Poor's 500

SEC-Securities and Exchange Commission

UK-United Kingdom

US-United States Of America

Abstract

The peculiar nature of banks means that they are heavily regulated and highly leveraged and as such, results obtained by existing pay-performance literature cannot automatically be extended to banks. This research work examines the relationship between CEO pay and financial performance in Nigeria and UK banks while recognizing its peculiarities. It further analyzed the relationship between CEO pay and board governance characteristics, and the relationship between CEO share ownership and performance. Finally, this research work compares the pay-performance relationship in both countries. Data for twenty-six listed banks in the UK and thirteen Nigerian banks between 2009 and 2019 were adopted. Using an OLS regression model, the study finds that both accounting and market-based performance measures exerts a significant and positive influence on CEO pay in Nigerian banks and as such is consistent with agency theory but that it has no impact on accounting performance in UK banks. Fixed effects and GMM were adopted to address endogeneity and the signs of the coefficients remained the same. Overall, it finds that in line with previous literature, bank size is the main factor that drives CEO pay. Furthermore, it examines the relationship between CEO pay and board governance characteristics and finds that they are similar across both countries. This could be due to the similarities in the rules and regulations including corporate governance codes that govern banks in both countries. Also, CEO share ownership is significantly influenced by bank performance both in Nigeria and the United Kingdom. The research implies that CEO pay if well-designed is an important corporate governance mechanism which does align the interests of CEOs and shareholders and helps mitigate agency cost as well as the ability of CEOs to extract rent.

Chapter One: Introduction

1.1 Chapter Overview

This chapter gives an overview of the study and provides a background of the research, the research aim, its rationale and objectives, the research questions, contribution to knowledge and the structure of the research.

1.2 Research Background

The misalignment between pay awarded to CEOs and actual performance continues to be an issue in the banking sector with various regulations being implemented to try and mitigate/eliminate/curb the problem. Remuneration policies in financial institutions has been highlighted as part of the contributors to the global banking crisis of 2007-2008.Turner (2009) mentioned that inappropriate incentive structures encouraged behaviours which contributed to the crisis. Another issue arose during the financial crisis according to Shiyyab, Girardone and Zakaria (2014) when American Insurance Group (AIG) awarded its executives bonuses amounting to $42m despite the company suffering losses and needing to be bailed out under the United States Troubled Assets Relief Program (US TARP). This has led to a decline in shareholder value, loss of investor confidence and in severe cases, bank failures (Klapper & Love, 2004). The imbalance between CEO pay awards and actual firm performance continue to be an issue in the banking and financial services sector despite the various regulations implemented to curb the problem. Furthermore, the populace perceive compensation paid to CEOs as being too high and that their pay is insulated from performance. It is also inevitable that CEO pay is compared to average employee pay. Annual growth rate for CEO pay in the UK is 10% each year compared to average employee pay that grow at 2%. An average CEO in the United Kingdom in the year 2016 earned £5.5m compared to £5m the previous year. The average CEO also earns 200 times a typical

household income (Office of National Statistic). It is also perceived that CEO pay is insufficiently tied to performance as CEO's high pay even if as a result of exceptional performance are still paid when the firm is underperforming creating the impression that they are rewarded for failure thereby questioning whether performance drives pay. In Nigeria, Olaniyi and Obembe (2017) reported that the top five CEOs in Nigeria banks had a pay increase of 177.59% between 2010 and 2012. These astronomical pay levels according to them are in variance with the growth of shareholder's value.

The design of CEO pay has sparked as much controversy globally as the value of the pay itself as a properly designed CEO compensation package should attract, retain and motivate executive officers. A properly designed executive pay prevents the expropriation of the bank's resources by CEOs and ensures better decision making and efficient use of the firm's resources which ultimately improves performance. Jensen and Murphy (1990) argue that focus by the populace on the levels of CEO compensation limits the type of contracts drawn up between managers and shareholders causing a weak relationship between pay and performance as directors become reluctant to reward appropriately for superior performance and impose stringent penalties for poor performance. Most CEO pay packages contain four basic components: a base salary, an annual bonus tied to accounting performance, stock options, and long-term incentive plans including restricted stock plans and multi-year accounting-based performance plans (Murphy, 1998). Conyon, (2011) maintains that CEO pay evolved in response to complex economic and political factors including tax policies, legislation, disclosure requirements, economic conditions, and even political climate as many of the trends in compensation levels and practices are actions aimed at responding to actual or perceived abuses in pay.

This study is deeply rooted within the framework of agency theory. Agency theory is based on the concept of separation of the management (agent) and ownership (principal). It is of the

assertion that issues arise as a result of conflicting interest between the principal (owner) and the agent and is made on the assumptions that the parties entering into a contract will perform to maximize their own interest although it is fundamental for agents to act in best interests of the principals. (Agrawal & Knoeber 1996; Faria, Martins & Brandao 2014). Therefore, the important question is, in what ways can shareholders exercise control over company management? And how can one encourage the agents to act in the interest of principals? Since one basic assumption of agency theory highlighted by the work of Eisenhardt (1989) is that it is expensive and difficult for the principal to monitor the agent as attempts by 'shareholders to verify the activities of company management incur agency cost, there is a trend for stakeholders to align all interests through incentives' (Jensen & Meckling, 1976, p. 236; Fama & Jensen 1983, p. 73). Specifically, the theory suggests that CEO compensation is an important mechanism to the CEO to improve corporate performance. In the same line of thought Jensen and Murphy (1990); Faria, et al (2014) hinted that the rationale for CEO pay packages is to give the manager incentives to select and implement actions that will increase shareholders' wealth. Because the goals of the CEO may differ from that of the shareholders and the principal cannot accurately evaluate the agent's intentions, he utilizes CEO pay as a means to bridge that gap. The selection and retention of productive managers is characterised by a stronger relationship between CEO pay and performance. It is however difficult to observe productive managers at the point of selection, therefore, providing CEOs with performance related compensation is a means of reducing the adverse selection problems (Arya & Mittendorf, 2005; Darrough & Melumad, 1995). This shows that CEO pay may serve as an incentive to enhance firm performance. The rent extraction theory posits that CEOs in alliance with complicit board of directors decide both the structures and levels of pay to maximise the value they can extract whilst at the same time avoiding intervention by activist investors or corporate raiders (Bertrand & Mullainathan, 2001). CEO pay in other

sectors in the UK has been extensively researched but limited attention has been given to the banking sector. The unique corporate financing structure of banks means that risks is borne by equity holders and not creditors. Existing corporate governance do not reflect this peculiarity and instead focus on the unilateral relationship between managers and shareholders. Responding to calls by Macey and O'Hara (2003) as cited by Claessens and Yurtoglu (2012) for further research works on the relationship between pay and performance in banks and financial institutions, Chapter 5 of this thesis examines the relationship between CEO pay as a means of aligning pay to financial performance in UK and Nigerian banks.

Furthermore, adverse selection problems can still arise even after incentivising CEOs with pay. The CEO may still find other avenues to act in their own self-interest and may require additional monitoring. Governance through the board of directors is an alternative to direct monitoring by the shareholders (Hermalin &Weisbach, 2003). Board of directors are critical institution to the internal governance of a firm. They provide strategic direction and oversight to deal with agency problems in the banks. Board governance provides a monitoring and advisory role to ensure that CEOs act in the interests of the shareholders. Thereby, board governance can be adopted to monitor the activities of Chief executives. However, this can give rise to another agency problem between the shareholders and the board. Governance variables like board size, the independence of directors, splitting the roles of the CEO and chairman of the board and the presence of a remuneration committee are effective alongside Chief executive pay either as substitutes or complements in aligning CEO pay to performance. The complementary hypothesis argues that Chief executive pay as a corporate governance mechanism is only effective when combined jointly or simultaneously with other mechanism. De haan and Vlahu, (2016) highlights the several tools that shareholders can use to ensure that the management of a firm acts in their interest such as the size and composition of the board, management compensation schemes, concentrated ownership, and the market

for corporate control. Shiyyab et al (2014) believed these tools depending on its usage either as substitutes or complements of each other can determine their effectiveness or otherwise as a means of mitigating the agency problem. The most efficient governance structure may vary by firm because corporate governance mechanisms involve cost and benefits as posited by Gillian, Hartzell and Starks, (2006). Therefore, in chapter 6, the effectiveness of board governance in aligning CEO pay to performance in Nigeria and UK banks and the validity of the complementarity hypothesis is tested.

A lot of research has been carried out on executive pay in the United Kingdom but research into the relationship between CEO pay and performance especially in the banking sector is sparse. Research in Nigeria is further plagued by disclosure inadequacies and non-transparency. More recently, shareholders of BP in the UK exercised shareholder activism by calling for the termination of their CEO over his remuneration. The UK economy is currently characterised by a lot of uncertainty due to her exit from the European Union which she hitherto belonged. The UK as a case study is influenced by several agitations of its citizenry on the persistent high levels of pay for CEOs, pay differentials between Chief executives and average organisational pay, and the paucity of research especially in the banking sector. The government also introduced further regulatory measures like the Gender pay gap disclosures which took effect from April 2018 and is binding on companies with at least two hundred and fifty employees. All of this will form a backdrop for an excellent pay-performance research in the United Kingdom. The Nigerian economy is characterised by recession and is in early and gradual recovery thereby making it a robust area of CEO compensation inquiry. Nigeria as a choice country of research is influenced by paucity of research especially in the banking sector and her economic position in Africa.

The pay-performance link has been researched extensively in other sectors, but the banking sector has received limited attention especially outside of the United states. The distinctive

corporate financing nature of banks make them an area of interest because a significant proportion of their capital is debt rather than equity and as such, risk is largely borne by creditors and not equity holders. Shiyyab et al. (2014) noted that existing corporate governance structures which are advocated by best practice guidelines do not reflect this peculiar nature and instead focuses on the relationship between shareholders and managers. This then follows that existing works and findings of the pay-performance link reflects this and as such, prior findings cannot be consequently held true for the banking sector. Based off this understanding, Macey and O'Hara, (2003); Adams and Mehran, (2003); Sierra et al (2006); Cooper, (2009); Claessens and Yurtoglu,(2012) and Shiyyab et al. (2014) are some of the scholars who have called for more research into the corporate governance of banks and financial institutions. This research intends to do that.

Prior studies into the pay-performance relationship are plagued by the endogeneity of the corporate governance mechanisms which affects the interpretation of correlations observed among variables. Palia (2001) opined that the difference in contracting environment makes it such that compensation arrangements are the outcomes of complex processes that involves many observed and unobserved firm characteristics making it difficult to interpret any observed correlation pay and performance as evidence of a causal relationship.

Also, there is the issue of whether CEO pay should be interpreted as a predictor variable(motivation) for performance or predicted(reward) from performance. This was contended by Devers et al (2007). Jensen et al (2004) posits that no distinction should be made between motivation and reward in the pay-performance relationship because the current period reward is an indication of pay-performance relation for future periods and as such affect's motivation or incentives.

The substitute versus compliment argument is another impediment in prior studies that have probed multiple corporate mechanisms in the pay-performance relationship. The theory says that in the design of CEO pay contracts, firms look at several governance mechanisms which are fundamentally related to one another either as complements or substitutes depending on their costs and benefit. The substitution hypothesis puts forward that when any governance mechanism is used effectively, it might also reduce the level and structure of executive compensation needed to align managers interests with those of the shareholders. (Ozkan, 2011). On the other hand, the complementarity hypothesis maintains firmly that executive compensation mechanism is effective in mitigating agency problems only when it is jointly used alongside other mechanisms (Fahlenbrach 2008; Ward et al, 2009). The different corporate governance mechanisms a firm can adopt involve costs and benefits which means that the most productive governance structure may vary by firm.

By examining the relationship between CEO pay and bank performance of all banks listed in the UK and Nigeria over eleven years, this research will attempt to solve the aforementioned issues and particularly examine the links between CEO pay, governance mechanisms and accounting and market-based bank performance measures and compare similarities and differences between the pay-performance relationship in the two countries.

1.3 Purpose of the study

The aim of this research is to explore the relationship between CEO compensation, board governance and the financial performance of banks in the United Kingdom and Nigeria.

The 2007/2008 financial crisis exposed several deficiencies in the remuneration structure of CEOs. CEO remuneration contracts were not properly tied to performance, and this encouraged overly risky behaviours by the Chief executives which contributed to the financial crisis. Furthermore, different regulations including the UK Financial Services

Authority Remuneration code (2009) was introduced post the financial crisis to address deficiencies in pay and shore up the corporate governance structures as well as avenues that CEOs may exploit to extract rent. Thus, it is assumed that value of remuneration paid to CEOs would be affected negatively in the aftermath of the financial crisis. This study examines the CEO pay trend after the financial crisis in Nigeria and UK banks. It examined the impact of financial performance on CEO pay in the banking sector and whether change in financial performance results in change in CEO pay. Further, it examines the role of CEO pay as a substitute for monitoring by shareholders in aligning pay to performance. The effectiveness of board governance in mitigating agency costs and how it leads to better performance by the firms have wider positive ripple effect on the economy. The effectiveness of board governance in banks have wider implications for not just the banks, but the economy and the society generally because it improves their performance and their performance have wider impacts through sustainable long term value creation. Therefore, the research also examines the role of board governance in the pay-performance relationship including board size and board independence. It explores the role of board size and independent executive directors in remuneration contracts and the pay-performance relationship. It investigated the impact of board governance and financial performance on CEO pay. Since CEO pay is one of several ways of aligning the interests of managers with that of shareholders to mitigate agency problems and firms consider several governance mechanisms as substitutes or complements; chapter seven examines CEO pay and board governance as complementary mechanisms in aligning the interests of managers to shareholders. CEOs who have a high proportion of their remuneration based on short-term performance will probably pursue more riskier investment strategies to increase bank leverage because this will lead to increase in share prices. This misalignment, according to the FSA (2009a), was the mechanism that was responsible for the crisis since Chief executive pay was tied to short-term profits. In the

aftermath of the crisis, the regulatory frameworks for executive pay (whether CEO pay or total board pay or remuneration of the highest paid director) are constantly evaluated by policymakers to ensure it is efficient in curbing adverse pay practices. The question is, if CEO pay being tied to short-term profits(bonus) is part of the contributors of the financial crisis, is equity-based pay better aligned to performance? Chapter seven examines the impact of board governance and financial performance on equity-based pay and compares this relationship in the Nigerian and the UK banking sector.

1.3.1 Research Questions

- What was the CEO pay trend after the financial crisis? Did it respond to regulation by increasing or decreasing? What type of relationship exists between CEO pay and performance in Nigeria and UK banks? Does performance impact CEO pay positively or negatively? By analysing the financial statements, the researcher will be able to examine the response of Chief executive pay trend after the financial crisis and elicit the type of relation that exists between CEO remuneration and performance in the banking sector in the UK and Nigeria. The impact of CEO pay on performance will be particularly examined. Further, results obtained in both countries will be compared.
- What role does board governance play in the alignment of Chief executive pay to performance in the banking sector? What impact does board governance and performance have on CEO pay in banks? Does the complementarity hypothesis hold true in Nigeran and UK banks?
- Is the value of CEO shareholding affected by the bank's financial performance and board governance?

1.3.2 Research Objectives

- To investigate the relationship between CEO pay and performance of listed banks in the UK and Nigeria by examining the pay trend after the financial crisis specifically the impact of performance on CEO pay.
- To ascertain whether board governance and financial performance affects CEO pay in banks in Nigeria and the UK especially its complementary role in aligning CEO pay to bank performance.
- To examine the effect of financial performance on CEO shareholding of banks in the United Kingdom and Nigeria.

1.4 Rationale for the Research

1.4.1 Relevance of the Banking Industry in the United Kingdom

The banking sector of any country is pivotal for sustainable and sustained economic growth and development (King & Levine 1993a, 1993b; Levine 1997). This is even truer for the United Kingdom because it is a developed economy. The UK economy is currently characterised by a huge level of uncertainty because of its proposed exit from the European Union thereby making it a robust area of executive compensation enquiry (executive compensation in this case is any of CEO pay, total board pay or the highest paid director or a combination of all three). One of the first steps taken by the government was to perform different stress tests on the banks to fool proof them which further reiterates their position as the backbone of the economy. The UK as a choice of country is also influenced by constant public outcry on the persistent high levels of pay for Chief executives and pay differentials between senior executives and average organisational pay level.

The UK's economy is one of the most important in the world. It is one of the biggest economies in Europe. Apart from the robustness of its economy, it is also a pace setter in corporate governance practices as it was the UK that introduced the shareholder "say-on-pay"

as a way of curbing excessive pay which was also adopted by the United States hence it is inevitable that the pay of CEOs will be compared to that of average employees and the citizenry. Also, these economies are adopting reforms to position them strategically alongside other developed economies. Does CEO compensation levels and performance look like it does in the US? Research evidence show that they are similar in some regards and different in others. The economic drivers of executive pay such as bank size and performance are important in the UK as they are in US and other countries.

1.4.2 Relevance of the Banking Industry in Nigeria

Banks in developing economies have an overwhelmingly dominant position in their financial systems as they are engines pivotal to its economic growth (King & Levine 1993a, 1993b; Levine 1997). They are the most important source of finance for most firms as financial markets are usually underdeveloped and executives[1] in these economies have a greater degree of freedom over the affairs of the banks. The different wave of scandals and crisis including that of Enron in which the behaviour of bank executives[2] affected economies and deficiencies in remuneration structure brought about is one of the motivations for research into Nigerian banks. The financial intermediation role of banks between savers and investors means that any adverse disruption will have a systemic effect on the economy. Nigeria is an economy characterised by recession and is in early and gradual recovery thereby making it a robust area of executive compensation enquiry. Nigeria as a choice of country is influenced by public outcry on the persistent high levels of pay for all executives and pay differentials between senior executives[3] and average organisational pay level.

[1] Executives in this case can be the Chief Executive officer, members of the board of directors, or the highest paid director or all three as a collective. In this instance, it is the collective of all three.
[2] See footnote 1
[3] Senior executives including the board chairman, the CEO, and executive members of the board.

Nigeria as a developing economy is of the most important in the Africa. She is arguably the biggest economy in Africa. Apart from the robustness of her economy, it is also characterised by population explosion hence it is inevitable that the remuneration of CEOs will be compared to that of average employees and the citizenry. Also, the economy is adopting reforms to position her strategically alongside other developed economies. Does CEO compensation levels and performance look like it does in the UK and US? Research evidence show that they are similar in some regards and different in others. The economic drivers of CEO pay such as bank size and performance are important in African countries as they are in Anglo-Saxon countries. Evidence also reflects that corporate governance in Africa is modelled after that of UK and US such as remuneration committees and independent directors. However, Nigeria is still lagging with the adoption of long-term incentive plans (LTIPs[4]).

1.5 Empirical contribution

The extant literature has extensively examined the pay-performance relationship (Bebchuk & Fried 2004; Bebchuk & Weisbach, 2010; Bertrand 2009; Conyon 2010, 2011; Jensen & Murphy 1999; Shiyyab et al 2014). However, apart from the fact that they are all dominant in countries like the United Kingdom, the United States of America or Europe. They also shy away from comparing countries and few like Conyon (2014) who did, compare countries like US and China who have similar economies. This research compares the United Kingdom, which is a developed economy with Nigeria, an African country and a developing one and draws comparison between the two. Thereby, this research expands existing literature by comparing a developing country to a developed one.

[4] Nigerian firms adopt some form of LTIPs and not others. Some CEOs are rewarded with shares. See CEO Remuneration 2021 Report: The Many Sides of CEO Compensation (proshareng.com)

The results interestingly suggests that pay is better aligned to performance in Nigeria than it is in the United Kingdom. This is astonishing because Nigerian banks adopts a mixture of some remuneration policies enacted by the UK and US. It could be that this "pick mix" method provides them with the best of both policies. These new findings have policy implications for the UK banks in terms of the pay components adopted by Nigerian banks and whether same will lead to a better pay-performance alignment in the UK. Also, it could point towards some of the policies adopted by the US that the UK can also adopt to further bolster its pay-performance alignment.

The thesis also tested the sensitivity of the pay-performance relationship by examining whether change in performance brings about change in CEO pay. It found this to be true and significant.

This thesis further analysed whether board governance variables are useful tools in ameliorating the agency problem. The result suggests that CEO pay is higher in banks with bigger boards while the presence of independent directors did not seem to affect CEO pay.

Literatures on executive pay[5] and performance are hinged on trying to align the interests of executives[6] to shareholders and other stakeholders. Evidence on the relationship between pay and performance is mixed and highly inconclusive. Related Literature all try to examine CEO pay based on design, structure and attainable targets while also arguing for the pay components to be fixed, variable or both and measures of performance either accounting based, market based or other qualitative measures. (Bebchuk & Fried 2004; Bebchuk & Weisbach, 2010; Bertrand 2009; Conyon 2010, 2011; Jensen & Murphy 1999; Shiyyab et al 2014). All these studies have not provided an optimal solution to the issue of CEO pay and performance relationship and thereby making this a discourse worthy of research.

[5] Executive pay literature adopts executive pay to mean either the remuneration paid to the Chief Executive officer, pay of the board of directors, or the highest paid director.

[6] Executives in this instance is a collection of all three.

More so, it is important to note that while research into the pay-performance relationship in the UK abound, literature on CEO pay-performance in banks is scanty. Also, it is worthy of note that the pay-performance relationship is endogenous in nature, it can be a reward for performance or a motivation to perform. However, research works that attempted to examine the pay-performance relationship as a reward for performance neglected to measure the effect of the remuneration structure on performance. Could the proportion of variable to fixed have influenced performance? This leaves a lacuna in that CEO pay as a form of reward for performance with emphasis on the remuneration structure need be researched, (Buck, Liu & Skovoroda, 2008). Jensen and Murphy (1989) in their research emphatically illustrated that CEO pay is more about "how" it is paid and less about level of pay. This research amends the lacuna and can serve as a guide to other economies in the design of an optimum pay structure for their financial sector.

Having reviewed the aforementioned studies, this research by examining all listed banks in the UK and Nigeria will bridge the limited attention received by it in the literature and provide an insight into the design and structure of executive compensation in these banks and how these structures influence the performance of CEOs. Also, to the best of the knowledge of the researcher, this is to the best of the researcher's knowledge the first study to attempt to unravel the similarities and differences in the pay-performance relationship between a developed and a developing economy.

1.6 Justification for the Research

There are several motivations for pay-performance research. Remuneration policies in financial institutions has been highlighted as part of the contributors to the global banking crisis of 2007-2009. Inappropriate incentive structure is one of the problems still plaguing the banking sector in many countries according to Turner (2009). All these issues reflect some defects in CEO pay. The banking sector of any economy is critical for sustainable economic

growth and macroeconomic stability because of its influence on economic activities (Levine, 2005). This makes an investigation into the design and structure of bank's CEO pay a critical area of research to mitigate against the overly risky behaviour of CEOs which was said to contribute to the financial crisis. Banks by virtue of their own special features are a unique entity from other firms and that poses an unfamiliar corporate governance problem for managers and regulators because they are highly leveraged relative to firms in other industries and have little equity in their capital structure. The corporate financing structure of banks is such that 90% of its capital can be debt rather than equity thus, risk is majorly borne by creditors rather than equity holders. The choice of country is influenced by the sparsity of CEO pay research in Nigeria and the economic importance of Nigeria as one of the largest developing economies in Africa. Research into the CEO pay-performance relationship is abundant in other sectors in the United Kingdom but lacking in the banking sector. Furthermore, the relevance of the banking sector in any economy cannot be overemphasized and better understanding of the CEO pay performance relationship may help prevent the risky behaviours of CEOs which contributed to the financial crisis.

This research in the UK is justified by a combination of factors. One is that the populace perceive compensation paid to CEOs as being too high. Also, the agitation over pay is worsened by the fact that despite the high pay received by Chief executives, firms still had to be bailed out by the taxpayer. Annual growth rate for CEO pay is 10% each year compared to average employee pay that grow at 2%. An average CEO in the United Kingdom in the year 2016 earned £5.5m compared to £5m the previous year and earn 200 times a typical household income. CIPD (2020) reported that FTSE 100 CEO executive packages is 145 times an average UK worker salary in 2019 despite some firms drawing on the Coronavirus Job retention scheme. It is also perceived that CEO pay is insufficiently tied to performance as CEO's high pay due to exceptional performance are still paid when the firm is

underperforming creating the impression that they are rewarded for failure thereby questioning whether performance indeed drives pay.

This research is further influenced by the similarities in Nigeria and UK corporate governance codes. UK adopts a comply or Explain approach while the code of corporate governance for Nigerian banks is not mandatory. This similarity in terms of enforcement is another reason why comparison of CEO pay-performance relationship in both economies is ripe.

1.7 Contribution to Methodology

There are several top-notch studies on pay-performance in the UK. The often-cited ones are the works of Bebchuk and Weisbach (2010); Bebchuk and Fried (2004); Conyon (2011), Shiyyab et al (2012); Buck and Skovoroda (2008). As diverse and as comprehensive as the research on pay-performance in the UK are, pay-performance research in the UK banking sector seems inadequate. Various research adopted varying methods ranging from qualitative to quantitative. So far, different researchers employed quantitative methods ranging from Ordinary least squares (OLS), Fixed and random effects, simultaneous equation methods, 3SLS, and General methods of moment (GMM). Shiyyab et al., (2014) is one of the more comprehensive research on pay-performance in the banking sector but was carried out using thirteen countries in the EU and not the UK. Also, the research employed the 3SLS method not the GMM method. Most studies on pay-performance in Nigeria adopted qualitative methods (Upneja & Ozdemir 2014) and studies on executive compensation ignored the potential endogeneity problem apart from the works of Olaniyi and Obembe (2015) which used generalized method of moments to analyse their data. This research work undertakes a quantitative fixed regression analysis as well as descriptive statistics to explore the CEO pay and performance relationship.

This research work will bridge these gaps and contribute to methodology by investigating the pay-performance relationship in the UK banking sector and Nigeria also by adopting fixed and random effects methods. This will enable comparison of results obtained using the different methods to be compared. This research work undertakes a quantitative fixed regression analysis as well as descriptive statistics to explore the CEO pay and performance relationship. This research will contribute to methodology by analysing each country individually such that a more accurate picture of CEO pay is painted and comparison between Nigeria and UK is fair.

1.8 Structure of the Research

To highlight the contribution of the study, the content of each chapter of the thesis is summarized as follows: Chapter 1 provides an overview and introduces the area of research, the background of the research, the rationale for the research, research aim, research objectives and research questions as well as expected contributions to knowledge.

Chapter 2 encompasses an exhaustive review of the literature generally on pay for performance and more specifically on CEO remuneration and performance. It contains: CEO remuneration and firm performance, theoretical framework, internal corporate governance mechanisms, prior studies on CEO compensation and the banking sector in the United Kingdom and Nigeria. The purpose of this chapter is to provide a clear overview of CEO remuneration and bank performance in both countries.

Chapter 3 provides the theoretical backdrops to the research. It includes the agency theory, stewardship theory, resource dependency theory, substitute vs complement hypothesis, managerial power theory and optimal contracting theory.

Chapter 4 discusses the research design. It includes the research approach, study population, sample and sampling method, data collection method and model specification. This chapter explores the research method adopted by this research study and the rationale behind it.

Chapter 5 examines the agency relationship. It examines the relationship between pay and performance with CEO pay as a substitute for monitoring. It examined the pay trends after the financial crisis and the impact of financial performance on CEO pay. It further compared the results obtained in both countries.

Chapter 6 examines the relationship between CEO pay, board governance and performance in the pay-performance relationship while treating Chief executive pay and board governance as complements and compares Nigeria and the United Kingdom.

Chapter 7 examines the role of CEO share ownership in the pay for performance relationship by examining the role of equity-based pay.

Chapter 8 presents the conclusion drawn from the study.

1.9 Chapter Summary

The introductory chapter sheds light into the research study, it emphasized the reasons why this research is valuable to the UK and Nigeria especially the role of the banking sector and why the study should be conducted. It also stressed the research aim, research questions and objectives, and the method of data collection. Furthermore, it explained the anticipated contributions of the study to existing knowledge and explained the thesis structure.

Chapter Two: Literature Review

2.1 Chapter Overview

This chapter presents a critique of the literature and provides a clear insight into the CEO pay and performance relationship from a broader view around the world and more specifically in the United Kingdom and Nigeria. By analysing and discussing the literature, the empirical basis and theoretical framework for the relationship between CEO pay and performance will be established, and the research hypothesis will be drawn from this theoretical framework and then tested. This study is motivated by the debate in the literature about the relationship between pay and performance and what further piqued the interest of the researcher is its mixed empirical results and inconclusiveness.

In the aftermath of the financial crisis, countries around the world enacted rules to guide corporate practices in firms in their countries to avoid a repeat of such occurrence since bad corporate governance practices and behaviours are believed to have heralded the crisis. Committees were set up which birthed codes of best practices for corporate governance in several countries.

The role of the financial sector in any economy cannot be overemphasized especially with the current economic and political climate in both the United Kingdom and Nigeria, and since corporate governance particularly the remuneration paid to CEOs has been highlighted as the dominant reason for the financial crisis, it is daunting that the literature is sparse on the relationship between CEO remuneration and the performance of banks in the UK especially in Nigeria.

2.2 Evolution and Timeline of Corporate governance regulation in Nigeria

In the banking sector, the Central bank of Nigeria (CBN) regulates the activities of commercial banks in the country alongside the Nigeria deposit insurance corporation (NDIC),

Corporate Affairs Commission (CAC), Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE) and the Financial reporting council of Nigeria (FRCN). In the Nigerian banking sector, the roles of financial regulation, licensing, prudential regulation and even consumer protection primarily lies with the CBN. It complements the role of the NDIC which is tasked with the insurance of customer deposits. The CBN is the regulator whose primary objectives it is to ensure monetary and price stability and promote a top-notch financial system in Nigeria. Regulatory oversight is also exercised by the following statutory bodies.

a. the Nigeria Deposit Insurance Corporation (NDIC) has regulatory oversight commercial banks insures all the deposit liabilities of licensed banks. It ensures that depositors are protected by aiding insured banks in cases of financial difficulty. It further implements CBN's banking policy by ensuring compliance with the prudential standards and guidelines set by the CBN. It also has powers to restructure an ailing bank or wind-up failed banks.

b. the Corporate Affairs Commission is vested with the responsibility of incorporating all corporate business entities in Nigeria, including banks and other financial institutions.

c. the Financial Reporting Council of Nigeria is responsible for ensuring the development, enforcement, and compliance with corporate governance codes. It is also tasked with ensuring compliance of all accounting, auditing, and financial reporting standards by all corporate entities, including banks and other financial institutions. The FRCN requires all firms including banks to disclose their level of compliance with the Nigerian code of corporate governance in their annual reports.

d. the Securities and Exchange Commission (SEC) regulates all capital market activities and public firms in Nigeria. The traditional duties of a licensed bank do not usually fall within the regulatory purview of the SEC but where such a bank or its affiliate undertakes capital market activities in addition to its duties, the bank or the affiliate will fall within the regulatory purview of SEC.

e. the Nigerian stock exchange (NSE) regulates all companies, including any bank, that is listed on the Nigerian stock exchange.

The corporate governance code in Nigeria traces its roots to both the UK corporate governance code and the US Sarbanes-Oxley act. Prior to the introduction of corporate governance codes in Nigeria, all companies in Nigeria were regulated by three core legislations. The Companies and Allied Matters Act 1990 (CAMA 1990) which stipulates the responsibilities and the duties of individuals vested with the responsibility of managing the activities of limited liability companies. The second legislation is the Investment and securities act 1999 (ISA 1999) which empowered the securities and exchange commission to develop and regulate the Nigerian capital market. The third legislation is the Banks and other financial institutions Act 1991 (BOFIA 1999) which requires the Central bank of Nigeria to regulate the activities of Banks and other financial institutions.

There were inadequacies in these legislations, and they lacked comprehensive corporate governance provisions. The banker's committee's sub-committee on corporate governance deliberated the issues of poor corporate governance practices that abound in the banking industry and the role of the sub-committee was to come up with solutions to them. This was further buttressed by the realisation that existing company laws did not address the challenges posed by the corporate banks at the time. In August 2003, the Banker's committee issued the code of corporate governance for Banks and other financial institutions in Nigeria. The

Central Bank of Nigeria, a key regulator of the banking sector then revised this code by issuing a Code of Corporate Governance for banks post consolidation in 2006 which was mandatory. The objective of the code was to bolster corporate governance in the banking sector and resolve corporate governance challenges that may occur post-consolidation. The code like those of developed countries addresses issues on board composition, provides guidelines on non-executive directors, the management of risks, and the responsibilities of the auditor (Adewale, 2013). Although, the code applied to all banks and financial institutions that were in operation in Nigeria at the time it was issued, adoption of the code was mandatory but not enforced.

Series of corporate failings in Nigeria (including Cadbury Nigeria, Oceanic Bank e.t.c) also meant that the Nigerian Securities Exchange Commission needed to intervene to boost economic activities and instil confidence back in the economy. To address these deficiencies and following the establishment of the CBN code by the banker's committee, the SEC partnered with the Corporate affairs commission (CAC) to set up a committee to develop a draft code of corporate governance for all the listed companies in Nigeria. The Nigerian Securities Exchange Commission (SEC) established "Code of Best practices on Corporate Governance", a voluntary code in October 2003 and it was to guide and govern all companies that was listed on the Nigerian Stock Exchange (NSE). The corporate governance code specified the role of the board and management, the rights of shareholders and the role of the audit committee (Adewale, 2013). The SEC code was later revised in 2011.

Subsequently, codes including the SEC code for Shareholders was established in 2007, also, the Code of Corporate Governance for Licensed Pension Operators (PENCOM) was established in 2008 and was mandatory to regulate licensed pension operators; the NAICOM Code was established in 2009 to govern Insurance companies and is also binding. These

codes were established to address deficiencies in each sector and keep up with best global governance practices. (Osemeke & Adegbite, 2016).

Similar to recommendations in the U.K. Corporate Governance Code, the CBN code separates the roles of Chairman and CEO although it does not clarify the activities that may affect the independence of non-executive directors (Adewale, 2013). For example, the Sarbanes-Oxley act prohibits firms from extending credit to any director (Adewale, 2013).

2.2.1 Timeline of corporate governance code in Nigeria

- **Code of corporate governance for banks and other financial institution 2003-** issued by the bankers committee. The code was applicable to all banks and other financial institutions domiciled in Nigeria at the time of issue. It outlines the responsibility of the Board of Directors, separation of the role of the Chairman and the Chief Executive Officer (CEO), provides guidelines for the appointment of directors to the board of company (executive and non- executive directors). The code provides guidelines on proceedings for the Board of Directors and Directors' Remuneration, the assessment of Board Performance, Risk Management and enhanced Financial Disclosure, the establishment of an Audit Committee and board relation with provision for the role of shareholders to hold the banks accountable to them. Although the provisions of the code were comprehensive, it was overshadowed by the issuance of the Code of Best Practices on Corporate Governance in Nigeria by SEC in October 2003.
- **Code of best practices on corporate governance 2003 issued by SEC**- The independence of the board and the establishment of an audit committee which should have at least three non-executive directors (NED) and a maximum of one executive director; Members of the audit committee must be able to read and understand

financial reports; Separation of the post of the CEO and board chairman unless it is unavoidable, in which case, it recommends that the vice-chairman of the board should be a strong, non-executive director; Non-executive directors should have no business relationship with the firm; Non-executive directors should be in the majority in the board and the presence of a remuneration committee chaired by a non-executive director.

- **Code of corporate governance for banks in Nigeria post consolidation 2006**- Key elements of the code includes: separation of the roles of chairman and CEO; stipulates that the number of non-executive directors on the board of directors should be more than the number of executive directors; stipulates term limit of 3 terms of 4 years each for non-executive directors; bars chairman from serving on any board committee; annual performance appraisal of directors; disclosure of insider trading.
- **Code of good corporate governance for the Insurance Industry 2009**- The National Insurance Commission (NAICOM) issued its corporate governance codes in March 2009 and is mandatory for all insurance and re-insurance companies. It specifies the role of directors, states that board size should be a minimum of seven and a maximum of fifteen. Board composition requirements is an executive director, non-executive directors, and a minimum of one independent director. The appointment of external auditor to be approved by NAICOM and tenure of five years for the external auditor including periodic performance reviews. It requires the establishment of an internal audit unit for internal control processes. It further outlines the accounting principles to be adopted, disclosure and reporting requirements in line with NAICOM published policy guidelines.
- **Code of corporate governance in Nigeria 2011** issued by SEC applicable to all banks that are also public companies; application of the code; the board of directors;

relationship with shareholders; risk management and audit; accountability and reporting. It describes the responsibility of the board of directors, duties of the board, the composition of the board, this time improving on the 2003 code by specifying a minimum board size of five; the role of the officer of the board detailing the roles of the chairman, the CEO/managing director, executive director, non-executive directors and independent directors. It also outlines the limit of family and interlocking directorships stating no more than two members of the same family should sit on the board of a public company at the same time. It states the role of the company secretary and the board committee; outlines the establishment and functions of a risk management committee and the remuneration committee. States that boards should meet at least once a quarter and outlines the procedure for board appointments. The role of the shareholders, risk management committee and audit committee as well, as financial reporting.

- **Code of Corporate Governance for Public Companies in Nigeria 2014**- The core provision of the code is its upgrade from a voluntary to a mandatory code. The code, according to amendment, The revised code also made provisions for the application of sanctions and penalties and its application to deter non-compliance. All other elements of the 2011 code were retained including the requirement that publicly quoted companies should include a compliance report on codes of corporate governance in their annual report and accounts.
- **Code of Corporate Governance for Banks and Discounts Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry 2014**- The key element of the code includes: it amend board size to a minimum of 5 and a maximum of 20; requires every discount house to have at least one Non-executive director (NED) as an independent director, minimum of two for banks; no two members of the

same family as CEO and MD of the bank at the same time as Chairman/CEO of a bank's subsidiary; outlines the role of bank's risk management committee on the board; revised code mandates minimum disclosure in the annual report which must include details of directors; corporate governance and contingency planning framework; board responsible for the approval/removal of Chief Compliance officer subject to CBN ratification.

- **Draft National Code of Corporate Governance 2015-** The Federal Government enacted the Financial Reporting Council (FRC) Act in 2011 to ensure that Nigeria striving towards g international best governance practices. It granted the FRC express powers and jurisdiction over corporate governance issues in Nigeria. The FRC is responsible for matters on corporate governance and accountability. The FRC through the directorate of CG issued a National code of CG in Nigeria and compliance is mandatory. Key elements of the code include provision for the board of directors and their responsibilities; board composition is minimum of eight with executives, non-executive, and independent non-executives. It discourages cross membership among boards; directors should not be members of boards in the same industry; no two members of the same extended family should sit on the board at the same time; separation of the roles of the chairman and the CEO; whistleblowing policy; appointment of external auditors with no more than five years tenure; external auditor cannot render any other service to the company.
- **CBN Code of corporate governance for finance houses 2018-** the code was issued in October 2018 and was effective from 1st of April 2019. The code was for other financial companies excluding commercial banks in Nigeria and was to address deficiencies in the governance practices. It provided guidelines on board size, composition, appointments and tenure of boards, meeting, the role of shareholder,

disclosure and transparency, ethics and professionalism, as well as compliance and sanctions.

- **Nigeria code of corporate governance 2018**- The code was issued by the FRCN and was revised to adopt a "Apply and Explain" principle to some aspects of the previous code. In addition to existing provisions, the new code limits the tenure of external auditors to ten years and not twelve as it was in the 2015 code. It further provides guidelines for business conduct and ethical culture and admonishes the board to pay adequate attention to sustainability issues and be environmental and sustainability complaint in their activities.

However, these multitudes of corporate governance codes did little to address the issues they were meant to resolve. Instead, the corporate governance codes were riddled with conflicting guidelines and were challenging for organisation to interpret and adhere to. Osemeke and Adegbite (2016) documents conflicting recommendations on the board size, the independence of directors, CEO duality, board membership and responsibilities of the audit committees. They infer that the SEC, PENCOM, and NAICOM corporate governance codes recommends the presence of at least one independent director for purposes of board independence while the CBN corporate governance code recommends a minimum of two. Further, their analysis of the numerous corporate governance codes found that the CBN code advises against serving as a non-executive director on multiple boards at the same time while the SEC code places no limit on the number of boards that directors can serve on. In conclusion, Osemeke and Adegbite (2016) and Adewale (2013) proposes that mandating the corporate governance code for firms is the appropriate course of action. They opined that following the rules-based approach of the United States will ensure better compliance

especially for a Nigerian system characterised by weak institutional quality (Kilishi et al., 2013) than the UK's principles-based "comply or explain[7]".

2.3 Timeline of the UK corporate governance code

The first version of the UK corporate governance code was published in 1992 by the Cadbury committee. Corporate governance was defined as 'the system by which companies are directed and controlled' (Financial Reporting Council, 2018). It further states that the governance of the companies is the responsibility of the board of directors. The code has over the years been modified, adapted, expanded, revised, and reviewed to in line with the demands on its corporate governance framework. The UK corporate governance code is a set of principles that guides a company in achieving its long-term sustainable success. The codes are not mandatory, or rigid but non-compliance requires an explanation hence 'comply or explain'.

(a) Cadbury Report (1992)- A committee was set up in May 1991 to report on the financial aspects of corporate governance and was headed by Sir Adrian Cadbury. The report compiled by the committee became known as the Cadbury report after its chairman. The recommendations include that companies should comply with the code of best practice which sets out the guidelines for a governance structure, the report further recommends the separation of the roles of chairman and CEO, boards should have at least three non-executive directors, and boards should have an audit committee composed of non-executive directors. It also advocated that institutional investors should adopt an active rather than a passive role in promoting good corporate governance practices.

[7] The UK corporate governance codes are not mandatory, or rigid but non-compliance requires an explanation for deviating from recommended guidelines.

(b) Greenbury committee (1995)- The Greenbury committee was set up in 1995 by the Confederation of British industry to address public and shareholders' concern about executive pay levels. It recommended the establishment of remuneration committees made up of non-executive directors to set pay, it asserts that there should be full disclosure of executive pay package and pay be linked to performance. It further recommended that remuneration packages be approved by shareholders. A code of best practice was developed to guide companies in drawing up compensation packages.

(c) The combined code of corporate governance (1998)- the Hampel committee was established to review the implementations and level of compliance with the objectives of the Cadbury and Greenbury reports. It conducted a wide range consultation with numerous stakeholders. The report harmonised the recommendations of both committees and became known as the combined code on corporate governance. It made further provisions that the chair of board should be the leader of non-executive directors, it suggested voting by institutional investors which was not mandatory, it added that remuneration including pensions should be disclosed.

(d) Turnbull committee (1999)-The Turnbull committee was established to provide clarity on the internal control requirements of the combined including risk management assessment. The committee provides a guidance which provides direction to boards on how they can meet the code's requirements of maintaining a sound internal control system, conduct its review, and provide feedback to shareholders at least annually.

(e) Higgs report (2003)-The UK government commissioned Sir Derek Higgs to assess and review the roles of independent directors and audit committees. The terms of reference for the review includes the population of non-executive directors, hoe they

are appointed, their effectiveness and independence, and the remuneration paid to them. The committee report referred to as the Revised combined code therefore proposed that half of the board minus the chairman should be comprised of non-executive directors, that non-executive directors should meet at least once a year to discuss firm performance, that a nominated senior independent director should be tasked with addressing shareholder concern, and non-executive directors should have necessary skills and qualifications to discharge their duties with due diligence.

(f) Turnbull Guidance (2005)-The Turnbull guidance reviewed the Turnbull committee (1999) guidance on internal control systems. There were no significant changes to its scope and contents, but it was amended to encourage more disclosure and assessment of the internal control systems by the annual review and requires boards to admit and remedy any failings or weaknesses in the internal control systems. This guidance was replaced in September 2014 by the 'Guidance on risk management, internal control and related financial and business reporting'.

(g) The combined code of corporate governance (2006)-Consultation exercises were held with several stakeholders on the overall impact of the 2003 code and based off this, changes were made to the 2003 combined code. This was referred to as the revised combined code and recommended that the board chairman be allowed to be a member of the remuneration committee, it further allowed shareholder voting by proxy and shareholders can withdraw their vote, it advocates transparency and enhanced disclosure.

(h) Revised combined code of corporate governance (2008) was revised to accommodate EU requirements relating to audit committees and corporate governance statements. The Revised combined code removed the restriction on an Individual chairing more than one FTSE-100 company and concedes that company

chairman can be member of but not chair audit committee for companies below FTSE-350.

(i) **Revised Combined code of corporate governance (2010)-**The Financial Reporting council carried out a review of the 2008 code and made changes to the structure and content of the code. The name of the code was changed to 'the UK corporate governance code'. It provides clearer advice on board composition and factors that underpins an effective board; it provides the principle that the board should have appropriate balance of skills to discharge its duties efficiently, it further recommends that all FTSE-350 directors be nominated for re-election each year, that the chairman should oversee the development and training of each director, the code further prescribes board evaluation by external consultants and improvement of risk management reporting provisions.

(j) **Sharman Inquiry (2011)-**The Financial Reporting council announced in March 2011 the launch of an enquiry led by Lord Sharman with a view to identifying lessons for companies and auditors addressing going concern and liquidity risk. The inquiry examined the board's responsibilities for setting and controlling risks including explanation of actions, solvency and liquidity risks and going concern and it examined whether special disclosure regime is required for banks.

(k) **Revised UK corporate governance code (2012)-**The UK code of corporate governance was revised in 2012 and included better reporting by audit committees, it requires declaration by board that annual reports are fair, balanced, and understandable, companies are to report or explain progress on boardroom diversity policies.

(l) **Revised UK corporate governance code (2014)-**The code was revised to place emphasis on enhanced quality of information received by investors about the long-

term health and strategy of companies and updated the executive remuneration section of the code to ensure that it is designed to promote long-term success of the company and outline how this is being achieved to shareholders

(m) Revised UK corporate governance code (2016)-The UK corporate governance code was further reviewed in 2016 and supported by revised guidance on audit committees to reflect changes in the principles to implement European Union Audit regulation and Directive.

(n) Revised UK corporate governance code (2018)-The UK corporate governance updates the principles to place emphasis on value creation for shareholders and stakeholders, advocates greater board engagement with the workforce, principles on board culture that aligns company value with strategy, emphasis on board succession and diversity, outlines further principles on remuneration committees and their roles, workforce remuneration and emphasis on performance related pay. It also issued guidance on board effectiveness which should be considered alongside Guidance on audit committees and guidance on risk management as well as internal control and related financial and business reporting.

2.4 The concept of CEO pay

The literature abounds in papers that examine the relationship between Chief executive pay and performance. This section will discuss some of these papers and thereby provide empirical basis for the executive pay and performance relationship. This section discusses executive pay and performance as well as the design and components of executive pay. It also discusses performance and performance measures, board governance as aspects of the corporate governance codes and corporate governance mechanism.

2.4.1 CEO pay as a corporate governance mechanism

Corporate governance hinges on building credibility, ensuring transparency and accountability as well as maintaining an effective corporate practice that will foster good corporate performance. Agency issues is one of the tenets of Chief executive pay. It arises as a result of the separation of power between the owners of a business (principal) and appointed managers (agent) otherwise known as the principal-agent theory. Managers in carrying out the day-to-day activities are deemed to be better informed about the business thereby creating different levels of information access as agents have more access and possess more information about the organisation than the principals. This is otherwise referred to as information asymmetry. This gives rise to moral hazard as it is assumed that the agent will exploit this information to his own advantage at the expense of the principal.

According to the agency theory, executive pay is a means of aligning the interest of the principal and agent so that agency cost is reduced. Based on this theory, Chief executives will always make decisions that will ultimately be of benefit to them and not the organisation they work for unless they are given reasons to put the needs of the firm before their own interests. CEO pay is one of the ways or more appropriately, one of the reasons given to Chief executives to act in the interests of the organisation. It is such that the higher the pay to CEOs, the more value they add to the firm. A shortcoming of this notion is that when faced with decisions that are of benefit to the firm in the short term versus long term, the longer-term benefit is sacrificed for the short-term benefit so that the CEO earns his 'bonuses' while creating the illusion that value has been added.

CEO pay is receiving increasing attention in the literature as firms are managed by Chief executives and the incentives provided by their compensation arrangements is said to influence their decision making (Amzaleg, Azarb, Ben-Zionb; Buck & Liu, 2008 & Rosenfeld 2014; Zhu & Tian, 2009). CEO compensation is a very controversial subject that is

fuelled among several factors by the 2007/2008 recession, high pay, growing income inequality and the assertion that it is insufficiently tied to performance. CEO compensation is often a subject in the academia that is extensively researched yet inconclusive. This may largely be due to the differential nature of economies in which it is researched as well as the dynamic nature of human behaviour. Researchers argued that remuneration policies in financial institutions led CEOs to undertake excessive risks which in turn led to the global financial crisis. It is said that they sacrificed long term firm value maximising projects for short term personal bonuses. The agency theory posits that Chief executive compensation is a means to align the interests of CEOs to that of shareholders or the owners of the business such that they act in the interest of the shareholders. The alignment of remuneration packages to suit that of the stakeholders is an attempt to mitigate the agency problem so that CEOs always undertake projects which seek to serve the interests of the shareholders and not their own power amassing self-interest. This research intends to test that assertion. The pay performance relationship is one that is recurring and often creates a tense and pensive atmosphere especially when CEOs act to serve their own self-interest. A typical scenario is the recent liquidation of construction giant 'Carillion' in the UK which caused public uproar as executives amended their contract such that they will continue to receive their salaries and bonuses months after the company has been declared bankrupt while the pension of other employees is left hanging. Pay packages of Chief executives continue to be under the microscope for several reasons but ultimately, the populace wants to be assured that pay commensurate performance and that CEOs are being paid to perform.

2.4.2 Types of CEO Compensation

CEO compensation can comprise of a number of components which can include but is not limited to;

a) Fixed compensation- Fixed compensation does not depend on performance. The level of fixed compensation is stationary and may be awarded immediately i.e., a salary or may be deferred to the future e.g., Pension.

b) Variable Compensation- A variable compensation depends on different performance measures which may include profit or stock performance. The bonus can be awarded immediately or may be "promised" for a date in the future. The future materialization of the deferred bonus may depend on the passing of time or may be dependent on pre-determined performance, e.g., profits or stock price.

Variable compensation may be subject to "clawbacks". This occurs when variable compensation that is previously awarded (either immediately or after an amount of time or after a performance target is met) is recouped because of an adverse development e.g., a failed investment or insolvency.

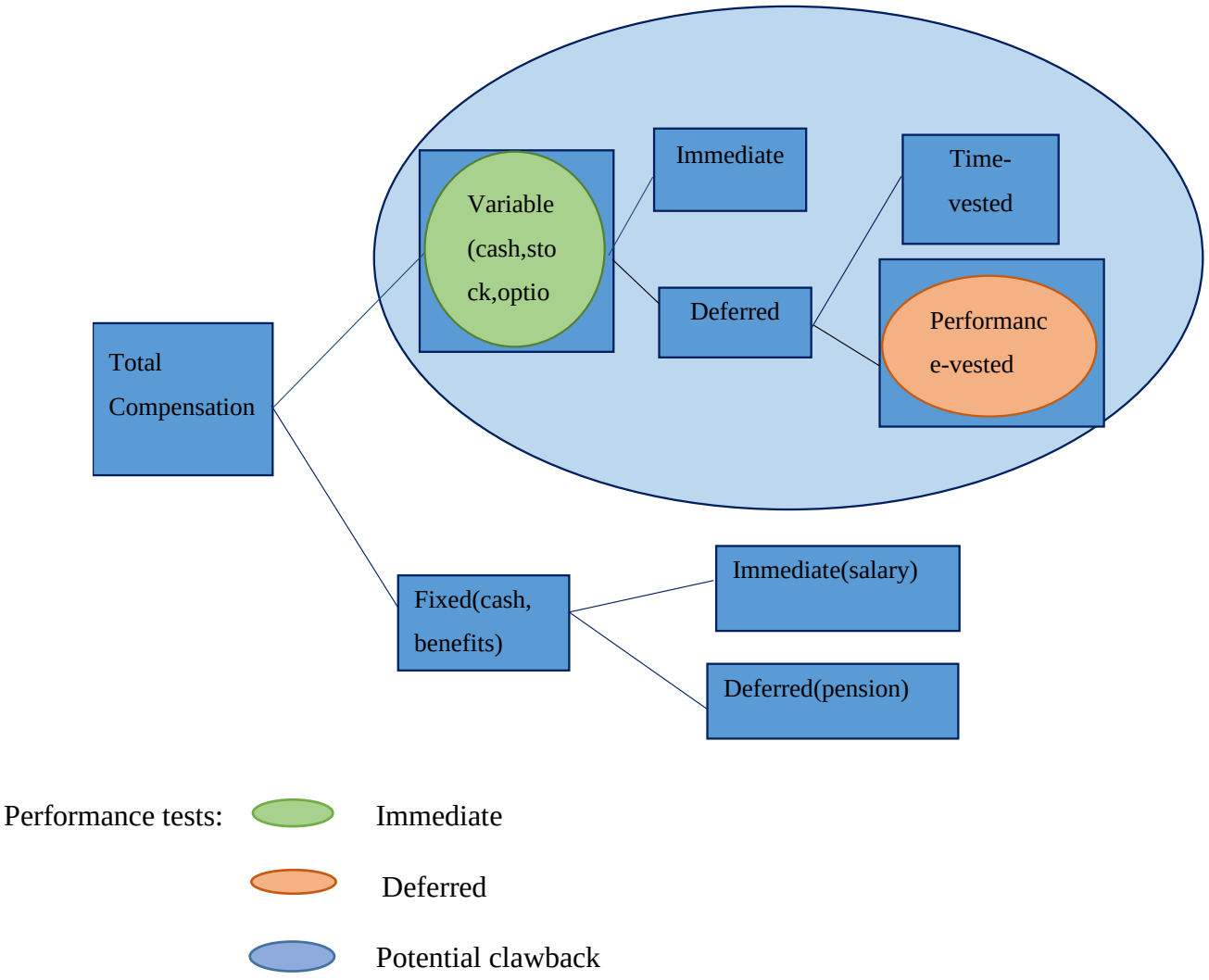
2.4.2b Types of Variable Compensation

i) Bonus plans: Bonuses are usually rewarded to CEOs if a pre-determined benchmark is achieved. Bonuses are often measured based on accounting data. A feature of bonuses is that it possesses a minimum threshold and a maximum pay out (Ittner et al 1997). The limitation of CEO bonuses as opined by Armstrong (2001) is that bonus plans which are based on earnings growth distort investment decisions and objectivity in value creation. Further, bonuses are taxable, and which reduces its appeal to executives, bonuses are only earned when the minimum threshold is earned and there is no maximum threshold although a maximum pay out can be set, and bonuses suffer from ratcheting effect or clawbacks.

ii) Chief Executive share option plans (CESOP)- CEO share option gives an executive the right but not the obligation to purchase certain number of shares at a specified period for a specific price. The three types of stock-based compensation as listed by Stewart (1998) are non-qualified stock options, incentive stock options (ISOs) and

stock appreciation rights. Stock options form a significant part of a CEO's compensation package, and their use is a way of reducing the moral hazard problem according to agency theory. Unlike bonuses, equity pay is linked to the firm's share price. Conyon, Fernandes, Ferreira, Matos and Murphy (2011) evaluated stock options in the United States and showed that it accounted for 23% of CEO pay in 1992, by 2001 however, it accounted for 43% of CEO pay.

Figure 1: Types of CEO compensation



Source: Oppers and Kulkarni, IMF (2014)

2.5 Board governance as a corporate governance mechanism

The board governance literature identifies several features of good governance as enacted by the several corporate governance codes.

2.5.1 Board of Directors-Shareholders by appointing the board of directors have an instrument with which to control managers and ensure that the firm is run in their interest. The board of directors is tasked with the important roles of monitoring and advising the executives. The monitoring role of the board of directors mean that they supervise managers to ensure that they act in the best interests of the shareholders. The advisory role of board of directors means that they provide directions and perspectives to managers to make key business decisions. The 2000s as pointed out by Edwards, Halligan, Harrigan and Nicoll (2012) especially post the financial crisis saw the developing and shoring up of governance frameworks that were deficient and complacent in checking the overly risky behaviours of bank executives. The period then saw different countries introduce several codes through legislation with the responsibility of enforcement resting with the board of directors. The role of the board of directors in their responsibility in ensuring the application of corporate governance codes cannot be understated in developing economies such as Nigeria because the legislative framework is weaker compared to developed economies. Board of directors have an even more important role to play in developing economies such as Nigeria where the legislative framework is not as strong as those in the developed economies, (Edwards et al 2012). The board of directors is responsible for the governance of their firms while the role of the shareholders in governance is ensure that an appropriate governance structure is in place in the firm and to appoint the directors. The board of directors in their representation of shareholders also are responsible for the development and implementation of financial policies in the firm and ensuring feedback to the shareholders.

2.5.2 Board size- Board size is defined as the total number of directors on board including executive and non-executive directors. The Walker review (2009) stated that the boards of listed banks in the United Kingdom were larger than boards of other listed companies and this was worrying. This was regarded as an issue of concern because of the popular view that the overall effectiveness of the board tends to have an inverse relationship with its size. A board that is large is considered not to be in the interest of shareholders as suggested by Aebi et al., (2012). It is believed that large boards reduce firm value because of free-rider problems. Evidence to support this view abound in the non-financial sector (Hermalin & Weisbach, 2003) but is the same obtainable in banks? Adams and Mehran (2003) reported that the boards of Bank Holding Companies (BHC) are larger than the boards of other firms. BHCs may have larger board sizes due to their large bank size and their complex organisational structure. Further research by Adams and Mehran (2012) detailed that average board size decreased overtime. The board structure whether one-tier or two-tier also matter for board size. Most European countries adopt a two-tier board model while United states, United Kingdom and Nigeria are some adopters of one-tier board system. The two-tier board model consists of a supervisory board and an executive or management board. The question then becomes whether board size matters for bank performance and to what extent? Dalton et al (1999) noted that larger boards may be beneficial to the firm because they increase the pool of knowledge and resources available to the firm especially firms with complex business structures. There is no consensus in the empirical literature as to the role of board size in influencing executive pay. Research works including studies by Conyon and He (2011,2012); Doucouliagos et al., (2012); Hearn (2013); Ozkan (2007) and Shiyyab et al., (2014) obtained evidence of a positive impact of board size on executive pay while Buck et al., (2008), Pan et al.,(2009) and Gregg et al.,(2012) found that board size holds no significance for executive pay.

2.5.3 Board independence- Board independence is the proportion of non-executive directors on the board with no financial interest in the affairs of the firm. A significant representation on the board of directors of executives with no social or business connections to the management is another feature of good governance. Adam and Mehran (2012) argued that non-executive or independent directors may be more effective in monitoring the CEOs because they are less beholden to the management and may provide alternate perspectives to management problems which may be particularly important in firms with complex structures. The US Sarbanes-Oxley act as well as the U.K. Combined Code lays emphasis on the importance of outside non-executive directors that have no financial interests in the firm on the board in order to monitor management. Board independence is in theory is expected to have an inverse relationship with executive pay because a high proportion of non-executive directors as members of the board signifies greater monitoring and better scrutiny of executive pay and reduces the ability of the executive to maximise his own self-interests or extract rent. Further, empirical literature results on the impact of board independence are mixed. Some studies reported that board independence exerts a positive impact on Chief executive pay (Lambert et al., 1993; Ozkan, 2007), some research evidenced a negative impact (Boyle and Roberts, 2012; Cornett et al., 2008; Fleming and Stelios,2002) and few other research works documents no relationship between board independence and Chief executive pay (Doucouliagos et al., 2012; Gregg et al., 2012 & Pan et al., 2009).

2.5.4 CEO Duality-The Cadbury report which is the foundation of the UK Corporate Governance Code recommends that the roles of the chairman should be separated from the role of the CEO to ensure board independence (Goergen, 2012). CEO duality occurs when the CEO or executive director is also the chairman of the board of directors. Tribbett, (2012) documents the wide acceptance and adoption of this recommendation in the U.K. The research shows evidence that over 90% of FTSE 100 firms as of 2011 were complying with

this provision, it further shows that the separation of the roles of the chairman and the CEO was becoming popular in the United states with 44% of S&P 500 companies and 62% of NASDAQ companies adopting this recommendation.

The literature (De Haan and Vlahu,2015; Jensen,1993 & Lasfer,2006,) identified two main disadvantages of CEO duality. First, it negatively impacts the monitoring ability of the board and second, it increases the managerial power of the CEO to influence board decisions. CEOs who possess both the roles of chairman and chief executive will probably have a greater influence in the board selection process than would be the case if otherwise. Furthermore, in selecting board members, they are likely to appoint non-executive directors who are unlikely to 'ruffle the feathers' and question their actions or business decisions. Also, combining the CEO/chairman positions could further increase information asymmetry and limit the flow of information to other board members (Hardwick et al., 2011). However, critics against the splitting of both roles argue that CEO duality can provide clarity in the firm's objectives and strategies and provide stability for the firm (Anderson and Anthony, 1986) by eliminating the likelihood of conflict between management and board of directors thereby leading to better performance. Dey et al. (2011) examined 281 firms who changed leadership structure either away or to a dual structure in between 2001-2009. They posit that CEO duality leads to increased agency costs because the ability of the boards to monitor the CEO is reduced. Grove et al. (2011); Faleye and Krishnan (2010) documents a negative relationship between CEO duality and bank performance. Pathan (2009) suggests the CEO duality may reduce bank risk and improve performance. However, Hardwick et al., (2011) argues that the role of CEO duality in the pay-performance relationship is better examined alongside other board governance characteristics. They argued that often times than not, more than one control or monitoring mechanisms may be deployed simultaneously.

2.6 Performance Measurement

Performance measurement is critical in translating a firm's strategy into desired outcomes (Van der Stede et al, 2001). Performance measures help to communicate to CEOs the expectations of the firm, monitor their progress, provide feedback, and motivate Chief executives through the use of performance-based reward systems. Performance evaluation usually affects the compensation and rewards of CEOs hence they are often concerned with the performance evaluation process as well as the types of measures used to evaluate their performance. When choosing an appropriate performance measure for remuneration contracts, Miller (2004) opines that performance measures should be linked to shareholder value creation, be aligned with the firm's strategy, and reflect the firm's operating performance. Further, performance measures should emphasise the firm's objective which should be quantifiable and be linked to balanced growth and returns. Performance measures can be financial or non-financial.

Financial performance measures rely on financial data and are also referred to as objective measures of performance while non-financial performance measures rely on managerial assessments and are also referred to as subjective financial measures. Hard performance measures refer to financial outcomes such as Return on Assets, market share, sales and other financial measures and soft performance measures refer to outcomes including innovations, learning and customer satisfaction. Kaplan and Atkinson (1998) argued that firms will continue to favour financial measures because of its aggregate nature and that it has a direct relationship with their profit-seeking objectives or value creation objectives. Lau and Sholihin (2005) that the adoption of non-financial measures may be seen as fair because they are broad and varied. Kaplan and Norton (2001) suggest that non-financial measures consider several aspects of performance including lagging and leading performance indicators, short and long-term objectives, external and internal measures of critical business procedures,

innovation, learning and growth. Li and Ye (1999) argue that no unilateral objective measure can capture overall performance effectively unless used with another measure to assess firm performance. Profit measures such as return on Assets (ROA) and return on equity (ROE) can demonstrate how efficient a firm's operation is while sales growth is a growth measure that can give insight into how open a firm is to new markets or how it can expand existing one.

Empirical evidence on the relationship between measures of performance and CEO compensation are often mixed. Numerous research works like (Carpenter & Sanders, 2002; Kerr & Bettis,1987; Sloan,1993) found relationship between accounting-based measures and Chief executive compensation to be strong while others found that the relationship is more between CEO compensation and market-based performance measures. (Conyon et al. 2000; Coughlan & Schmidt,1985; Murphy,1985; Zakaria et al. 2015). Both types of performance measures will be considered in this research. Accounting based measures of performance to be used are Return on assets (ROA) calculated as the ratio of operating profit before depreciation and provisions divided by total assets and Market based measure by way of Annual shareholder return.

However, these measures are not without their flaws. Miller (1987) argued that accounting information is not readily available and can often be unreliable thus making subjective measurements more valuable than objective measurements and that they can be manipulated by management. This manipulative tendency is one of the reasons why CEO pay is a critical area of research and why the literature keeps evolving to effectively align CEO pay with performance. Given that efficiency and value creation not rent extraction is preferred by shareholders when rewarding executives, the appropriate performance measure for a firm should be able to gauge the efficiency of the CEO not the power of the Chief executive. However, the literature remains inconclusive on what performance measure is suitable in

measuring this efficiency while at the same time excluding the noise and influence of uncontrollable factors outside executive control.

2.6.1 Accounting Based Measures Of Performance.

Accounting (profitability) measures of performance aim to assess the ability of a firm to generate profit. These measures analyse the earnings of the firm as well as profit made on sales. Accounting measures of performance includes return on investment, return on sales and return on capital employed.

1) Return on investment (ROI): This is an important measure of firm's profitability. It is widely considered to be the most important variable in analysing the firm profitability. ROI is measured by return on assets (ROA) and return on equity (ROE).

a) Return on Assets (ROA) measures return via the assets used to produce income. It assesses the firm's performance vis a vis investment made without consideration on the type of capital used to finance investment. It measures the relationship between the profit before interest and tax and the total assets expressed as a percentage. Stickney et al (2007) criticised the ROA that although it shows the efficiency of the firm total assets in producing profit, it ignores the means and the cost of financing the assets. It does not consider the proportion of debt versus equity financing and the cost attributable to those forms of capital.

b) Return on Equity (ROE) is reward paid by a firm to its shareholders for finance made available to the firm by the shareholder. It indicates how well the CEO was able to maximise the return of stockholder based on their investment in the firm. Duffy (1995) highlighted a limitation of the ROE as it does not accurately reflect the owners of the firm if the firm is creating shareholders wealth or destroying it.

Sloan (1993) argued that accounting-based measures are more suitable performance measure than market-based measures of performance in the design of remuneration contracts because

they shield CEOs from market noise. Empirical evidence from Holmstrom (1979), and Lambert and Larcker (1987) argue that the choice of accounting-based or market-based measure is dependent on the relative noise in that measure of performance. They suggested that the measure with less noise is usually preferred. Similar evidence was put forward by Sloan (1993) that accounting measures are better measures for shielding CEOs from non-specific influences by the market in assessing their performance.

2.6.2 Market based measures of performance

Zakaria (2012) suggests that firms tend to use share prices as a measure of firm performance against which CEOs are assessed. However, as posited by Lambert and Larcker (1987) that the use of only a market-based measure of firm performance is insufficient for purposes of performance evaluation. CEO pay packages therefore usually comprises both accounting-based and market-based performance measures (Coyle, 2005; Reda et al, 2005; Zakari, 2012).

2.7 Financial versus Non-financial firms

Financial firms such as banks are different from non-financial firms. The failure of financial firms has more serious and far-reaching consequences because of their peculiar position in financial intermediation. Therefore, excessive risk taking can lead to systemic risk hence the reason for heavy regulation in the financial sector compared to other sectors. The risks that bank failures pose is usually not to the bank itself but to other externalities in the financial system including the broader economy. This importance sometimes incentivises larger banks to take more risks. The risks that the failure of large financial firms pose means that they sometimes have a de facto government guarantee because they are ‘too big to fail ‘which increases their risk appetite, Laeven (2012). The banks rely predominantly on depositors as their funding source. As explained by De Haan and Vlahu (2016), a bank by using demand–deposit contracts is allowed to provide loans, but the maturity transformation function of the

loan exposes the banks to potential coordination failures among depositors. Furthermore, the funding available to banks by means of deposits creates an incentive to take additional risks. The rationale behind this is because the riskier the investments, the higher the rewards. While high-risk investments may give rise to additional revenues that then accrue to the intermediary, the risk of failure, if that happens, will be substantially borne by the depositors. Debt holders wield power via the loans they provide which usually have a short maturity period so that borrowers, the banks in this case, have the need to come back at regular and short intervals for more funds, (Shleifer & Vishny, 1997). The power held by these debtholders can then be utilized as a monitoring mechanism. However, the large number of small depositors means that the power of debtholders is diffused hence weaking the monitoring power of debtholders in banks (Laeven,2012). Also, the depositors themselves are not properly incentivised to monitor bank managers because of high coordination costs and information asymmetry as argued by Demirgüç-Kunt and Detragiache (2002). The Deposit insurance system offers protection for depositors and their funds, but this protection provides the managers with added incentive to take risks. The protection of depositors by the deposit insurance system means that depositors are less sensitive to risk taking by banks compared to other investors and as such are not adequately compensated for the risk taken by banks hence, making debt a cheaper source of funds for banks and biases bank managers towards it (Avgouleas & Cullen, 2014; Mehran et al., 2011). Financial firms are also much more leveraged than their non-financial counterparts, (Avgouleas & Cullen, 2015). Laeven (2012) points out the typical leverage ratio of a bank is about 10, a figure that is much higher than that obtainable in most nonfinancial firms. In short, while the literature and research recognise that non-financial firms are not devoid of excessive risk-taking, especially if they have a weak capital base, the agency problems of financial firms are further compounded by the protection offered by deposit insurance and government guarantees which affects

bankers' incentives and encourage additional risk-taking. Also, the unique nature and role of banks in an economy and the far-reaching externality of their failure makes the agency problems of banks critical especially its implications for the wider economy. However, corporate governance literature has always been focused on the agency with a view to shareholder value creation. This is quite a narrow outlook and is now being evolved towards stakeholder value creation. Trying to align the interests of CEOs to those of equity holders may not agree with the features that will maximize firm value and like Acharya et al., (2009) suggested, executive pay of banks should be designed in a way that aligns the interests of the CEO with the interests of all debt holders. Therefore, in trying to align the interest of several stakeholders, whose interest should be prioritised when there is conflict.

2.8 CEO compensation and Firm performance

For many years, the relationship between pay and performance were understudied by the literature. Jensen and Murphy (1990) is one of the earliest and suffice to say pioneer of research into the relationship between CEO compensation and performance using a large sample of US firms during the year 1974-1986. They examined pay-performance sensitivity and found that pay for performance is more sensitive to equity-based pay than it is to annual bonuses and salaries.

Hall and Liebman (1998) reported a positive relationship between CEO compensation and firm performance and found that such a significant positive relationship was because of changes in the value of CEO holdings and stock options. Boschen and Smith (1995) researched the pay-performance relationship using past as well as current performance using a sample of 16 US firms over the period of 1948-1990. The research used their stock market returns as proxy for performance. It concluded that although historical performance has a significant influence on current remuneration, the effect is non-lasting. Frydman and Jenter

(2010) reported that the ratio of the performance-based component to total pay among CEOs in the United States has been on the increase since the 1970s. Bebchuk and Weisbach (2010) says that a typical S&P 500 CEO had about 78% of their total pay linked to performance in 2008 and potentially at risk if the firm did not perform well. Renneboog and Zhao (2011) reported that performance-related pay of a typical CEO of a large company based in the UK makes up about 70% of total pay. However, since not all pay components that are "supposedly" performance related are good at creating a robust pay-performance link in practice.

Banks have special features which make them distinct from other firms and thereby pose corporate governance problems for managers and regulators as well as claimants on bank's cash flow according to Macey and O'Hara (2003). They also have little equity in their capital structure and are highly leveraged compared to other industries. Therefore, their unique capital structure does not make shareholders the exclusive beneficiary of fiduciary duties but debt holders, the primary claim holders. Thus, the interest of debtholders and shareholders is more conflicted in banks due to its high debt-equity ratios. Although, high remuneration can strengthen the motivation of CEOs to add more value to the firm, it may lead to conflict of interest because providers of debt do not participate beyond the debt provided but share in losses in case of insolvency, (Shiyyab et al.,2014).

Banks are also heavily regulated. The effectiveness of corporate control mechanism in place may be influenced by the regulatory environment. The existence of deposit insurance and the capital requirement among other factors may bring about moral hazard and sub-optimal behaviour. This is because CEOs might become laid back knowing that stakeholders will be compensated for in adverse situations. This is similar to the 'too-big-to-fail' mentality coupled with bad corporate governance practices that led to the downfall of Enron, Parmalat and the likes.

Empirical Literature drawing on research works from US banks indicate that CEO compensation level and structures in US banks are very different from those in other sectors as a result of differences in their capital structure and the regulatory environment. Compared to other regulated industries, regulation in banks has been associated with lower pay-performance sensitivity in executive compensation, lower compensation and fewer stocks option than do CEOs in other sectors, (Adam and Mehran, 2003; Houston and James, 1995). Empirical and theoretical studies found that banks responded to Regulations and opportunities.

2.8.1 Response to Deregulation

Banks respond to deregulation by changing their CEO pay structure and relying more on performance-based compensation schemes, thereby encouraging CEOs to invest in only positive Net Present Value (NPV) projects. Crawford et al (1995) researched pay-performance sensitivity for 239 CEOs of 124 US commercial banks before and after 1982 period (deregulation process was implemented in 1981-82) and found a significant increase in the level of pay-performance sensitivity between the pre and post 1982 period. Similarly, Hubbard and Palia (1995) investigated pay-performance relationship in deregulated interstate banking markets in the 1980s using 147 US bank They found the relationship between CEO pay and banks performance to be very pronounced when interstate banking is permitted than when it is not. Likewise, in using a sample of the largest 300 commercial banks operating in the US over the year 1984-1987, Magnan and St-Onge (1997) find that CEO compensation is dependent upon bank performance in high managerial discretion situations than in low managerial situations.

2.8.2 Response to Opportunities

Becher et al., (2005) posited that banks in the US responded to new opportunities by expanding the corporate control market, they also increased competition through the improvement of internal monitoring mechanisms and adopted performance-based compensation as a means to align CEO interests with those of shareholders. They arrived at this conclusion by drawing a sample of 700 US banks from the Execucomp database from 1992-1999 and found that difference in compensation structure phased out gradually over the 1990s.

Although, the deregulation of the financial services industry has led to higher competition and made bank compensation structures similar to that of non-banks, the changes in banking regulations which evolved in response to the financial crisis has seen new set of restrictions emerge on executive compensation aimed at mitigating excessive risk taking.

The links between the pay and performance is usually measured methodologically by two related measures; i) Pay-Performance Sensitivity (PPS), which shows movement in pay relative to monetary increase in shareholder value, and ii) Pay Performance Elasticity (PPE), which shows percentage change in pay relative to percentage increase in shareholder value Murphy (1999). The literature uses both accounting and market-based measures as performance measures. Accounting-based performance measures such as return on assets (ROA) and return on equity (ROE) while market-based performance measures such as total shareholder return (TSR), Earnings per share (EPS), and the market value of assets relative to book value, or Tobin's Q (Conyon and He, 2011).

2.9 CEO pay and firm specific characteristics

Leverage- Leverage reflects the capital structure and is calculated as total debt to total assets expressed as a percentage. Jensen (1986) posits that great debt usage can be a good corporate

governance mechanism in reducing agency problems by curbing manager's access to excess cash flows. For example, it is believed that debt holders are often more conservative and likely risk-averse (Levine, 2004; Mintz, 2005). The role of debt holders in the banking sector is different due to regulations and deposit insurance provisions. The incentive to monitor bank directors and to control excessive risk taking may be removed by deposit insurance since depositors are insured. This is because the funds of depositors are protected by the national deposit insurance provision of each country and at least some or all the depositor's investment is guaranteed irrespective of the investment strategies adopted by the bank. (Cooper, 2009; Crawford et al., 1995; Macey and O'Hara, 2003). Empirical evidence in the US (Grove et al., 2009; Larcker et al., 2007) found that negative relation with performance is a characteristic of highly leveraged firms as a high proportion of debt over equity signifies weak corporate governance.

Bank size- Another firm specific characteristic that can influence CEO pay is bank size. Groysberg, Abbott, Marino and Aksoy (2021) argue that most companies try to keep up with what is offered by peers thereby creating a 'race to the top'[8]. Generally, larger firms have greater bargaining power in managerial labour market and sometimes 'benchmark'[9] pay contracts. They can also use remuneration contracts to lure CEOs away from smaller banks with the promise of 'robust' pay packages. Lannota et al (2007), Boone et al., (2007) opine that a larger size allows a bank to obtain economies of scale as they are likely to have more access to internal funds or external resources. While larger banks may enjoy economies of scale due to their access to resources, they may also subject to higher agency and monitoring costs. Further, larger banks are sometimes faced with a more complicated structure and managerial layers which may reduce efficiency. Olaniyi and Obembe (2017) citing Tosi et al (2000) argue that CEOs prefer their remuneration contracts linked to firm size than

[8] Race to the top refers to the competitive nature of remuneration contracts and the need to outdo each other
[9] Larger firms set minimum pay contracts in the executive labour market and smaller firms have to match them

performance. The empirical literature reports that bank size impacts positively on financial performance (Al-Khouri, 2011; Al-Sahafi et al.2015; Beiner et al, 2006; Naceur and Omran 2011; Olaniyi and Obembe, 2017; Pasiouras and Kosmidou, 2007; Tosi et al, 2000). Al Sahafi et al (2015) used a sample of 11 listed banks on the Saudi Stock Exchange over the period 2009-2012 and found that there is a strong positive relationship between bank size and financial performance measured by ROA and ROE. Al-fadhli and Al-Ali (2021) examined the effect of bank size on the pay performance relationship of banks in Kuwait. Using a sample of ten banks over the period of 2008-2018 and analysing using OLS, they found that bank size exerts a statistically insignificant effect on the pay-performance relationship.

2.10 Pay performance sensitivity

The early studies on pay-performance concentrated on the sensitivity of cash pay to changes in performance, they limited pay to salaries and annual bonuses and found little sensitivity (Rosen, 1992; Conyon and Gregg, 1994). Research estimated a 1.5% increase in CEOs salaries and bonuses for every 10% rise in shareholder values. Thereby, the sensitivity of cash pay to performance were not only low but varied across different research and firm samples. As a result, some research reported a strong pay-performance correlation (Bellivieau, O'Reilly and Wade, 1996), while others reported two small and statistically unimportant pay performance sensitivity. The use of cash pay sensitivity to measure incentive strength were incomplete since they ignored equity-based pay. Hull and Liebman, (1998) reported the role equity-based pay had on incentive pay using a sample of 478 US based firm from 1980 to 1994, they found same in line with other studies that CEOs were paid about 2.2% increase in salaries and bonuses for every 10% increase in shareholder value. The analysis also inferred that the increased use of option grants increases the total elasticity of CEO pay to market value by more than 200% between that same period. Research in the UK at the time also obtained similar results.

Benito and Conyon (1999) used a sample of 1000 UK based companies from 1984-1995 and found that the CEOs of UK firms received 2.6% increase in salaries and bonuses for a 10% rise in shareholder value similar to Hall and Liebman and when that research adjusted for CEOs holdings of share option and restricted stock, they reported way higher level of pay performance elasticity (Buck, Bruce, Main and Dueni, 2003; Main, Bruce and Buck 1996.) According to Main et al findings, the highest pay CEO received an 8.94 % increase in total pay for a 10% increase in shareholder values. The empirical results by these studies highlighted that there was indeed correlation between pay and performance. With the literature on pay-performance on the rise, Tosi, Weiner, Katz and Gomez-Mejia (2000) was the first study to research the rising pay-performance literature by adopting a meta-analytical approach. It summarised and assessed the results as well as methodologies adopted, and datasets used by the several research works. The research focused on the determinants of cash pay and the analysis and found that changes in firm performance is only responsible for about 4% of variance in CEO pay, it found that about 90% of it on the other hand is attributable to firm size. CEO pay researchers viewed this as evidence that the inherent heterogeneity across firms is masked by the pay-performance estimate such that pay differentials in different firms means that the pay-performance relationship can be stronger in some firms and weaker in others.

According to theory, firms should adopt pay-performance sensitivity that are industry-specific and can depend on inherent firm factors such as market risks, ownership structure, organisational strategies and their corporate governance characteristics which prompted researchers to empirically investigate moderator effects to the pay-performance relationship as well as factors that influence pay-performance sensitivity. (Bruce et al,2015).

The empirical literature on pay-performance sensitivity of recent focus on research that examine moderator effects relative to; institutional ownerships and how different types of

institutional investors affect the pay-performance sensitivity, the effect of board characteristics e.g., board diversity and board independence on pay-performance sensitivity, the role of directors and the use of external consultants and the effect of external factors.

2.10.1 Institutional ownership

The theory suggests that CEO remuneration and incentives is set by shareholders to effectively minimise agency costs. However, in practice, shareholders are too numerous and too diverse to set pay. This is done on behalf of the shareholders by the board of directors. Although shareholders are not setting pay neither are they drawing up remuneration contracts by themselves, they do have the potential to influence pay-setting arrangements. Hartzell and Starks (2003) find that where institutional ownerships are large and concentrated in companies, CEO compensation was lower and pay performance sensitivity higher than in firms with more diffused ownership. Recent research also implies that not all institutional investors are very good at having a "say on pay" or making their voice heard and as such helps classify institutions into "active" or "passive" owners. Almazan, Hartzel and Starks (2005) find that investment company managers and independent investment advisors have better say and as such are associated with stronger pay for performance sensitivities than banks and insurance companies. Evidence of further heterogeneity among institutional owners or investors was shown by Shin and Seo (2011) which found that mutual funds and public pension funds all have different level of pay-performance sensitivity in the firms they invest. Further studies show that transient institutional owners who have high portfolio turnover are more likely to focus on short term financial performance and are likely to be passive in corporate governance matters as well as prefer to leave rather than "voice".

2.10.2 Compensation committees

The early 1980s witnessed the gradual adoption of compensation committees which were made up of executives and non-executive directors with the same executives invariably making decisions on their own remuneration. Conyon, (1997). In order to resolve the obvious conflict of interests characterised in these early committees, the pay-setting process is now characterised by independence of remuneration committees that establish pay levels and structures as well as greater transparency than in previous years. Nowadays, there are various forms of stock-based remunerations such as share options, long term incentive plans, pension entitlements and other sundry in kind benefits. These more modern components of CEO pay usually make up the majority of executive pay especially CEOs which often impacts on the level of executive pay.

Compensation committee was identified by Baker et al (1998) as the key institution that sets CEO pay. The presence of a CEO in a compensation committee is a potential conflict of interest and a concern for investors. Committees that are totally independent makes the pay-setting process more transparent and ineffective pay committees gives the CEO an opportunity to promote his interests at the expense of that of the shareholders. The empirical literature has found little evidence of the ineffectiveness of compensation committees. Conyon and Peck (1998) researched the relation between board, the compensation committee and executive pay for 100 largest firms in the UK between 1991 and 1994. Using panel data, they found an increase in the quality of governance overtime and their study showed that CEO pay is greater in firms that have a compensation committee or those with a greater number of independent members on the committee. They also found the pay-performance link was greater in firms that had a greater proportion of outside directors on the committee but little evidence that compensation committees were ineffective. Drawing from another study, Daily et al. (1998) researched 200 FORTUNE 500 companies in 1992 and found no

evidence of a relationship between CEO pay and the proportion of directors on the compensation committees. The emergence of these more modern executive compensation packages has garnered the interests of researchers as they seek to understand the impact of its use on the pay-performance relationship. This is also compounded by the "incremental changes in pay levels" and "radical changes in the pay-setting arrangements" thus leading to public outcry as executives are thought to receive unnecessary "high pay" for little or no performance. Bruce and Skovoroda, (2015). Studies like Anderson & Bizja, (2003); Bender (2003); Conyon and He,(2004) and Gregory-Smith (2009), also did not find evidence that compensation committees result in excessive CEO pay or poorly designed remuneration contracts.

2.10.3 Director networks

CEOs network and garner connections by serving as a non-executive director in other companies. Renneborg and Zhao (2011) examined director networks and its influence on CEO pay in the UK and found that positively, boards that are well connected may use such social connections for information gathering on the quality of prospective CEOs and benefit possibly the best management practice by virtue of that including relevant information on the advantages and disadvantages of different incentive contracts (Larcker, So and Wang 2013). A board network can also reflect the experience and success as well as a director's reputation in other firms. These positive attributes can be valuable to firms and as such increase the value of that CEO in the managerial labour market. Negatively however, executive director networks can be a means of accumulating managerial power against their boards and can benefit self-serving CEOs. Research evidence also shows that directors that serve on three or more boards and also serve as non-executive directors at the same time are often too "busy" and poor monitors if the directors as a result of the numerous boards they serve on render them ineffective. Renneborg and Zhao (2006) researched the influence of director networks

on CEO pay in the UK using a large panel data over the period of 1996-2007 and found that; CEOs that serve on many boards and have large networks enjoy higher pay with lower pay-performance sensitivity thereby lending credence to the rent extraction or the managerial power view of networks. They also found that CEOs who are in a more central position in the director network (they proxy this by a reciprocal to the average number of degrees of separation to other directors) have larger pay with higher pay-performance sensitivity. This result is interpreted as evidence that companies value CEOs with well-connected networks and go extra mile to pay a premium for well-connected boards.

2.10.4 External consultants

External consultants advise boards on executive pay practices. Critics argue though that pay consultants lead to poorly designed contracts and excessive CEO pay (Bebchuk & Fried,2004; Waxman,2017). In the UK, although boards are not mandated to use external pay advisors for pay-setting processes in their firms, they are however required to report the use of compensation consultants since 2003. Bebcuk and Fried (2004) in their argument puts forward that consultants are not entirely independent and suffer from conflict of interest because of other services they sell to their clients and as such refrain from" provoking" the CEO so as not to lose those other businesses. If this argument is true, then the CEO pay contract is not in the best interest of the shareholders. On the other hand, the optimal contracting view argues that external consultants are experts who because of the busy nature of boards merely provide valuable information and data to help aid them and as such, they help reduce opportunistic behaviours by the CEO which in turn lead to the design of well-structured optimal compensation contracts. Well, do external consultants promote the best interests of shareholders or do they help enrich CEOs? Empirical evidence shows that CEO pay, and incentives are rarely affected by pay consultants. Large amounts of variation in CEO pay were probably expected to be explained by pay consultants which was not the case. It

seems the driver of the recent growth in executive pay appear not to be pay consults nor does empirical evidence show that contracts are badly designed by pay consultants. Murphy and Sandino (2010) researched the services of pay consultants in the US and Canada and found CEO pay to be greater in companies where other services are provided by the consultant. Furthermore, they found pay to be higher in Canadian firms when the fees paid to consultants for those other services are large compared to the fees for executive compensation services. This result suggests that greater agency costs lead to increase in compensation. However, the research found that CEO pay was higher in US firms where pay consultants works for the independent board and not for management. Cadman, Carter and Hillegeist (2010) were another study that investigated compensation consultants. They did not find evidence of higher pay levels or lower pay-performance sensitivities among firms whose consultants have potential conflict of interest. They conclude that evidence that potential conflicts of interest between companies and its consultants as a primary driver of excessive pay to be little. Conyon, Peck and Sadler (2009) carried out a comparative study of the relation between pay consultants and CEO pay using data for UK and US for 2006. They found evidence that CEO pay is greater in firms that use pay consultants which is in line with the managerial power theory of executive pay. They also posit that the firms that use consultants use greater amount of equity in CEO compensation packages which is consistent with trying to align manager and shareholder interests and the optimal contracting theory. However, there is little evidence that using consultants who supply other services to the firm and have potential conflict of interest leads to higher CEO pay or poor design of pay contracts. By contrast, Goh and Gupta (2010) probed instances where firms change pay consultants and report that CEO pay is both higher and less sensitive to firm performance in the year when that change is reported. Researchers explained this result to mean “opinion shopping” by the firms that use consultants as a way to legitimise higher CEO pay. The extant literature on the relationship

between CEO compensation and performance have been highly mixed and inconclusive. This is because some are rewards for firm performance while others are incentives to perform. Thus," CEO *pay may be determined by performance and performance might in turn be determined by CEO pay"* (Doucouliagos, Graham & Haman, 2012). In line with the agency theory, higher pay should lead to better performance but also, better performance is expected to lead to higher pay hence the endogeneity of the relationship.

2.10.5 Large Shareholders

Large shareholders are the aggregate of shareholders with equity holdings that are greater than 3% of the total bank equity. (Agrawal & Knoeber,1995). According to theory, the larger the proportion of the share capital owned by a shareholder, the more involved the shareholder will be in corporate decisions. Also, their ability to monitor managers increases in line with the proportion of share capital. Previous research in other sectors suggest that larger roles for shareholders may influence firm's corporate governance and performance although results obtained by these research works may not reflect the peculiar characteristics of the banking sector. (Shleifer & Vishny, 1997; Gugler, 1999; Hartzell & Stark, 2003; Crongvist & Fahlenbrach, 2009; Zakaria et al., 2015). On one spectrum, the capital structure of banks is different from similar sized firms in other industries as they have little equity and high debts thus making debt holders such as depositor's primary claimants and not shareholders. (Macey & O'Hara,2003). On the other spectrum, improvement in performance was noticed in the US and UK firms when large shareholders increased monitoring unlike firms where levels of ownership concentration were low. However, banks operating in BRICS countries has high ownership concentration compared to other countries so this may not be the case. Therefore, the different levels in share ownership may lead to different incentive and capacities to monitor efficiently. Thereby, the bank performance and concentrated ownership may be sensitive to the level of controlling shares held in the banks.

2.10.6 Outside Directors

Outside directors is the percentage of outside directors without any executive function on the board. They are also referred to as non-executive directors or supervisory board members by banks that adopt the two-tier board system. The literature on agency theory identifies that outside directors have the motivation to protect their own integrity as independent experts and make efforts to improve corporate performance by monitoring board's decision and providing knowledge, by protecting the interest of minority shareholders and ensuring that management compensation contracts are designed effectively and reduce agency costs. (Fama,1980; Fama & Jensen,1983; John & Senbet,1998; Singh & Davidson,2003). Most empirical results however did show that boards of directors are an improper agent for shareholders and that outside directors have negative or little relationship with firm performance. Key papers in this area are: Mehran (1995); Agrawal and Knoeber (1996) and Bhagat and Black (2002) in the US while Weir and Laing (2000) using 200 firms between 1992 and 1995; and McKnight and Weir (2009) used 128 non-financial firms over the years 1996-2000 in the UK. Again, the paucity of studies focusing on the role of outside directors in the banking sector is visible. Similar to studies outside the banking sector, the evidence shows that board independence has no relationship with bank performance. Staikouras et al. (2007) is one of the recent studies that found no relationship between board independence and bank performance. A sample of 58 banks in Europe was employed over the period 2002-2004. Adams and Mehran (2012) likewise used a sample of US banks from 1986-1999 using the Centre for research in security prices (CSRP) database. Non-executive (outside) directors in the Anglo-American corporate governance system act as shareholder representatives to monitor managerial performance as a form of internal control. The supervisory board in Franco-German corporate governance system on the other hand exhibit a system of monitoring that is external rather than internal. (Conyon & Schwalbach,1999). For banks that

adopt the two-tier system, it is assumed that the directors on the supervisory board act as non-executives. These difference in corporate governance structure with respect to the monitoring roles of outside directors is expected to influence the relationship between outside directors and bank performance.

2.10.7 Regulators

The regulator is a stakeholder who monitors the activities of banks and their executives. If there is the absence of adequate creditor discipline, the regulator can take over the monitoring role of debtholders and act on behalf of small depositors who may find monitoring the actions of bank executives costly, (Dewatripont & Tirole, 1994). The objective of the regulator is to create a framework for good corporate governance by providing set of rules which the boards are expected to adhere. The regulator expects the board to provide via remuneration contracts adequate incentives for good governance. Also, it expects the boards to uphold and ensure the safety and soundness of the financial institution, an objective that the board may not share especially if this objective is not in the shareholders' best interest (Adams & Mehran, 2003). The regulators have access to several instruments which they can utilize to enforce this objective. The regulators have authority in most countries to require sufficient regulatory capital and to restrict the type of services that banks may render. Theoretical evidence on the impact of regulation on CEO pay and performance is not clear. Regulation may be useful in reducing information asymmetry by restricting the discretion exercised by Chief executives and its ability to adversely affect shareholder wealth thereby reducing the mechanisms needed to monitor executives and ultimately recuing monitoring costs. While this means that regulation may act as a substitute to monitor CEOs by boards, The objective of the regulator is to create a framework for good corporate governance by providing set of rules which the boards are expected to adhere. The regulator expects the board to provide via remuneration contracts adequate incentives for good governance. Also, it expects the boards to uphold and

ensure the safety and soundness of the financial institution, an objective that the board may not share especially if this objective is not in the shareholders' best interest (Adams & Mehran, 2003). The regulators have access to several instruments which they can utilize to enforce this objective a regulatory environment that is strict may be effective in controlling agency costs so that a complementary relationship exists between CEO pay and performance (Hagendorff et al., 2010). However, a regulatory environment that is stifling can lead to a 'tick box'[10] compliance approach and mask the deficiencies in pay contracts. In sum, the presence of regulators will have some effect on the design of CEO pay and bank performance. However, the magnitude of the impact or the extent of the relationship is relatively unknown. This is because it can be challenging to quantify how regulation has impacted the design of CEO pay. Also, this means that research works especially cross-country studies on executive pay should consider the differences in country regulations and its implications for their research.

2.11 Empirical evidence in the pay-performance literature

The CEOs are the custodians of strategies to solve a wide range of complex tasks for the day-to-day development of the firm and dealing with risks posed to the firm for the purposes of shareholder value creation. Trying to directly monitor the activities of the CEOs to ensure that they create shareholder value and pursue the interest of the Principal (owner) is costly or unfeasible. Agency theory attempts to mitigate this cost by means of incentives contracts where CEO pay is tied to performance. This pay is tied to performance through salaries, bonuses, share ownership, stock option plans, equity-based pay, or long-term incentive plans. The roles of CEO pay as an interest alignment mechanism and a vital part of agency theory has opened it up to intensive study over the past decades.

[10] Tick box approach is as it suggests, compliance without ensuring proper application

Although, the literature on CEO remuneration and performance are extensive, they are mostly focused on non-financial firms, also, prior research works are mixed, inconclusive, and yield conflicting results. Beltratti and Stulz, (2011); Fahlenbrach and Stulz,(2012); Olaniyi & Obembe, (2015); Shiyyab et al., (2012) found evidence of a weak relationship between pay and performance; Doucouliagos et al, (2007); Kubo, (2001); Jeppson et al, (2009); Yusuf and Abubakar (2014) concluded that relationship between pay, and performance is non-existent while Joyce (2001); Yu and Zhang, (2004) and Krause, (2009) found that it is extremely weak. The inconclusive nature of previous research cannot be unrelated to either the short time period or the methodology adopted by the researchers. Research works such as Joyce (2001); Yu and Zhang (2004) and Krause (2009) employed simple correlation and found weak and no evidence of a pay-performance relationship which opposes the expectation of the principal-agent theory. Yu and Zhang (2004); Krause (2009); Fahlenbrach and Stulz(2012) and Beltratti and Stulz (2011) are based on one year data, Joyce(2001) on two year data and Grove et al(2011) on four year data. This limitation might have played a part in the result obtained as it may take longer periods for incentives to be paid especially long-term incentive plans. Kaplan's several papers posit that executive pay is not tied to performance and that boards rarely punish underperforming CEOs, but his papers focused on the United States. Barro and Barro (1990); Ozkan(2007); Cornett et al.,(2008); Ghosh, (2010), Gregg et al., (2010); Scholtz and Smith (2012) and Faleye et al., (2013) reported a positive relationship between executive pay and performance.

Previous studies might have been inconclusive by attempting to test the relationship between firm performance and CEO pay in isolation or attempting to capture both corporate governance and firm characteristics using a single equation method like the OLS thereby interpreting results as partial correlations and not adequately address the issue of endogeneity.

Fablenbrach and Stulz (2011) researched executive pay in the US during the financial crisis using a sample of 95 US bank holding companies on CEO compensation for 2006 and bank performance during the period 2007-2008.They found that banks whose CEOs had better incentives performed significantly worse than banks whose CEOs had lesser incentives while Beltratti and Stulz (2011) examined the relationship between performance and bank level governance using sample of 164 banks in 32 countries pre the 2007-2009 crisis. The researchers found no evidence that CEOs whose incentives were better aligned with the interest of their shareholders performed better during the crisis and provided evidence that they instead were worst off both in terms of stock returns and return on equity.

Shiyyab et al (2014) examined pay-performance relationship in EU banks using a sample of 65 EU banks and bank holding companies between 2000 and 2010. The choice of banks is because of the level of risks banks bear and the plurality it allows of governance structures. It examined the endogeneity of corporate governance mechanisms as well as the substitute versus complement arguments of corporate governance mechanisms. The research addresses the endogeneity problem using a system of seven simultaneous equations and analysis using the Three stage least square (3SLS) estimation method. CEO pay was the explanatory variable while market and accounting-based measures of performance were the dependent variables. The research found absence of relationship between CEO pay and bank performance measured by return on assets (ROA), earnings per share (EPS) and annual share returns. The study found no evidence that bank performance determines the executive director's compensation. It did find that bank size, managerial ownership, board size, Tier 1 capital ratios and dividend status are significant in executive pay levels in European banks but are unrelated to performance. It also found the simultaneous models employed to reveal significant interdependencies either complementarity or substitutability among executive compensation, corporate governance and bank performance variables. Cooper, Gulen and

Rau, (2009) examined the relationship between CEO incentive long term compensation and future shareholder wealth changes. This can be attributed to market reaction to information about incentive pay although the nature of the reaction cannot be predicted especially towards non-cash compensation. Using data of all firms listed on CRSP, COMPUSTAT and EXECUCOMP from 1994-2006, firms were sorted by size and industry and data was analysed using panel data regression. The research found a significant negative relation between compensation and future returns. Gregg, Jewell and Tonks, (2010) studied the relationship between CEO cash compensation and performance. The purpose of the paper was to examine the sensitivity of executive compensation to performance in U.K financial firms prior to the financial crisis. The researchers conducted the research using financial statements of 415 companies of the FTSE 350 index from 1994-2006. Total board pay in terms of base salary and non-equity bonuses were used as dependent variable while firm size, risk, firm performance, and board composition and structure were used as explanatory variables. Data was analysed using fixed effect regression. The study found an asymmetric relationship between pay and performance. The research however did not take into cognisance the potential endogeneity of the relationship between pay and performance and focused on cash compensation only ignoring all long-term incentives plan.

Fahlenbrach and Stulz (2011) used data of CEO compensation for a sample 95 US bank holding companies for 2006 to 2008 and analysed the data using multiple regression, they found evidence that banks CEOs who had better incentives performed significantly worse than bank CEOs with lesser incentives. Zakaria (2012) examined performance measures, benchmarks, and targets in executive remuneration contracts of UK firms for 2002-2003 using 1269 contracts of 440 UK firms. The research examined accounting based and market-based measures of performance on one hand, and targets set and how attainable it is on the other hand. It observed a shift in the popularity of Long-term incentive plans (LTIPs) over

share options and found that both accounting and market-based measures of performance are often used together. The researcher posits that targets should be “difficult but attainable” but that target difficulty level is subjective. The foregoing shows that extensive research works into pay-performance are predominantly in advanced economies like the UK, US and the European Union and are tilted towards other sectors. While the relationship between pay and performance is endogenous such that CEO pay can be used as an incentive (motivation) to perform or as a reward for performance (Buck et al, 2008), researchers sometimes struggle with identifying the role of pay especially as a motivator if they are only employing quantitative methods. How can you really tell whether a CEO is motivated by his pay package without asking the respondent?

Gan and Park, (2016) examined an association between the managerial ability of a CEO and the pay-for-performance sensitivity of the equity-based compensation. Data was elicited from the EXECUCOMP and COMPUSAT database of U.S firms from 1993 to 2013. The fixed effect regression model was employed to measure the pay-for-performance sensitivity of equity incentives while already published secondary data was used for managerial ability variables. The research found evidence of association between managerial ability and the pay-for-performance sensitivity of stock incentives. Rarthatha and Komeria, (2016) examined relationship between executive compensation and firm performance among Indian firms using PROWESS database of all listed Indian firms from 2002-2012. Executive compensation was proxy for pay while both accounting and market-based measures of performance were used to represent firm performance. The study was analysed using generalized method of moments and found that firm performance significantly affects firm performance. Although the study unlike studies in the U.S and U.K signifies a positive relationship between pay and performance, it could be attributed to the nature of country or could also be attributed to difference in the methodology employed. Michaud and Gai in

(2009) tried to validate empirically the rational behaviour hypothesis that increasing CEO compensation improves corporate performance by using data of S&P 500 firms over a ten-year period. They found that only cash bonuses had a significant positive effect on firm performance. However, when control was made for endogeneity of CEO compensation, no significant effect on performance was found. This research result is in line with some empirical results obtained in the U.S and U.K but contradicts result obtained in India though both studies adopted same methods.

Djebali and Zaghdoudi (2020) examined the relationship between corporate governance and performance of Tunisian banks. They obtained data for Tunisian banks from 1998-2015 and using Generalized method of moments, they found that board size positively affects performance but found that executive pay and bank size have a negative impact on the performance of bank CEOs in Tunisia. However, they recognise that CEO compensation is not well established and recommended a review of remuneration policies.

Olaniyi and Obembe (2017) examined the determinants of executive pay and performance in Nigerian banks between 2005-2012. Using a dynamic generalised method of moments, they reported the drivers of executive pay to be bank size and CEO's tenure, and a negative relationship with performance, board governance and growth opportunities while board size, CEO's age and leverage has no significance on executive pay. However, the research was not without its shortcomings. First, the study adopted only accounting-based performance measure (EPS) as against utilizing both accounting and market-based measures. Second, the paper used Tobin's Q (measured by the market value of the firm divided by book value of the firm) as measure of growth opportunities. This measure can also be adopted as proxy for market-based performance. These variations could limit the reliability of results obtained.

Banks in developing economies have an overwhelmingly dominant position in their financial systems as they are engines pivotal to its economic growth (King & Levine 1993a, 1993b;

Levine 1997) and are the most important source of finance for most firms as financial markets are usually underdeveloped and Executives in these economies have a greater degree of freedom over the affairs of the banks. Olaniyi and Obembe (2017) opined that Sub-Saharan African countries, especially Nigeria, is characterized by weak institutional quality and poor corporate governance practices (Onakoya et al., 2012), which grants CEOs power to hijack compensation packages. However, in a developed economy like the UK, the role of its banks cannot be overemphasized. Achieving a developed economy status is one thing, staying a developed economy is another. Banks in the UK are not only responsible for economic growth and development, but they are also responsible for keeping it sustained. This means constant review of economic policies and regulations. So important is the role of the banking sector that considering Britain's exit from the European Union, the banking sector was the priority for varying stress tests to further strengthen them for different scenarios. This is the same sector that seem to lack adequate research on pay-performance relationship especially since it was the overly risky behaviors of CEOs in the banking sector that was said to trigger the financial crisis.

Having reviewed the aforementioned studies, this research by examining all listed banks in the UK and Nigeria will bridge the limited attention received by said sector in the literature and provide an insight into the structure of executive compensation in the UK banking sector and how these structures influence the performance of CEOs.

2.12 Chapter summary

This review has examined and identified some important gaps in the empirical literature. The research by examining existing literature highlights the sparsity of research on the relationship between CEO pay and performance in non-financial firms especially banks outside of the United States. It is important to understand Chief executive pay in the banking context and its relationship with financial performance because of the uniqueness of the

banking sector and to mitigate against another financial crisis. Furthermore, in examining the relationship between CEO pay and performance in banks, the few empirical works who reviewed this relationship are plagued with methodology issues and did not compare executive pay in a developing versus developed economy. An understanding of the pay differentials will be of help to policy makers particularly in developing economies where the level of institutional quality is often low. It will help regulators in assessing which policies are efficient and the ones that need to be reformed. Review of the literature further revealed inconsistencies in the identification of CEO pay and performance components therefore this research bridges that gap by utilising both accounting and market-based performance measures.

Chapter Three: Theoretical Framework and Statement of Hypotheses

3.1 Overview

This chapter makes inference from the theoretical and empirical review of the literature to develop research questions and hypothesis aimed at investigating the relationship between executive pay and performance. To achieve the aim of this study, three research questions and four hypotheses were developed. The testing of the research hypotheses provided clarity and probable answers to the research questions raised about the relationship between CEO pay and performance of banks in a developed economy like the UK and a developing economy like Nigeria.

3.2 Theoretical perspectives of executive pay and performance

This section outlines the relevant theories to the executive pay and performance relationship. The pay-performance literature has drawn on theories such as the agency theory, stakeholder theory, optimal contracting theory, managerial power or rent extraction theory, substitution, or complementary hypothesis.

3.2.1 Agency theory

Agency theory also referred to as the principal-agent theory is the bedrock of issues that arise in executive compensation and corporate governance. Agency theory attempts to resolve issues that can exist in relationship between the owners of the business (principal) and the company managers (agents). Problems may arise due to unaligned goals or different tolerance levels to risk. The manager in carrying out the day-to-day activities of the business is deemed to be better informed about the business thereby creating different levels of information access as agents have more access and possess more information about the organisation than the principals. It is assumed that the agent will exploit this information for his own self-

interest. This is otherwise referred to as information asymmetry. This gives rise to moral hazard as it is assumed that the agent will exploit this information to its own advantage at the expense of the principal. It gives understanding on the motivation of managers in the presence of asymmetric information and helps in predicting the optimal design of executive compensation contracts. The principal-agent theory contrasts the descriptive pay models that posit that the behaviour of CEOs is as a result of power intoxication. (Jensen & Murphy, 1999). A key assertion of the agency theory is that the manager is self-centred and only seeks his personal interest. The agency theory has brought forward the concept of agency conflict and the cost that arises out of it ((Jensen & Meckling, 1976). Eisenhardt (1989) highlights the following conditions as conducive for agency problems to occur; (a)where the goals or the desires of principal and the agent conflict and (b) when it is difficult or costly for the principal to verify the activities of the agent. Agency theory argues that a principal-agent relationship leads to disagreement or conflicts of interest that results in agency cost. It further describes agency cost as the cost associated with resolving the agency conflict (Jensen & Meckling, 1976; Ross, 1973). To solve the problems resulting from principal-agent relationship, Jensen and Meckling (1976) suggests that agency theory considers the design of a contract that will set out the rights and responsibilities of the principal and agent. The contract could be internal rules that specifies how responsibilities and relationships are carried out and the means of evaluating and rewarding managers within a firm (Fama & Jensen, 1983).

The theory suggests the role of chairman of the board of a firm should be different from the role of CEO, this is to reduce the agency cost and to enable solid checks and balances. CEO duality increases the agency cost of an organisation as the management might ignore to act in the best interest of the shareholders but rather act to satisfy their personal interest. It is therefore suggested that the role of CEO and chairman of the board should be separated in

order to reduce the agency cost (Abels & Martelli 2013). The CEO duality enhances the influence of the CEO over the board which leads to increase in agency costs, this is particular in large and complex firms that are difficult to monitor ((Jensen & Meckling, 1976). The agent is however accorded residual rights to exercise his discretion to make certain decisions because of the instability of the business environment as postulated by Shleifer and Vishny (1997) and can make on the spot decisions in contingency situations. These residual rights are necessary because a perfect executive or agency contract does not exist. The issues of aligning pay to performance stems from the design of agency contracts. Agency theory further examines that it will be difficult for shareholders with small share ownership to monitor the behaviour of managers in large corporations where share ownership is widely dispersed. Therefore, the theory recognises the need for shareholders to delegate their monitoring role to the board of directors. Agency theory thereby implies that the task of monitoring the agents to ensure efficient utilization of firm's resources and shareholder value creation rests with the board of directors. Fama (1980) emphasizes the role of the board of directors and executive compensation schemes to alleviate agency problems and align the interests of both the principal and the agent. However, by delegating their monitoring role to the board of directors, another agency issue may arise. To mitigate against this, agency theory postulates that a board should be composed of a majority of outside members or independent directors who are less likely to exhibit bias in dealing with principals and agents. The theory further suggests that the position of the chairman of the board and the Chief Executive Officer (CEO) should not be vested in the same person (Cadbury, 1992; Kiel & Nicholson, 2003; OECD, 2004). The agency theory perspective views CEO pay as a means of aligning the interests of the principal and the agent, and the board of directors as a means to monitor their activities.

3.2.2 Stewardship Theory

The Stewardship theory of corporate governance posits that stewards can be empowered and trusted to act in the interest of the public and shareholders. Stewards are executives and managers that are working for the benefit of the shareholders. The executives acting as stewards are concerned with acting in the best interest of the banks and the shareholders, in so doing cast aside their personal interest. Stewardship theory advocated for management and authority structures that are unified as it hastens decision making thereby enabling firms to capitalise quickly on market opportunities. Stewards are assumed to be honest and motivated by intrinsic rather than extrinsic rewards, plus they are so preoccupied with the collective interests of the firm and shareholders that their personal interest will not take precedence (Hernandez, 2012; Schillemans & Busuioc, 2015).

Like the agency theory, stewardship theory is also based on the principal-agent relationship (Davis et al, 1997, 2007; Donaldson & David, 1991). The stewardship theory offers an alternative to agency theory by emphasizing co-operation and collaboration while the agency theory focuses on control and conflict (Sundaramuthy & Lewis 2003). The stewardship theory replaces the agency theory's lack of trusting the agent with authority and ethical behaviour. Unlike the agency theory, the stewardship theory holds that directors act as stewards and their main objective is shareholder wealth maximization. The stewards are motivated and satisfied only by success attained for the organization and not financial motives. Stewardship theory assumes that the directors and managers are motivated by justice, fairness, and concern for the interest of others (Buchanan 1996). The theory also assumes that managers are honest and seek intrinsic rewards rather than extrinsic rewards, are self-motivated and derive satisfaction in high level of performance (Davis et al 1997a; Pastoriza & Arinio 2008; Tosi et al 2003). Thus, stewardship theory proponents argue that a higher level of performance will be linked to executive directors as they work ethically to

maximise shareholder's wealth. Stewardship theory favours the notion of CEO duality, it argues that the same person holding the position of the CEO should also be the chairman (Davis et al, 1997). This approach facilitates intimate knowledge of the organizational operation and allows for autonomous decision-making process. Stewardship theory suggests that CEO duality has the advantage of a powerful, clear leadership structure manifested in unity command of the organisation (Donaldson et al, 1991). In their study, Donaldson et al (1991) find a positive correlation between CEO duality and return on equity to the shareholders. They argue that inside executive directors have a better grasp of the business and are in a better position to manage the affairs of the firm than non-executives who may lack the adequate knowledge and understanding of the business. Their study supports the stewardship theory by stating that unified leadership of CEO duality is beneficial to shareholders and their returns.

In summary, stewardship theory postulates that managers and board of directors are ethical and can be trusted explicitly. It also favours CEO duality and argues that the board of directors should be majorly composed of insiders or executive directors to maximise the inside knowledge such executives possess.

3.2.3 Resource Dependence theory

Resource dependence theory focuses on the relationship between the board of an organisation and the external resources. It studies how the board of directors can use their connections with the external environment to bring important resources to the organisation for its functioning, growth, and performance. It suggests that board governance as a corporate governance mechanism ensures that firms manage its external and internal resources efficiently. The theory also focuses the ability of the board to utilize their expertise to bring about growth and development in an organisation. Pfeffer & Salancik (1978), in their work, posits that organisations depend on the environment and other organisations for resources.

Pfeffer (1972) argues that the success of an organisation is dependent on how much it can maximise its power over certain resources which are necessary for running smooth operation. According to Daily, et al. (2003), the board of directors is the major source of external resources that can improve the performance, operation, and growth of an organisation as they may provide access to valued information. The theory recognises the influence of external factors on the performance of an organisation and how managers can act to manage this influence from the external environments. Pfeffer & Salancik (1978), posits that resource dependence theorists view firms as an open system, dependent on external organizations and environmental contingencies. The ability of an organisation to promptly access external resources is fundamental to its success and edges it over its counterparts. An important tenet of resource dependency theory organisations exercise control by co-opting the resources in their environment.

According to this theory, the board of directors can make a great contribution to the firm through their expertise and their connections to other firms and institutions. Certo (2003) on his part suggests that the board of directors of a firm can be a source of various resources based on human and social capital. Siciliano (1996), argues that the diversity of board members is seen as essential element which leads towards the broader business connections. The contributions that the board of directors can bring to the organisation through their expertise range from relevant information, training of the executives, counsel, skills and legitimacy. According to J Wang et al (1992), resource dependency theorists view outside directors as boundary spanners who provide tangible and intangible resources to the incumbent management. Ayuso and Argandona (2009) posits that typical outside directors are active or retired executives in other for-profit organizations or directors who serve on other corporate boards. Due to their business experience, they bring a working knowledge of strategic decision-making and internal firm operations. Furthermore, their experience outside

the firm enables them to offer alternative viewpoints, providing executives with information about how other firms deal with similar problems and concerns.

In conclusion, resource dependency posits that board of directors are not only a corporate governance mechanism to monitor managers but are also avenues for critical resources and information and a means to influence the external environment for to improve firm performance.

3.2.4 Managerial power or Rent Extraction Theory

The shareholder value view of corporate governance assumes that executive pay is decided by shareholders directly or through their monitored representatives i.e the directors. The rent extraction view argues that executives in alliance with complicit boards in fact decide both the structures and levels of pay to maximise the value they can extract whilst avoiding intervention by activist investors or corporate raiders (Bertrand & Mullainathan, 2001; Bebchuk et al,2002; Bebchuk & Fried, 2003,2004; Edmans et al,2017). The rent extraction view observes that contrary to shareholder value view, executive pay is in practice set by the board of directors and the remuneration committee. This creates another agency problem and additional monitoring costs because directors on the remuneration committee especially if they were nominated by the CEOs will have favour to curry from them. It claims that current executive compensation practices contrast the traditional agency model predictions (Edmans & Gabaix, 2016). Managerial power View or Rent Extraction theory posits that remuneration contracts are poorly designed, and that executive pay is too high. It further criticises pay arrangements as products of arm's length contract and asserts that compensation schemes are part of the agency problem and not a solution to it. (Conyon, 2011; Bebchuk & Weisbach, 2010; Bebchuk & Fried, 2004; Bertrand, 2009). It suggests that executives often have substantial influence over their own pay and how their influence shape pay arrangements. It views executive compensation not only as an instrument for addressing the agency problems

but also as part of the agency problem. It says that although executives can influence their own pay, there is a limited ability to do so as a result of "outrage" costs and constraints. Board approval and the interaction of market forces may not be able to produce optimal compensation arrangements, but they can provide a constraint on managerial powers through loss of shareholder support or public outrage generated by unpopular compensation arrangements. Outrage can be costly by way of reputational harm as well as un approval. The rent extraction theory proposed by Bebchuk and Fried (2004) argues that both internal and external corporate governance mechanisms are too weak to adequately check CEO pay. This is because powerful CEOs exercise their control over the board by the selection and retaining of compliant boards and leaving out those who are more active and challenging thereby altering the nature of the market forces for executives and non-executives. The notion of this rent extraction theory hinges "pay-camouflage". CEO and ineffective boards muddle up pay schemes to camouflage the true cost of the pay pack and manage the risk of public outrage or outcry. Bruce and Skovoroda (2013) studied the structure and determinants of CEO bonus awards in the UK financial sector prior to the 2008/2009 financial crisis and found higher complexity in pay design in terms of awards. They found evidence that bonuses paid are linked to the profitability of the sector as put forward by the optimal contracting view while the complexity of the bonus structure are linked with higher bonus pay-outs after adjusting for the size of the firm as well as performance thereby lending credence to the executive power arguments. Adams and Mehran (2003) highlighted three reasons for the difference in the board size of banks. One is that like prior studies show, board size and firm size are positively correlated. Another is that the complex organisational structure of bank holding companies (BHCs) which stems from their holding of subsidiary banks and the existence of more committees, BHC boards tend to be larger and finally, the nature of acquisitions (hostile versus friendly) could help maintain the large size of BHC board. Also, different board

structure arrangements are associated with corporate governance systems. For example, the American corporate governance system usually has a single board made up of executive and non-executive (outside directors) while the Franco-German system has a dual board structure consisting of two separate boards.

In trying to explain the CEO compensation, the rent extraction theory and the optimal contracting theory are not mutually exclusive. Frydman and Jenter (2010) argued that no singular theory of CEO pay is fully consistent with empirical data and as such, joint adoption of two or more competing theories ensures a more desirable result. They concluded that, a much more comprehensive explanation for variation in CEO compensation is firm size as it is the more adequate empirical explanation till date and consistent over many different studies.

The ability of the market to effectively measures and sort scalable CEO talents reliably yet the efficiency of the labour market in identifying talented CEO is doubtful. Therefore, trying to identify and sort CEOs who are adequately paid for their contribution to firm value from those who are overpaid for no performance is daunting and unachievable. Rational behaviour hypothesis which is of the view that a higher earning CEO works harder to improve the financial performance of the organization he/she leads.

3.2.5 Substitute versus complement hypothesis

Theoretically, firms in designing the executive pay contracts take into cognisance various corporate governance mechanisms albeit related either as complements or substitutes depending on the mechanism which suits the firm. The substitution hypothesis says that by effectively using any governance mechanism, the level and structure of executive compensation needed to align manager's interest with those of shareholders will reduce, (Talley & Johnsen, 2004; Ozkan, 2011). The complementarity hypothesis on the other hand infers that executive compensation mechanism is effective in mitigating agency problems when it is jointly adopted with other mechanisms or may depend on the simultaneous

adoption of it with other mechanisms depending on its cost and benefits (Fahlenbrach,2008; Aguilera et al 2009; Ward et al. 2009).

3.2.6 Optimal Contracting Theory

The optimal contracting model is an economic or market-based view of the executive labour market. It says that contracts though may not be flawless but do minimise agency costs arising because of asymmetric information. (Holmstrom, 1979). It posits that in an ideal world of the executive labour market, pay arrangements for CEOs is usually inherent a complex set of factors which include the "marginal product of marginal effort", Bruce and Skovoroda(2015) which is determined by both talent and experience, size of the employing firm and the type of business, efficiency of performance measures as well as the factors that can affect the opportunity costs of alternative employment for the executive. The decisions made by senior executives affects the entire firm hence the talent of executives have greater effect on big corporations where it can be best utilized to achieve economies of scale. Theory suggests that if, for example, CEO talents are likened to that of footballers while the market is likened to transfer windows, such that top talents were freely observable and markets were competitive, firms competing for talent would pay their CEOs enough to prevent rival clubs or competitors from purchasing their top players (executives). The arms-length negotiations between CEOs and firms will be such that the "top players" would be employed by the largest clubs where their talent can be fully harnessed (most productive), (Gabaix & Landuer, 2000; Tervio,2008; Bruce & Skovoroda, 2015).With this perspective, record signings of top executives will be apparent and as a result, a small dispersion in talent may potentially justify the large pay gap between the top players and others.

Although, this "ideal" market may deviate a bit from real executive labour markets, it lends credibility to a number of empirical research works. Gabaix and Landier, (2008); Kaplan and Rauh, (2010) are some of the research consistent with the optimal contracting theory of

executive pay. Gabaix and Landier found that increase in US CEO pay since 1980 can be explained by the growth in firm size over the same period while Kaplan and Rauh found the growth in CEO pay in the US is consistent with income trends among top talents in other professional occupations hence lending credence to market-based theory that growth in CEO pay is driven by forces of market demand for top talent.

Furthermore, the CEO labour market is likely to not be "ideal" and perfect thereby loopholes or limitations to the optimal contracting view. CEO labour market is not very transparent, and boards of directors are often not adequately informed of all potential talents and CEO talent is not easily quantifiable. Below documents some of the limitations.

Tervio 2009 posits that any job that is deemed to be professional including top management deal with potential scarcity of talent and that labour market fail to discover talent but rather "free-ride" on talent discovery by poaching talents from firms who discover them. Again, like the football analogy, it is such that to teams do not pay record signing fees for talents playing in the football academy but for talents that play for teams who most likely discovered them. This is because it is risky to experiment with first time CEOs and as such a form of market inefficiency.

Likewise, empirical research like Essen, Otten and Carberry, (2015) found evidence to suggest that current C.E.Os. sometimes exert undue influence over the pay-setting process for personal financial gain. Such powerful CEOs enjoy undue high levels of pay especially if the CEO doubles as Chairman of the Board. Another suspected pay practice inflation means is option backdating. This is done by changing the timing of executive stock option grants either knowingly or authorised by the board to make the options more profitable or valuable. This practice was more widespread in the 1990s and 2000s in the US (Bruce & Skovoroda, 2015). Research found that firms with active compensation committees were less likely to

backdate options, (Franforter, Becton, Stanwick & Coleman, 2011) and that news on option backdating investigations in firms lead to negative stock price reactions (Efendi, Files, Ouyang & Swanson, 2013; Ertimir, Ferri & Maber, 2012).

Also, governance externalities is also highlighted in some studies as one of the limitations of the optimal contracting view. It argues that firms with weak governance bid up CEO pay probably to make up for their inadequate governance thereby causing firms with good governance to overpay as they are both competing for scarce CEO talents (Archaya & Volpin, 2010; Dicks,2012). The resulting "excess" accrue to the CEOs of the largest firms. Corporate myopia is also a factor as a well-paid CEO enhances the corporate image of the company. An example is research by Hayes and Schaefer (2002) which found that firms that are myopic value short term share price performance as it increases the market perception of the firm's outlook and value.

3.3 Theoretical approach and statement of hypotheses

The relationship between CEO compensation and performance is underpinned by a lot of theories with sometimes conflicting perspectives. Therefore, a multi-theoretical approach is adopted by this research to analyse the pay-performance relationship.

3.3.1 Is CEO pay sensitive to performance?

CEO pay is a means of aligning the interests of principals and agents. It attempts to resolve issues that exists in the relationship between the owners of the business (principal) and the company managers (agents). By making CEO's pay dependent on performance, incentive is provided for the Chief executive to act in the best interests of the principal. It is such that the higher the value added to firms by CEOs, the more compensation they earn. Jensen and Murphy (1990) are one of the earliest and suffice to say pioneer of research into the relationship between CEO compensation and performance using a large sample of US firms

during the year 1974-1986. They examined pay-performance sensitivity and found that pay for performance is more sensitive to equity-based pay than it is to annual bonuses and salaries.

Since the work of Jensen and Murphy on the relationship between pay and performance, a growing number literature provide empirical results that attempt to unravel the relationship. Several research works have been carried out around the world from financial to non-financial firms. The literature on CEO compensation and performance although extensive have mixed and varied results.

The following papers have revealed a weak relationship at best between CEO pay and performance, Shiyyab et al, (2014); Beltratti and Stulz,(2011); Fahlenbrach and Stulz,(2012); Doucouliagos et al, (2007) concluded that relationship between pay and performance is non-existent while Joyce (2001); Yu and Zhang, (2004); Krause, (2009) found that it is extremely weak. The inconclusive nature of previous research cannot be unrelated to either the short period or the methodology adopted by the researchers. Research works such as Joyce (2001); Yu and Zhang (2004); Krause (2009) employed simple correlation and found weak and no evidence of a pay-performance relationship which opposes the expectation of the principal-agent theory. Beltratti and Stulz(2011);Fahlenbrach and Stulz(2012); Krause(2009); Yu and Zhang (2004) are based on one year data, Joyce(2001) on two year data and Grove et al(2011) on four year data. This limitation might have played a part in the result obtained as it may take longer periods for incentives to be paid especially long-term incentive plans. Kaplan's several papers posit that executive pay is not tied to performance and that boards rarely punish underperforming CEOs, but his papers focused on the United States.

However, other research works like Shiyyab et al. (2014) identified diverse literature as having issues addressing executive pay on grounds of identifying compensation pay

arrangements as they are “endogenous outcome” of a process that involves the interplay of the various factors that influence compensation arrangements, making it difficult to effectively interpret observed correlation results as evidence of a causal relationship. Moreover, executive pay is one of several ways that manager’s interest can be aligned with shareholders to reduce agency problem as firms consider varying governance mechanism related to one another as complements or substitutes.

Therefore, to the extent that performance affects executive pay, it is expected that the better the performance of the CEO, the higher the pay, which then leads to increase in shareholder value. Thus, the first hypothesis assumes executive pay as a substitute for monitoring CEOs and states:

H1: The impact of performance on CEO pay is positive

Further, empirical works attempt to examine the pay-performance relationship by using lagged pay and performance variables. The lagged variable is change in pay and performance variables between t-1 and t.

Main, Bruce and Buck (1996) examined the relation between board compensation and company performance in UK based companies by using past pay as lagged dependent variable in order to capture the dynamism of compensation contracts. They found that the response of pay to performance is significant and that compensation arrangements have evolved. Hitherto, compensation practices of executives were made up basically of salaries and annual bonuses. Benito and Conyon (1999) used a sample of 1000 UK based companies from 1984-1995 and found that the CEOs of UK firms received 2.6% increase in salaries and bonuses for a 10% rise in shareholder value similar to Hall and Liebman and when those research adjusted for CEOs holdings of share option and restricted stock, they reported way higher level of pay performance increase (He & Conyon,2011;Buck, Bruce, Main & Dueni,

2003; Main, Bruce & Buck 1996.) According to Main et al findings, the highest pay CEO received an 8.94 % increase in total pay for a 10% increase in shareholder values. The empirical results by these studies highlighted that there was indeed correlation between pay and performance. In line with this, the second hypothesis is as follows:

H2: The impact of change in performance on change in CEO pay is positive

3.3.2 Does board governance and financial performance affect pay?

Bebchuk and Weisbach (2010) puts forward that one key test of the managerial power hypothesis is that CEO pay is higher when the board is weak. The literature details that a board is weak if; (a) the board is too large and therefore, it makes it challenging for directors to 'check' the CEO, (b) the outside directors were nominated by the CEO making them beholden to the CEO for their jobs and exhibit loyalty to the CEO, (c) board directors serve on numerous other boards thereby diluting their efficiency in monitoring CEOs, (d) conflict of interest arising from the CEO being the chief executive as well as the board chairman, (e) the board being too socially attached to the CEO thereby not paying sufficient attention to their fiduciary duties to the shareholders (Westphal,1998; Conyon & Peck, 2012). However, while the managerial power theory assumes that the board is weak because they serve on several boards, resource dependency views this as a resource the firm can draw upon to solve issues and enhance performance. It assumes that serving on different boards exposes the directors to internal control and complex systems of several firms making them a treasure trove for information. Further, it views the responsibility of directors to shareholders while the stakeholder theory emphasises that the competing interests of all stakeholders must be balanced. Conyon and Peck (2012) posits that the remuneration committee is central to the purposes of executive pay. The compensation/remuneration committee deliberates executive pay matters and takes advice from remuneration consultants when appropriate and makes recommendations to the board of directors for approval. The size of the board and its

implications for the management monitoring roles is one of the most recurring corporate governance issues. (Boyd,1994,1995). It is assumed that a large board is comprised of more experts from varying backgrounds and increases the quality of resources the firm can access. (Dalton et al.,1999 but Jensen (1993) and also Yermack, (1996) maintains that the ability of board of directors to monitor management effectively decreases as the board size increases due to longer decision-making time and free riding problems among directors. As such, it is argued that larger boards will have efficiency issues and therefore impair performance. Prior studies demonstrate that board size has an inverse relationship with firm performance. De Andres et al. (2005) identified that profitability and operating efficiency decline as board size grow using a sample of 450 non-financial companies operating in Western Europe and North America. Likewise, Cheng (2008) used data of 1252 US firms over the years 1996-2004 while Guest (2009) adopted a sample of 2746 non-financial firms listed in the UK from 1981-2002. They all found same. Also, when the CEO of the bank also doubles as the chairman of the board of directors, too much power may be vested in the same person which then increases the ability of the CEO to extract rent. The board size and bank performance relationship are expected to be different in the banking sector since banks usually have a larger board size unlike non-banking firms because of their complex organisational structure and are characterised by the presence of more committees than other sectors. (Coles et al.,2008). The third hypothesis is then

H3: The impact of board governance and performance on CEO pay is positive.

3.3.3. Is the value of CEO shareholding affected by Performance?

It is suggested that managerial ownership can tentatively reduce agency problems which arise as a result of separation of ownership and control, and also align the interests of managers with shareholders by increasing managerial effectiveness. Theoretically, if the personal

wealth of directors is linked to the value of the firm, that will give them an incentive to act in the interests of the shareholders. Bebchuk and Weisbach (2010) highlighted that a prominent feature of managerial power is the presence of a weak board which rewards the CEO with pay that does not commensurate performance thus the executive will be able to use their managerial power to extract undue rent. Further, Fahlenbrach (2008) and Shiyyab et al (2014) explaining the substitute or complement hypothesis suggests that CEO pay as a corporate governance mechanism is effective in mitigating agency issues depending on its use as substitutes or complements with other mechanisms and their costs or benefits. Therefore, when the interests of managers are aligned with shareholders through equity-based pay, is additional monitoring required? Another theoretical approach is the optimal contracting theory views remuneration contracts as effective in reducing agency issues. Directors because of their part ownership of the firm will enjoy benefits of great performance and bear some of its losses. (Jensen & Meckling,1976; Jensen,1993; Shiyyab et al.,2014). Therefore, the literature posits that linking the personal wealth of directors with the firm value motivates better performance. (Floracicks,2005). Therefore, the fourth hypothesis is:

H4: The impact of bank performance on CEO shareholding is positive

3.4 Summary

This chapter described the theories that underpins the pay-performance literature. Several theories explain the need to effectively design CEO remuneration contracts and align them with performance. The agency theory explains the need for CEO pay, managerial labour market theory explains the importance of CEO talent, substitution or complementary hypothesis advises the selection of corporate governance mechanisms while resource dependency theory elaborates the importance of external directors.

Chapter Four: Research Methodology

4.1 Overview

This chapter describes the methodology adopted in this study. The methods adopted were aimed at providing answers to three critical questions: First, what type of relationship exists between CEO pay and performance in Nigeria and UK banks? Second, what role does board governance play in the alignment of executive pay to performance in the banking sector? Third, does the value of CEO share ownership influence bank performance? This chapter explains the methods which were deemed appropriate to address these questions and how the data were analysed.

4.2 Research Philosophy

Bryman (2012) refers to research philosophy as the set of beliefs concerning the nature of the knowledge being investigated. Research philosophy is the underlying definition of the nature of knowledge and contains important assumptions about the way the world is viewed by the researcher. The assumptions created by a research philosophy provides the justification for how the research will be undertaken (Flick, 2011). Research philosophies often differ in response to the goals of research and on the best way that the research can be conducted to achieve these goals (Goddard & Melville, 2004). This does not necessarily mean that research works are at odds with each other, but the choice of research philosophy is influenced by the type of knowledge being investigated in the research project. Therefore, a good understanding of the research philosophy being used can help explain the assumptions inherent in the research process and how this fits the methodology being used. Saunders et al. (2015) highlights four different philosophies which a researcher can choose to the choice of data selection and data analysis. This includes positivism, realism, pragmatism and interpretivism. Zukausas, Vveinhardt and Andriukaitiene (2018) defines the view of positivist

research as one in which the social world can be understood in an objective way. Saunders et al. (2019) opine that the positivist researcher utilizes existing theories to develop and verify hypothesis which is subsequently tested and then confirmed or rejected or subject to further developments. It is commonly applied quantitatively.

Critical realists are researchers who view reality as our gateway to understanding the world (Fleetwood, 2005). Interpretivist philosophies argue that the social nature needs be factored into social science research and seeks theory building by usually using qualitative data (Bhattacharjee, 2012). Pragmatism philosophers are of the opinion that concepts are only relevant and applicable where they support action (Kelemen and Rumens, 2008). This research adopts a positivist paradigm. The two commonly applied philosophies are usually the positivist and the Interpretive philosophies (Zukausas et al., 2018). The positivist philosophy approach is commonly applied in testing a theory while an interpretivist approach is usually applied in building a theory. Positivism in social research is dependent on fact and measurements to unravel relationships.

To this end, this research adopts the positive research philosophy because it uses numerical data which are quantitatively expressed, positivist approach is suitable to this study because it reviews the relationship between executive pay and financial performance and utilizes existing theories to develop research hypotheses about the expected impact of performance on executive pay. The hypotheses are then tested, confirmed, or rejected or subject to further theory development, and the results can be extended to firms with similar characteristics.

4.3 Research Approach

The main objective of the research approach is to highlight the best way of identifying and understanding the nature of the problem. The research approach aids the researcher in

justifying and selecting the appropriate research tools. There are two main research approaches: the deductive and inductive approach.

The deductive approach is the process by which a hypothesis developed either on its own or upon a pre-existing theory and then the research approach is formulated to test it (Silverman, 2013). The relationship between variables is represented by the hypothesis and the procedure to measure the variables is specified. Thus, the hypothesis will be tested by a rigorous research strategy which depending on the results obtained by the researcher lead to an acceptance, rejection, or a modification the theory. The deductive approach is best adapted to contexts where the research project is concerned with ascertaining whether the observed phenomena meet with expectation based upon past research (Wiles et al., 2011). Ketokivi and Mantere (2010) opine that the deductive approach derives its conclusion from a set of premises such that if all the premises are true, then the deductive approach conclusion holds true. The main characteristics of the deductive research approach according to Saunders et al. (2012) is the use of control variables to ensure that any observed changes in the dependent variable are attributable to changes in the independent variables and not something else. This approach therefore might be considered particularly suited to the positivist approach, which allows hypotheses to be formulated and expected results to be statistically tested an acceptable probability level. (Snieder & Larner, 2009). It uses research questions to pore through previously researched areas for different perspectives or exploring new areas. However, it is possible to use a deductive approach with qualitative research techniques, although in such cases the expectations formed by prior research would be formulated in a different way than through hypothesis testing (Saunders et al., 2007). The deductive approach is characterised as the development from general theory to a more specific or particular: the general theoretical proposition and knowledge base is the foundation upon which the specific knowledge gained from the research process is then tested against it (Kothari, 2004).

The inductive approach on the other hand is characterised as a move from the specific to the general (Bryman & Bell, 2015). In this approach, the research starts with the observations by the researcher with patterns looked for in the data (Beiske, 2007). There is no framework as a basis that influence the data collection and as such, the research focus is often formed after the data has been collected (Flick, 2011). Although it is usually opined that new theories are generated at this point, analysis of data may also find that it fits into an existing theory (Bryman & Bell, 2015). The inductive method is more commonly used in qualitative research, where the absence of a theory as a premise for the research process may be beneficial as it reduces the potential for bias by the researcher in the data collection stage (Bryman & Bell, 2015). The discussion of the different approaches and philosophies helps researchers navigate the research process. However, there are no specified rules that restrict quantitative research to deductive approach and qualitative research to inductive approach. A researcher is not constrained to the adoption of a specific approach and can combine both approaches as long as that is the best approach for the study.

In trying to establish the relationship between executive compensation and bank financial performance, a deductive approach is adopted for the study which is relevant for this research to understand the agency theory, managerial power theory, optimal contracting theory, stakeholder theory and resource dependency theory from an emerging market versus emerged market perspective. The approach will guide the researcher in working with the quantitative data collected to test the pay for performance relationship as well as the application of control variables to ensure validity of data.

4.4 Research Design and Strategy

Research can be empirical or theoretical. Empirical research is research by means of direct or indirect observation or experience. It develops new ideas based on numerical data while

theoretical research favours the development of new ideas from existing works by providing theoretical explanations. In assessing the theories which form the basis for the research, there is usually an interrelation between theoretical and empirical studies. This is because empirical can depend on theories and theoretical research can sometimes depend on empirical results. This study mainly adopts an empirical approach although there is an interrelation with theories such that existing theories provided the basis for the development of the research questions. Research designs refer to the ways or techniques for collecting and analysing research data (Collis and Hussey, 2014).

4.5 Research Methodology

The two main approaches to research methodology are the quantitative or qualitative approach (Adams et al., 2007). The quantitative research approach is concerned with quantitative data (Flick, 2011). Bryman (2012) suggested that because of the different types of statistical analysis adopted by quantitative approach, it provides more reliable measurements and results obtained can be generalised. It sets the target number of statistical standards that are acceptable for the research approach to be valid. The choice of method is usually related to the research approach adopted. Bhattacherjee (2012) inferred that positivist philosophy exhibits quantitative characteristics while interpretive philosophy exudes qualitative characteristics. Qualitative methods adopt a descriptive and non-numerical approach to information collection to understand the phenomenon and this may be time consuming. This method often employs data collection methods and analysis that are not quantitative in nature and may result in inefficient tools utilized and inefficient results (Bergs, 2004). Qualitative methods examine data to draw conclusion on why people make choices, what informs the choices they make and how they arrive at the decision for those choices while quantitative measures deal with data to measure their reasoning. Qualitative researchers may use primary methods like surveys, interviews, or questionnaires while

quantitative researchers may opt for secondary methods like databases, annual reports etc. This study examines the relationship between executive pay and performance and uses quantifiable and measurable variables to analyse the research objectives. Quantitative research approach and methods is utilized to test the hypothesis based on

(a) the notion that the relationship between executive pay and performance is to be tested using hypotheses that are formulated using existing theories and can be tested using statistical tools

(b) quantitative method provides a framework for assessing the relationship among the variables used in this research

4.6 Data and Sample Collection

An inherent problem in pay-performance relationship is the Endogeneity problem, This is because executive pay can be interpreted as a variable predicting performance (motivation) or as a predicted variable (reward).Devers et al, (2007).As a predicting variable, it is an incentive to perform while as a predicted variable, it is a reward for performance thereby making it difficult to correctly interpret correlations between executive pay and firm performance as evidence of a causal relationship. Primary data is the data collected through observations, interviews, focus groups and questionnaires while secondary data are already existing data collected from other sources, for example, archival records, publications and annual reports. Saunders (2009) posits that secondary data include both raw and published data. To effectively analyse the relationship between CEO compensation and performance, quantitative approach will be adopted while data will be elicited from the annual reports of the banks in both countries while also testing the hypothesis hitherto stated. This study selected all the listed banks on the Nigerian stock exchange market and all banks in the UK who met the data availability requirements. The banks were included or excluded from the sample based on the availability of data. The banks had to have at least seven years data to be

included because of the lag variable that was adopted. Using the judgmental sampling technique, it filtered them (Nigerian banks) down from twenty-one to thirteen based on data availability. After the inclusion and exclusion criteria were applied, the final sample comprised of twenty-six banks in the UK and thirteen banks in Nigeria. Although the final sample for Nigerian banks is small, it is still larger than the sample adopted by previous research works including Conyon and He (2011), and Olaniyi & Obembe (2015). The underlying data to be employed in the study is secondary data derived from audited company financial statements and annual reports as well as data from Osiris, DataStream, and Bloomberg databases for listed banks on the Nigerian stock exchange between the years 2009-2019. Potential banks that would be included in the study will be banks listed on the NSE and all banks in the United Kingdom that could show at least a seven-year financial history. Some of the annual reports that were unavailable were downloaded from the bank's corporate websites. By utilizing eleven-year data for all listed banks in Nigeria and the UK, the results and the conclusions drawn are more representative of the population as suggested by Wang and Yu (2015). The sample period starts in 2009 after the financial crisis and to examine the pay trend post the financial crisis, also, it ends in 2019 which was prior to the pandemic. This was so that the data to be used to examine the relationship between pay and performance is not affected by pay policies made in response to the pandemic. Further, the research examines banks in Nigeria and the United Kingdom but treated them independently of the other. This holds constant other factors that may have confounded the results thereby strengthening the reliability of the research findings. Schipper (2005) supports this view that this helps in minimising heterogeneity and cross-country differences which may have affected the dependent variable had they been treated otherwise.

4.7 Data structure

Data can be cross section, time series or a panel data. A cross section data describes multiple observations for the same period. Time series on the other hand describes a particular observation over multiple time periods. Panel data combines both cross section and time series data. It describes multiple observations over multiple time periods. Panel data regression is a type of regression analysis that involves the panel data analytical technique. Panel data is said to be a set of repeated observations on the same cross section, usually of individual variables that are observed over several periods of time (Pesaran, Shin & Smith, 2000; Wooldridge, 2003; Baum,2006; and Westham, 2009). Longitudinal data and repeated measures are other terms associated with panel data. Panel data analysis is an important method of longitudinal data analysis because it allows for regression analyses to be carried out in both spatial (units) and temporal (time) dimensions. It also provides a means for the data to be analysed longitudinally especially in cases where the data are from different sources and the time series of the data are somewhat short for separate time series analysis. The use of panel data is advantageous in many ways which include;

- Its ability to combine time series and cross section observation makes the data more informative, and makes for less collinearity amongst variables, it also enables the variables more degrees of freedom, and more efficiency.
- It can help detect and measure effects that ordinarily would not be observed when using only cross-section or time series data (Baltagi, 2013).
- It allows for individual or variable specific characteristics and as such alleviates the heterogeneity problem in the estimation process.
- It enables the understudy of the dynamics of change such as turnover because it involves the repeated cross section of observations over time.

Panel data is not without its limitations. One prominent issue that plagues panel data is data collection. Data on multiple observations for multiple time periods are required. Panel data can be balanced of unbalanced panel data. It is balanced if all variables are observed for both time series and cross section, it is unbalanced if otherwise. In trying to measure the relationship between executive pay and financial performance of listed banks in Nigeria, the panel data methodology will be adopted. This is because the study combines elements of both time series and cross-sectional data. There are different accounting and financial databases that provide comprehensive data coverage for firms in different countries. The choice of database has implications for empirical results due to differences in measurements and sample classification. The researcher collected data from Bloomberg and DataStream databases who are reputable and deemed reliable providers of financial information on firms around the world.

4.8 Data Analysis

In order to analyse this study, the researcher examined the models that can be applied to test the hypotheses.

(a) Pooled Regression (OLS) Model (PRM): This is also known as the constant coefficient model (CCM). It is the simplest among the three models in panel data analysis. However, it is the most restrictive panel data model, it disregards the space and the time dimensions of the pooled data. It is suitable for use in cases where there is neither significant cross-section unit nor significant temporal effects. This model is not often used in the literature.

(b) Individual specific effects model- This is much more popular than the pooled regression model. It assumes that there are unobserved heterogeneity across individuals and attempts to establish whether these individual specific effects are

correlated with the regressors. It is a fixed effect model if they are correlated or a random effects model if they are not.

(c) Fixed Effects (FE) Model: The Fixed effects model allows the individual specific effects to be correlated with the regressors**.** The FE technique allows the slope coefficients to be constant but the intercept varies across individuals. This is because each cross-sectional unit may have its own specific characteristics. The time effect is therefore eliminated for both the dependent and independent variable. The FE technique is very suitable in cases where the individual specific intercept may be correlated with one or more regressors (independent variables). In order to factor in the different intercepts, the mean differencing or dummy method is employed if there is need to factor in different intercepts depending on which is more suitable. It is also known as the least-squares dummy variable (LSDV) model in cases where dummy variables are used. A major shortcoming of the LSDV model is that it by a significant margin reduces the degrees of freedom in cases when the number of cross-sectional units, *N*, is very large.

(d) Random Effect (RE) Model: The Random effect technique which is also known as the Error Components Model (ECM) is an alternative to FE technique. The RE estimator assumes that an individual unit's intercept is a random component that is drawn from a sample of a larger population with a constant mean value. The individual intercept is further expressed as a deviation from this constant mean value. It is of the assumption that the individual-specific effects are distributed independently of the regressors. A major advantage of the RE over the FE is that it is economical in degrees of freedom. This is because the *N* cross-sectional intercepts do not have to be estimated, only the mean value of the intercept and its variance does. The RE technique is useful in cases where the (random) intercept of each cross-sectional unit is uncorrelated with the regressors.

(e) Generalized method of moments (GMM): According to Hansen (1982), GMM estimations provide a general framework that addresses issues of statistical inference, as it encompasses different estimators of that are of econometrical interest. Worrall (2008) stated that GMM nests together several estimations, such as OLS, 2SLS and IV within a single framework. Also, GMM estimations use a more robust sets of instruments (using lag variables) thereby providing a more efficient estimation (Arellano & Bond, 1991).

4.8.1 Model Specification

The standard pay-performance relationship in line with Murphy (1999) is obtained from the regression

$(ExecPAY)_{it} = \alpha_{it} + \acute{o}_i\ (BankPerf)_{it} + \lambda_i(Controls)_{it} + \varepsilon_i$

Where

- γ_i is bank specific effect
- α_{it} is time trend
- Pay is total board pay
- Performance variables to be measured by ROA, EPS
- Control variables to be bank size

Since the research is on the listed banks in Nigeria and the UK, there are likely to be unobserved differences in the banks which may explain some of the variation in pay. The model will be estimated using an OLS technique then GMM and fixed effect regression in order to allow for heterogeneity and endogeneity.

The researcher estimates the following regression panel data model controlling for bank size, ownership, and boardroom governance.

$\ln(TCOMP)_{it}=\alpha_i+\beta_1 EPS_{it}+\beta_2 ROA_{it}+\beta_3 BKSIZE_{it}+\varepsilon_i$ ……. (1)

The term $\ln(TCOMP)_{it}$ is the log of CEO compensation in bank "i" at a time "t". Executive compensation is aggregated pay of base salaries, bonuses, fees, emoluments and pension contributions paid to the CEO. OLS was adopted to examine the pay-performance relationship.

However, OLS is not without its inadequacies. The use of cross section regression may omit some significant explanatory variables which can cause statistical bias in the estimation of the pay-for-performance relation. Hence, fixed effects panel data regression was adopted as robustness test to control for heterogeneity in bank and managerial quality (Wooldridge,2002). For example, if managerial quality correlates with firm performance and CEO wages, and is omitted from the pay regression, it may result in erroneous estimation of the pay-performance relation. Performance can impact pay and pay can also impact performance. This is an endogeneity issue that is not addressed by fixed effect estimation. Therefore, the research further analysed the data using GMM to account for endogeneity issues and test the validity and reliability of the results.

Having reviewed this, this study used panel data estimation to analyse this research using 'R' software. This research analysed the data using OLS, fixed effects method and GMM, and this was adopted for several reasons. First, the researcher used GMM to control for endogeneity issues (Hill et al., 2019). Conyon and He (2011) opine that one of the issues that have plagued the inconclusiveness of previous research works is endogeneity problem. Endogeneity in executive pay research may arise when there is a relationship between explanatory variables and the error term. Collischon and Eberl (2020) affirmed the three factors suggested by Wooldridge (2010) that creates endogeneity issues; Omitted variables, measurement errors and causality. Cross section regressions may omit explanatory variables that are significant which can potentially cause statistical bias in estimating the pay-for-performance relationship. Errors in measurement can also occur in estimating the dependent or any of the explanation variables. Issues of causality may arise if the dependent variable and any of the explanatory variables have a simultaneous relationship. Second, fixed effects controlled for heterogeneity or unobserved firm characteristics that may affect the dependent variable. Third, fixed effects also filter out time-invariant factors that may contaminate pay-for-performance sensitivities (Conyon and He, 2011). The cross-section results were also presented in the analysis. Also, previous researchers (Gregg et al. 2010;

Conyon, 2003; Conyon and He, 2011, Ntim et al, 2017) adopted fixed effects and GMM method in their research.

4.9 Summary

This chapter has explored the research methods used for this study. Specifically, it explained the research philosophy, research approach, data collection and the choice of methodology adopted. The study adopted a positivist research philosophy and used a quantitative methodology. To carry out the data analysis, secondary data was elicited from data sources (databases) such as DataStream and Bloomberg. Further, secondary data from the annual reports of the banks were manually collected for variables not available on databases. OLS model is the main analysis technique utilized for data analysis. Also, fixed effects and GMM method was used to analyse data for robustness.

Chapter Five: Executive Pay and Bank financial performance

5.1 Introduction

The remuneration paid to Chief executives is not something new. CEO pay is a corporate governance mechanism which when properly utilised is a useful tool in mitigating the agency problem that arises because of the separation of power that happens when a principal appoints an agent to act on his behalf. Jensen and Meckling (1979) were one of the earliest research papers on the pay-performance relationship. Since then, research on the pay-performance relationship have evolved in response to the different policies adopted and the changing landscape of CEO pay whether it be the adoption of long-term incentive plans (LTIPs) like stock options or abolishing CEO duality.

However, since the 2007-2008 financial crisis, particular attention is being paid to not just what Chief executives are paid but how they are paid. This is because the remuneration paid to CEOs has been highlighted as part of contributors to the financial crisis (Turner, 2009). It is said that CEOs indulged in overly risky behaviours and that their pay was not properly tied to their performance. This is further exacerbated by the perceived high and outrageous levels of pay received by bank CEOs and the fact that the burden falls on the taxpayer to bail them out during crisis. Since then, several studies have been undertaken in several attempts to examine the relationship between pay and performance and to properly align CEO pay to performance. Empirical works that have analysed the pay-performance relationship have been mixed and inconclusive. Some reported no relationship, a weak relationship, a positive relationship and sometimes a negative one. As inconclusive as previous literature is, a common occurring theme however, is that the pay-performance relationship is better explained by bank size, leverage, board size and growth opportunities. Research in relation to executive compensation continue to develop albeit with new lines of enquiry emerging. This

study focuses on one of such which is the compensation of the CEO within the context of banks and in the context of developing/emerging economies such as Nigeria versus developed ones such as the United Kingdom.

There are two competing theoretical perspectives of CEO pay determination. The managerial power view asserts that CEO pay is too high and that remuneration contracts are poorly designed. (Bebchuk & Fried,2004,2006; Bertrand,2009). It posits that Chief executives exert undue influences over the pay-setting processes and that leads to contract that are not in the best interests of the shareholders. The dilemma is that a properly designed remuneration contracts is one that attracts, motivates, and retains executives and as such, it will be difficult to draw up a contract that does all of that without input from the person whom the contract is meant to "motivate". The question is "at what point does input becomes undue influence"? The other pay determination theory is the optimal contracting model (Core and Guay,2010). The optimal contracting model is an economic or market-based view of the CEO labour market. The model recognises that contracts may not be perfect, but they do help in minimising the contracting and transaction costs that shareholders and managers face as a result of an imperfect market and asymmetric information. Further, CEO pay contracts arose as a means of solving agency problems. This study adopts a multi-theoretical approach because there are several conflicting theories in Chief executive pay literature.

There is controversy about the relationship between CEO compensation and bank performance. The agency theory posits that when the principal appoints the CEO to act on its behalf, the bank CEO will act to maximise its own selfish interest and assumes a negative relationship between CEO pay and bank performance. On the other hand, the stewardship theory suggests a positive relationship between executive pay bank performance because the CEO can be trusted to act in the interest of the public in general and the shareholders in particular. The stakeholder theory posits that the responsibility of bank executives is not just

to maximise returns to shareholders but the interests of numerous stakeholders whose interests are in the overall well-being, financial or otherwise or the banks. Even if all banks manage to align the incentives of their CEOs with the interest of the shareholders, IMF (2012) points that not all stakeholders will be satisfied, because maximising shareholder value is not necessarily in the best interests of the bank's bondholders. Davis et al 1997 says that a steward protects and maximises shareholders wealth through performance, because by doing so, the stewards utility function is maximised. Therefore, it is presumed that some sort of relationship exists between CEO compensation and bank performance although the nature of the relationship may differ across banks, economies, and countries (Bebchuk & Fried 2004; Shiyyab et al. 2014). The reasons for this variation are, first, the nature of banks themselves. Banks by virtue of their own special features are a unique entity from other firms because they are highly leveraged, have little equity in their capital structure compared to firms in other industries and are also heavily regulated. (Turner,2007) In an emerging country like Nigeria, the banking sector is critical for sustainable growth and macroeconomic stability. Second, the performance measurement. Performance measurement whether financial or otherwise is another factor responsible for variations. Financial performance measure whether accounting or market-based influence the type and strength of the pay-performance relationship. Third, is the time under review is also one of the reasons for the variation. Long term incentive plans (LTIPs) are realised over a long period and shorter research timeline might not capture the realisation of some. This study aims to bridge this gap by examining the pay-performance relationship in banks with the understanding of their peculiarity, also, both accounting and market-based measures of performance will be adopted, and the study will be over an eleven-year period.

Hall and Liebman (1998) reported a positive relationship between CEO compensation and firm performance and found that such a significant positive relationship was as a result of

changes in the value of CEO holdings and stock options. Boschen and Smith (1995) researched the pay-performance relationship using past as well as current performance using a sample of 16 US firms over the period of 1948-1990. The research used their stock market returns as proxy for performance. It concluded that although historical performance has a significant influence on current remuneration, the effect is non-lasting.

The distinctive corporate financing nature of banks make them an area of interest because a significant proportion of their capital is debt rather than equity and as such, risk is largely borne by creditors and not equity holders. Shiyyab et al (2014) noted that existing corporate governance structures which are advocated by best practice guidelines do not reflect this peculiar nature and instead focuses on the relationship between shareholders and managers. This then follows that existing works and findings of the pay-performance link reflects this and as such, prior findings cannot be consequently held true for the banking sector. Based off this understanding, Macey and O'Hara (2003); Adams and Mehran (2003); Sierra et al (2006); Cooper (2009); Shiyyab et al. (2014) and Yurtoglu (2012) are some of the scholars who have called for more research into the corporate governance of banks and financial institutions. This research intends to do that.

This study contributes to the existing pay-performance literature in several ways. To start with, it complements previous research works into the relationship between CEO pay and performance. Also, it expands these existing literatures by providing insight into the pay-performance relationship in the banking sector in Nigeria and the United Kingdom. Further, most studies have extensively researched the United States (Bhagat & Bolton, 2008; Cooper, Gulan & Rau, 2009; Fahlenbrach & Stulz, 2011; Gan & Park, 2016) with paucity in research in other countries especially in African countries (Olaniyi & Obembe, 2017). Also, the few empirical works did not compare an emerging and a developed economy.

This chapter is organised as follows. Section 5.2 introduces the relationship between CEO pay and performance, section 5.3 presents the variables and hypothesis used in this study, section 5.4 explains the data and research methods adopted, section 5.5 presents and discusses the results, and section 6 provides the analysis and conclusion.

5.2 The Relationship between pay and performance.

There is a general agreement in the financial industry, the public sector and academia that incentive structures in some financial institutions played an important role in causing the 2007-2008 financial crisis (IMF,2012). To further compound the issue, there was a strong perception that the bank executives whose behaviour contributed to the crisis had their own pay insulated from the effects. Apart from the assertion that bank executives pay were increasing even during the recession, the outrage over pay is made worse by the fact that firms that they were running still had to be bailed out by the taxpayer. Also, the growing income gap between CEO compensation and typical households has sparked considerable interests in CEO pay. As part of the post-crisis financial reform agenda, improvement of corporate governance in banks and regulating bank's CEO pay was at the forefront. Several measures were proposed and implemented to ensure that Chief executive pay provides the appropriate incentives to curb overly risky behaviour of bank executives. Critics of CEO packages postulate that it is insufficiently tied to performance of their firms. Conyon and Peck (2012) adds that high pay can perhaps be justified by stellar returns, but questions remain to be answered as to whether performance efficiently rewards pay. The substitute versus compliment argument is another impediment in prior studies that have probed multiple corporate mechanisms in the pay-performance relationship. The theory says that in the design of Chief executive pay contracts, firms look at several governance mechanisms which are fundamentally related to one another either as complements or substitutes depending on their costs and benefit. The substitution hypothesis puts forward that when any governance

mechanism is used effectively, it might also reduce the level and structure of executive compensation needed to align managers interests with those of the shareholders. (Ozkan,2011). On the other hand, the complementarity hypothesis maintains firmly that CEO compensation mechanism is effective in mitigating agency problems only when it is jointly used alongside other mechanisms (Fahlenbrach,2008; Ward et al, 2009). The different corporate governance mechanisms a firm can adopt involve costs and benefits which means that the most productive governance structure may vary by firm. This research like the ones carried out by Conyon and He (2011); Ntim et al. (2017) will examine whether CEO pay is a substitute corporate governance mechanism in alleviating the agency problem or whether it is only effective when jointly adopted with other corporate governance mechanisms.

5.3 Hypotheses to be Tested

It is worthy of note that modern compensation systems were arose partly to address the concern of insufficient risk taking by manager. The well-known agency problems between the owners of a firm and the managers means that the managers may not always act in the best interests of the shareholders due to competing interests. Managers may be too risk averse when the firm is doing well and may take on too many risks to bolster financial health when firm is not doing well. Pay incentives and corporate governance structures are a means of ensuring that managers and workers act in the best interests of the firms' owners. Firms therefore align managers incentives with those of shareholders through schemes such as performance-based compensation like cash bonuses, stocks or stock option which usually makes the manager more sensitive to changes in shareholder value. Managers are monitored by board of directors, shareholders, debtholders, market analysts etc. But monitoring can be costly and may not be effective. Managers thereby base the pay of CEOs on measured performance, which acts as a partial substitute for directly monitoring and control of their behaviour. A pertinent question, therefore, is whether this is obtainable in practice. The fact

that the public views CEO pay as too high especially compared to a typical employee is also a contributor. If we justify that Chief executives deserve those pay packages because the performances of their companies were excellent, then how do we justify high pay packages they receive when performance is low. It therefore follows that the better the performance, the higher the pay. Therefore, the first hypothesis is.

Hypothesis 1: *The impact of performance on CEO pay is positive*

Jesen and Murphy (1990), Murphy (1999) further opines that a percentage change in CEO wealth can be associated with a percentage change in the wealth or performance of the firm. If CEO pay is properly aligned to performance and the better the performance, the higher the pay, then a marginal effort in performance of the CEO should bring about a marginal increase in pay. This is estimated by regressing the change in CEO pay on change in financial performance of the bank. Therefore, hypothesis two states;

Hypothesis 2*: The impact of change in performance on change in CEO pay is positive*

While emphasis will be laid on CEO pay and performance of banks in Nigeria and the United Kingdom, empirical literature suggests that pay is also affected by other factors such as bank size, leverage, and growth opportunities. These are considered as control variables in the analysis and are discussed below.

The first variable of interest is performance (PERF). Both accounting and market-based performance measures are crucial in explaining bank's CEO compensation levels. Accounting based performance measures are backward looking indicators. They provide information on a banks previous/past policy; while market-based performance measures are future or forward looking and their value are usually positively related to stock price. (Chen & Ma,2011; Shiyyab et al.,2014). Empirical evidence on the relationship between accounting and market-based performance measures and CEO pay is generally mixed. Sloan (1993);

Carpenter and Sanders (2002); and Kerr and Bettis (1987) reported strong relationships between accounting-based performance measures and executive compensation while Coughlan and Schmidt (1985); Murphy (1985); and Conyon et al., (2000) found evidence that executive compensation is more related to market-based performance measures. This research work therefore considers both types of performance measures.

The second variable is leverage. Bank leverage reflects the influence of the capital structure and is calculated as the percentage of banks total debt to total assets. Jensen (1986) suggests that using a greater level of debt can serve as a good corporate governance mechanism by reducing agency problems, as one notion is that increase in agency problems is often associated with managers having excess cash flows. For example, debt holders tend to be more conservative and are more likely to constrain the risk-taking activities of a firm (Levine, 2004; Mintz, 2005; and Shiyyab et al., 2014). However, the role of debtholders is different in the banking sector due to the high level of regulation and the presence of deposit insurance provisions. The presence of deposit insurance may eliminate the incentives to monitor bank directors and shareholders behaviour, and to control excessive risk-taking because depositors are insured. The funds of depositors are protected, and their investment is guaranteed by the national deposit insurance regardless of the outcomes of the investment strategies that the banks adopt (Cooper, 2009; Crawford et al., 1995; Macey & O'Hara, 2003, Shiyyab et al., 2016). Empirical research in the US banking sector by Larcker et al. (2007), Grove et al. (2009) find that a common characteristic of highly leveraged firms is a negative relationship with performance which can be attributed to the high proportion of debt over equity. They conclude that this signals weak corporate governance.

Bank size is another control variable in explaining the pay-performance relationship. Generally, larger firms have greater power, resources and can sometimes dictate the pace of the CEO labour market because they have the wherewithal to poach executives away from

smaller banks with promising pay packages. Lannota et al (2007), Boone at al (2007) opine that a larger size allows a bank to obtain economies of scale as they are likely to have more access to internal or external funds. However, larger banks are also subject to higher agency and monitoring costs and are faced with a more complicated structure and managerial layers which may reduce efficiency. Bank size is an important variable in explaining the level of executive compensation and therefore will be proxied by the logarithm of the total assets of each bank. The empirical literature reports that bank size impacts positively on financial performance (Beiner et al, 2006; Staikouras & Wood, 2004; Pasiouras & Kosmidou, 2007; Al-Khouri, 2011; Naceur & Omran 2011; and Al-Sahafi et al., 2015)). Al Sahafi et al (2015) used a sample of 11 listed banks on the Saudi Stock Exchange over the period 2009-2012 and found that there is a strong positive relationship between bank size and financial performance measured by ROA and ROE.

Empirical literature has also highlighted growth opportunities as another variable that can explain pay levels. This is defined as the market value of the firm divided by the book value of assets (Smith & Watta,1992). Shiyyab et al. (2014) opined that growth opportunities (MTBV) is expected to have a negative relationship with CEO pay as compensation is expected to be lower in banks with higher opportunities for growth.

5.4 Data and Methodology

5.4.1 Data

Executive remuneration used by the empirical literature are defined differently. For some research works, it is the compensation paid to all executives while for others, it is the remuneration paid to the chief executive officer (CEO). Some research works further analysed these remunerations into its fixed and variable elements to establish whether pay is related to cash-based pay or equity-based components. However, the literature has

extensively documented that cash-based pay is positively and significantly related to performance while evidence from equity-based pay is mixed. (Cooper, Gulen & Rau, 2009) This research conducted on banks listed in the UK and Nigeria is based on a set of hand collected corporate governance data that was gathered from the banks yearly financial reports, corporate governance reports and websites for the year 2009-2019. This period is after the global financial crisis and period in which several reforms and legislations were introduced. The nature of executive pay data since those reforms will provide an insight into how pay has evolved in the UK and Nigeria since then. All listed commercial, savings and mortgage banks on the London stock exchange (LSE) and the Nigerian stock exchange (NSE) that have publicly available yearly financial and corporate governance reports as of the end of 2019 were selected. Table 5.1 gives definition of the variables. Table 5.2 summarises the CEO remuneration data by year and Table 5.3 summarises the characteristics of the data that were used to test the proposed hypotheses. The CEO compensation data was obtained from the remuneration section of the annual corporate governance report for each bank. For each year where the executive remuneration data is missing, the aggregated earnings for all executives in the year is divided by the total number of executives and pro-rata based on the previous year's CEO remuneration. By these means, missing CEO's earnings data were estimated. To account for skewness, the natural logarithm of the CEO's total earnings is used. The fundamental and market data were extracted from Bloomberg while others were hand collected. Following Shiyyab et al, (2014), executive compensation is adopted as the sum of all remuneration (both cash and equity) paid to the Chief Executive officer (CEO) of the bank. The 11-year sample period from 2009-2019 was post the financial crisis and study used balanced panel data. Balanced panel data was employed because they enable the researcher to control for banks heterogeneity, avoid multicollinearity problems and they provide more efficient results (Baltagi,2013).

Table 5. 1 Definition of variables

Variable	Definition
PERF:	Accounting and market-based measures of performance, measured alternatively as :
EPS	Earnings per share is the net income divided by shares outstanding.
ROA	Return on Assets is operating income divided by end of year total assets.
BNKSIZE	Book value of total assets (in natural logs).
MTBV	Market to book ratio. The market value of equity to book value of equity.
LEV	Bank leverage calculated as the ratio of total debt to total assets.
TCOMP	CEO's total earnings. The sum of all fixed and variable cash and equity compensation. (in log)

This table provides a definition of the variables used in the research.

Table 5.1 gives definitions of the variables used in testing the proposed hypothesis. The existing literature has found relationships between these variables. In this empirical research work, CEO compensation is considered as a dependent variable which takes the logarithm of the sum of all the annual salary, annual fixed fees, meeting fees and committee fees, and any other additional performance-based bonus payments or cash benefits, in addition to short- and long-term performance- related compensation and the stock options held and exercised by the bank's chief executive officer. The main independent variable is the financial performance. The control variables include bank size, leverage, and growth opportunities. All variables for the Nigerian banking sector are translated to the GBP exchange rate using Oando rates. Based upon the fact that some explanatory variables have higher scales than the others and to avoid the problem of heteroscedasticity, natural logs are adopted for executive pay and bank size.

Table 5.2 reports the summary statistics by year for CEO compensation for each country. It presents the summary pay data both the UK and for Nigeria. The descriptive statistics show the trend in executive pay from 2009-2019.

Using the mean pay data, it is interesting to note that despite the public outcry on CEO pay levels as being “too high”, Chief executive pay after the 2008 crisis did not respond to it. One would expect that CEO pay levels would decline after the financial crisis, instead, average pay rose between 2009 and 2011. CEO pay rose by 86% in Nigeria from 2009 to 2010 and about 25% in the UK. However, the increase in 2011 was less than 1% in Nigeria and pay increased by 16% in the UK and Chief executive pay levels reduced thereafter. Even then, the decrease is not as significant as the subsequent significant increase in 2014. This further reiterates the position of Jensen and Murphy (1990) that it is not how much CEO earns but how they earn them. This also echoes the position of Conyon (2012) who stressed that pay packages during public outcries are restructured such that pay components are shifted to make it seem that pay is reduced whereas overall pay is not. This lends credence to the managerial power theory of the ability of CEOs to extract rent. There is also a decrease in CEO pay in the UK between 2015-2017. This could be because of the regulation that came into force which mandated disclosure on the pay gap in all firms in the UK including CEO-employee gap and the gender pay gap.

Table 5. 2 CEO pay levels in Nigeria and the United Kingdom

	TCOMP(Nigeria)				TCOMP(UK)				Nigeria	UK	Difference
Year	Mean (1)	Std Dev (2)	Min (3)	Max (4)	Mean (5)	Std Dev (6)	Min (7)	Max (8)	Mean (YOY)		Col 5/1
2009	117245	160750	63565	625418	1591679	1768313	600000	8540000	0.000	0.000	13.580
2010	218297	156437	67955	584870	1984696	1626518	221500	5420000	0.862	0.246	9.090
2011	220207	164696	53580	597740	2301875	2413253	221500	9090000	0.009	0.160	10.450
2012	236735	184078	66030	606050	2168857	2113031	380000	8930000	0.075	-0.058	9.160
2013	228527	171296	61756	617780	2781750	2916853	800000	13590000	-0.035	0.283	12.170
2014	313059	233892	70210	757250	3588332	3121399	720000	11430000	0.370	0.290	11.460
2015	267267	196121	88260	670880	3426492	2637311	653000	9060000	-0.146	-0.045	12.820
2016	278175	208583	75820	760200	2895971	1983414	850000	8680000	0.041	-0.155	10.410
2017	249762	149825	95108	601450	2647553	1526286	766000	6690000	-0.102	-0.086	10.600
2018	263853	166680	100250	605660	2907032	2336147	610000	9058000	0.056	0.098	11.020
2019	293257	187400	103650	730250	2912774	2348386	650000	9450000	0.111	0.002	9.930

This table provides a yearly description of CEO pay in Nigeria and the United Kingdom after the financial crisis from 2009-2019. The sample consists of twenty-six UK banks and thirteen Nigerian banks. YOY means year-on-year difference as a percentage. Difference is average pay in the UK divided by average pay in Nigeria.

The executive pay trend in Nigeria paints a similar picture to that of the UK. Average executives' pay values increased by 86% between 2009 and 2010. This is despite the financial crisis and at a time where worldwide economy seems to be in turmoil.

Table 5.3 and Table 5.4 reports summary statistics for all variables used in this study. Table 5.3 summarises the descriptive statistics for the UK while table 5.4 describes the descriptive statistics for Nigeria.

Table 5. 3 UK descriptive statistics for all variables

Variable	P25	Mean	Median	P75	Std Dev	Min	Max
Tcomp('000)	1140	2655	1735	3193	233	221	13590
Log Tcomp	6.057	6.288	6.239	6.504	2.340	5.345	7.133
EPS	-0.055	2.064	1.325	2.460	1.220	-4.300	3.860
ROA	0.010	0.644	0.370	0.930	1.950	-10.570	12.800
LEV	13.000	36.480	34.800	48.300	15.740	9.430	85.400
BnkSize('000)	8434	31718	36621	261553	53717	1180	21672
Log BnkSize	13.926	14.688	14.564	15.413	0.910	13.072	16.336
MTBV	1.322	3.852	2.847	3.330	4.829	-12.680	32.530

This table presents the summary statistics for all variables for the UK used in the analysis. The sample comprises twenty-six banks in the UK over the period 2009-2019. All variable definitions are in Table 5.1.

Table 5.3 and 5.4 presents a descriptive statistics of the variables used in this research. Table 5.3 presents the descriptive statistic for the UK while table 5.4 shows the descriptive statistic for Nigeria. The minimum value of the two measures of performance in the UK is -4.3 and -10.57 respectively while the maximum value is 3.8 and 12.8. The standard deviation is 1.22 and 1.95 which suggests that the degree of spread of the variables is low. Leverage (LEV) has a mean vale of 36.5 and a standard deviation of 15.74. The minimum value is 9.43 while the maximum value is 85.4.

In Nigeria, the minimum value of the two measures of performance is -0.15 and -28.51 respectively while the maximum value is 2.23 and 10.01. The standard deviation is 0.88 and

0.65 which implies that the degree of spread of the variables is low. Leverage (LEV) has a mean value of 36.9 and a standard deviation of 14.7. The minimum value is 17.7 while the maximum value is 75.6.

Table 5. 4 Nigeria descriptive statistics for all variables

Variable	P25	Mean	Median	P75	Std Dev	Min	Max
Tcomp	105,541	220,373	182,209	289,677	161923	85,000	822,968
Log Tcomp	5.195	5.065	5.433	5.703	1.530	4.238	6.392
EPS	0.190	1.390	1.190	1.720	0.880	-0.150	2.230
ROA	0.425	1.114	1.375	2.438	0.650	-28.510	10.010
LEV	15.400	36.900	36.700	41.300	14.700	17.700	75.600
BnkSize('000)	2981	6938	5626	1028	2574	900	12560
Log BnkSize	9.577	9.780	9.797	10.045	3.200	8.942	10.408
MTBV	1.083	4.295	3.580	1.115	0.147	-1.298	5.377

This table presents the summary statistics for all variables for Nigeria used in the analysis. The sample comprises thirteen Nigerian banks over the period 2009-2019. All variable definitions are in Table 5.1.

5.4.2 Method of study

To estimate the impact of performance on CEO pay in Nigeria and the UK, the simplest form of panel data analysis which is the Pooled regression (OLS) is adopted. However, the OLS is not without its deficiencies. For example, it disregards the space and time dimension of the pooled data. Wooldridge (2002) stated that when estimating the pay-performance relationship using panel data in research, fixed effects panel data is the best fit because it controls for heterogeneity in firm and managerial quality. Therefore, in line with Conyon and He (2011), fixed effects panel data model was therefore estimated to analyse the relationship between pay and performance, the following fixed effects model is estimated:

$$ln(TCOMP)_{it} = \alpha_i + \beta_1 EPS_{it} + \beta_2 ROA_{it} + \beta_3 BKSIZE_{it} + \beta_4 LEV_{it} + \beta_4 MTBV_{it} + \mathcal{E}_i \ldots\ldots (1)$$

The fixed effect help filter out time invariant factors so as not to contaminate the pay-performance estimates. Also, a regression of the change in the logarithm of a marginal change in performance on change in CEO pay is performed.

$$\Delta ln(TCOMP)_{it}=\alpha_i+\beta_1\Delta EPS_{it}+\beta_2\Delta ROA_{it}+\beta_3\Delta BKSIZE_{it}+\beta_4\Delta LEV_{it}+\beta_4\Delta MTBV_{it}+\mathcal{E}_i \ldots\ldots (2)$$

Where $\Delta\ln(EPS)_{it}$ is the earnings per unit of share held. β_i is the marginal effort of the CEO.

$\Delta X_{it}=X_{it}-X_{it-1}$.

There is an endogeneity issue because CEO pay can be determined by performance and performance can also be determined by CEO pay. This means that the relationship is endogenous because it can run both ways. This was controlled for by using the lag variable of CEO pay. A dynamic GMM model was also adopted to test the robustness of the results and to control endogeneity.

Table 5. 5 Pooled Regression results

Bank performance on CEO Compensation

	United Kngdom		Nigeria	
	ln(TCOMP)	Change(TCOMP)	ln(TCOMP)	Change(TCOMP)
EPS	0.051***	0.153***	0.447*	0.326*
	(0.085)	(0.089)	(0.103)	(0.239)
ROA	0.031	0.262	0.190**	0.250**
	(0.013)	(0.107)	(0.078)	(0.092)
LEV	-0.055**	-0.313**	-0.584***	-0.370**
	(0.002)	(0.155)	(0.061)	(0.178)
MTBV	0.162**	0.824**	0.252**	0.474***
	(0.128)	(0.098)	(0.146)	(0.126)
BNKSIZE	0.514***	0.466***	0.668***	0.614***
	(0.026)	(0.139)	(0.229)	(0.263)
Constant	0.840	5.137***	0.627*	0.518***
	(0.065)	(0.098)	(0.227)	(0.093)
No of Obs	308	281	137	128
R^2	0.401	0.336	0.406	0.322
N_Clust	91	91	43	43

*This table presents the OLS estimation results of the impact of bank performance measures on CEO compensation. The sample and variable definitions are described in Table 5.1. Standard errors clustered at size level in brackets, ***, **, * denote significance at the 1%, 5% and 10% levels, respectively.*

5.5 Empirical Results

5.5.1 Banks CEO pay and performance in the UK

Table 5.5 reports the results on the relationship between executive pay and performance. The first hypothesis to be tested is the relationship between executive pay and bank performance, specifically, whether performance positively impacts CEO pay. Different performance measurements have been used by the literature to examine firm performance (Cochran &Wood, 1984; Ittner & Larcher, 2003). The financial performance measure adopted are several and diverse such as Managena et al., (2012); Trabelssi, (2010); Al-Hawary, (2011);

Bino &Tomar,(2007) who used Tobin's Q while Heentigala, (2011); Ranti; (2011) Ntim, (2009); Staikouras et al., (2008) adopted ROA and ROE was used by Baussaad and Karmani,(2015); Wiredu et al., (2014); Gordini, (2014). Bank performance in this context is measured by Earnings per share and Return on assets. This research finds that the agency theory which posits that managers should be rewarded for performance does not always hold true. This is because it predicts that executive pay is positively correlated with bank performance. The first variable of interest is the relationship between CEO pay and bank performance. The cross-section result shows that CEO pay is positively correlated to bank performance. Both the earnings per share and return on assets variables are significant after controlling for bank size in Nigeria but only the market-based measure of performance is significant in the UK.

The impact of performance on CEO pay may be affected by the regulatory environment and the uniqueness of the banking industry. Leverage which is expected to be negatively associated with executive pay is in line with theoretical predictions and is negative and significant. Shiyyab et al. (2012) found that it was also negative for her case study of European banks but insignificant. This may mean that executives exercise restraint from extracting rent in banks with higher debt levels in their capital structure. On the other hand, this may be that debt holders do not actively monitor the affairs of bank managers which is likely because of the deposit insurance that banks are mandated to hold. As such, the debt holders are assured that their funds are protected and their investments intact irrespective of the outcomes of investment strategies undertaken by the banks which may support the stewardship theory that managers are good stewards. (Cooper,2009; Crawford et al., 1995; Macey & O'Hara,2003; Shiyyab et al.,2012).

Furthermore, the results suggests that other factors in explaining executive pay levels in UK banks are bank size and growth opportunities. This lends credence to the executive labour

market theory that says that large firms especially cannot afford to gamble the future of their company by hiring relatively inexperienced managers. They would rather that these managers be hired by smaller firms and poach them later with the appeal of robust incentives. Similarly, banks with higher expansion or growth prospects pay their executives more. This contradicts the assertion by Shiyyab et al. (2014) that executive pay is lower in banks with higher growth opportunities.

5.5.2 Banks executive pay and performance in Nigeria

The evidence of the pay-performance relationship in Nigerian banks differ slightly from that of the United Kingdom. It supports that bank performance is one of the determinant factors of CEO compensation in Nigerian banks as both the market and accounting-based measure of performance are significant and positively associated with CEO pay. The significance of both performance measures means that CEO remuneration is properly aligned to performance in Nigeria in this instance. Also, bank leverage is significant and negatively associated with CEO pay. Again, this supports the stewardship theory and contradicts the managerial power theory. It could be because of the nature and uniqueness of the banking industry including its highly regulatory nature that reduces the ability of the CEO to extract rent. CEO pay appears higher when there are better growth opportunities for the bank and like the UK and as well as previous literature, bank size is one of the main factors that drives executive pay.

5.5.3 Lag of the pay-performance relationship

This research provides further evidence on the pay-performance relationship by using the lag of the pay-performance variables. This is achieved by regressing the log of change in performance and the other independent and control variables on change in CEO pay. Benito and Conyon (1999) used a sample of 1000 UK based companies from 1984-1995 and found that the CEOs of UK firms received 2.6% increase in salaries and bonuses for a 10% rise in

shareholder value similar to Hall and Liebman and when those research works adjusted for CEOs holdings of share option and restricted stock, they reported way higher level of change in the pay-performance relationship (Buck, Bruce, Main & Dueni, 2003; Main, Bruce & Buck 1996.) There is a significant and positive association between CEO pay and bank size. The researcher finds a positive relation between the change in CEO pay and change in performance in both countries and in line with compensation theories. The coefficient of the fixed effect result shows a 10% increase in bank size is associated with 4.7% increase in executive compensation in the UK while a 10% increase in bank size will increase the remuneration paid to the CEO by 6.1% in Nigeria. This is inconsistent with Murphy (1999); Gregg et al. (2010; 2012) review which states that the CEO compensation size lag is in the range 0.20 to 0.45 hence the unreliability of the OLS results. Also, Cross Section data is usually plagued with omitted variable bias which is why the researcher carried out further analysis using the fixed effects model. Omitted variable bias can occur if unobservable bank heterogeneity is correlated with observed variables in the estimated equation. Therefore, it is important to control for it. Although positive, the results show that the relationship between change in CEO pay and change in Return on assets is insignificant in the UK. In particular, the lag of the relationship between leverage and executive pay is significant and negative. John and Qian (2003) and John et al. (2009) also documented evidence that suggests a negative relationship between leverage and the lag of pay-for-performance. The other variables show similar results as the ones obtained when the log of CEO pay was used and are similar across board.

5.6 Robustness tests (Fixed Effects and GMM)

Table 5.6 documents the cross-section results of the relationship between CEO pay and bank performance in Nigeria and the United Kingdom using current and lagged executive pay variables. The result shows a significant and positive relationship between market-based

performance measure (EPS) and executive pay but the relationship between accounting-based performance measure (ROA) and executive pay although positive is insignificant. This result is similar to that obtained by Conyon (2012); Greg, Jewell and Tonks (2010) although disputes that obtained by Shiyyab et al. (2014) who found that the relationship between pay and performance in European banks were insignificant. This result is consistent with the board of directors providing incentives through remuneration contracts, it is also in agreement with OLS results from the research works of Conyon & He, (2011); Firth et al, (2007) and Mengiste et al (2004).

Broadly, the results show there is a correlation between pay and performance, but the extent of the correlation varies. There is a significant and positive association between CEO pay and bank size and growth opportunities influence the level of remuneration awarded to executives. The OLS results are similar to the fixed effects results except for the magnitudes. The research carried out further tests using the fixed effects model on the pay-for-performance relations by regressing the marginal effort of financial performance on CEO pay. The researcher finds a positive relation between the change in CEO pay and change in performance in both countries and in line with compensation theories. The coefficient of the fixed effect result shows a 10% increase in bank size is associated with 2.3% increase in pay in the UK and 3.9% increase in executive pay in Nigeria. This is consistent with Murphy, (1999); Gregg et al., (2010,2012) review which states that the size of CEO compensation lag is often in the range 0.20 to 0.45. The result shows a positive and significant relationship between the change in CEO pay and change in earnings per share. The result of the EPS is such that a 10% increase in the firm's earnings per share will translate to a 1.1% pay increase in the UK and a 1.3% increase in Nigeria. The coefficient of the OLS result on the other hand shows a 10% increase in bank size is associated with 4.7% increase in executive compensation in the UK while a 10% increase in bank size will increase the remuneration

paid to the CEO by 6.1% in Nigeria. This is inconsistent with Murphy, (1999); Gregg et al., (2010; 2012) review which states that the CEO compensation size lag is in the range 0.20 to 0.45 hence the unreliability of the OLS results. Also, Cross Section data is usually plagued with omitted variable bias which is why the researcher carried out further analysis using the fixed effects model. Omitted variable bias can occur if unobservable bank heterogeneity is correlated with observed variables in the estimated equation. Therefore, it is important to control for it. To mitigate this, the researcher estimated both OLS and fixed effects models and compare the OLS estimates with that of the fixed effects model as a test of the robustness of the results. It is found that the signs of the coefficients are similar across models. The researcher also notices that the estimated magnitude of the coefficient is sensitive to the method of estimation. Hausman test was performed to compare the random effects to the fixed effects. The test rejected the hypothesis that states that fixed effects are uncorrelated with the other variables. However, since the signs of the coefficients were similar and the fixed effects model remains unbiased and consistent, fixed effects model was accepted as the appropriate specification.

Table 5. 6 Robustness test using Fixed Effects model

Bank performance on CEO Compensation

	United Kngdom		Nigeria	
	ln(TCOMP)	Change(TCOMP)	ln(TCOMP)	Change(TCOMP)
EPS	0.386***	0.113***	0.434***	0.126***
	(0.252)	(0.044)	(0.122)	(0.102)
ROA	0.022	0.093	0.337***	0.229***
	(0.007)	(0.015)	(0.086)	(0.015)
LEV	-0.071**	-0.446**	-1.436***	-0.937***
	(0.068)	(0.065)	(0.113)	(0.101)
MTBV	0.994**	0.209***	0.208**	0.191**
	(0.136)	(0.091)	(0.212)	(0.159)
BNKSIZE	0.852***	0.228**	0.637**	0.385**
	(0.035)	(0.013)	(0.135)	(0.130)
Constant	0.517***	2.137*	5.130***	2.215***
	(0.222)	(0.172)	(0.286)	(0.142)
No of Obs	308	281	137	128
R^2	0.681	0.500	0.657	0.392
N_Clust	91	91	43	43

*This table presents the fixed effects estimation results of the impact of bank performance measures on CEO compensation. The sample and variable definitions are described in Table 5.1. Standard errors clustered at size level in brackets, ***, **, * denote significance at the 1%, 5% and 10% levels, respectively.*

5.7 Bank Performance and CEO pay – Addressing Potential Endogeneity

Performance can determine CEO pay likewise, pay can be determined by performance which gives rise to endogeneity problem. This bi-directional relationship can lead to reverse causality. Also, there may be other factors that impact CEO pay other than performance. Measurement error in the CEO pay variable may influence the pay-performance relationship which may produce inconsistent regression coefficients. This can mean that the coefficient estimates may be biased due to reverse causality, endogeneity, or measurement errors. Since the research focuses on banks; it eliminates other firm factors that may affect CEO pay and

the lag of some of the variables were utilised to address some of the issues. The research re-estimated the model using the Ariellano and Bond two step Generalised Method of Moments (GMM) approach. Table 5.7 shows the GMM estimation results with standard errors. Accounting based performance measure (ROA) is significant and positive in Nigeria but is not significant in the UK. Market based performance measure (EPS) is positively impacts CEO pay and is significant in both countries. The level of debt in the bank's capital structure (LEV) negatively impacts CEO pay in Nigeria and the UK which means that pay is lower in banks with higher debt levels. Bank size is positive and significant in both countries which supports the assertion that bigger banks pay their Chief executives more. The Hansen J statistic of over-identifying restrictions was used to test whether the instruments were valid, and the results showed that the instruments were valid in the models. Also, the the Kleibergen-Paap rk Wald F statistics rule out weak instruments since they are larger than the rule-of-thumb minimum which is 10.

Overall, the GMM results suggests that the findings of this research are largely consistent across the methodology and the signs of the variables remained the same except for the magnitude of the coefficient which varies depending on methodology. The results portrays that the research is not plagued by endogeneity.

Table 5. 7 GMM result of Performance on CEO pay

CEO pay and performance		
	UK	Nigeria
	(1)	(2)
EPS	0.264***	0.341**
	(0.001)	(0.002)
ROA	0.0461	0.226***
	(0.016)	(0.020)
LEV	-0.032*	-0.918***
	(0.003)	(0.010)
MTBV	0.548***	0.118**
	(0.028)	(0.004)
BNK SIZE	0.721**	0.463*
	(0.009)	(0.000)
Firm FE	Yes	Yes
No of Obs	308	281
N_Clust	91	43
K-P F statistic	14.326	17.529
K-P LM statistic	17.572	19.843
Hansen J Statistic	0.051	0.083
Hansen J p-value	0.586	0.662

*This table presents two-stage estimation results of the impact of performance on CEO pay. Robust standard error clustered at bank level are in parentheses, ***, **, * denote significance at the 1%, 5% and 10% levels, respectively.*

5.8 Conclusion

This chapter has empirically investigated the relationship between CEO pay and performance in the United Kingdom and Nigeria with particular emphasis on the impact of performance on pay. All listed banks in Nigeria and the United Kingdom were analysed for the period 2009-2019 using an OLS regression model, Robustness tests were carried using fixed effects panel data regression method and GMM. The behaviour of bank executives was said to contribute to the 2008 financial crisis, so it is only fitting to see how the pay of CEOs responded after the crisis. The CEO pay trend after the financial crisis was also examined. The research documents that post the financial crisis, CEO pay in the UK and Nigeria remained on the rise for at least three years before a decline. The results suggests that the pay awarded to CEOs continued to increase despite the financial crisis and public outcry about the high levels of pay contracts. The pay trend in both countries were similar despite their economic status.

Apart from documenting the pay trend via its year-on-year difference, it also shows the pay difference in the UK versus Nigeria. The result shows that bank CEOs in the UK earn at least nine times that of their counterparts in Nigeria and on average eleven times higher than the wages of bank CEOs in Nigeria. This research work will be the first to provide this insight. Overall, the compensation paid to Chief executives in the UK and Nigeria post the financial crisis did not take a plunge or decline as shown by the descriptive statistics, instead, CEO pay was on the rise post the financial crisis till about three years later before it declined.

Furthermore, the results indicate that performance exerts a significant and positive impact on pay. It also shows that a major factor in explaining Chief executive pay is bank size which lends credence to the managerial labour market theory that bigger banks are usually pace setters in pay award levels and that they poach bank executives away from smaller banks.

Also, leverage is another control variable that was used in explaining the pay-performance relationship. Leverage reflects the influence of the capital structure on the pay of bank CEOs. The research found that leverage has a significant and negative impact on pay in both the UK and Nigeria. The lag of the pay-performance relationship is positive and is within the range suggested by the literature. Also, robustness tests using the OLS, and random effects were carried out and the results were similar, and the fixed effects was accepted as the best fit to the data.

This research work has implications for future studies of CEO remuneration in the banking sector not just in developed but developing economies too. It may be of help to policymakers, remuneration committees, regulators, shareholders in emerging and emerged economies in the design of CEO remuneration contracts and the alignment of the pay-performance relationship. Some banks in both countries were excluded due to missing values. Also, the research only adopted a quantitative method and since executive pay contracts cannot be drawn up without input from bank executives, further research can adopt a mixed method

which reflects the views of CEOs as well. Also, future research works can draw comparison across several countries both developing and developed and see if a pattern emerges in their pay structure and components and its implications on the pay-performance relationship.

Chapter Six: Relationship between executive pay, board governance and financial performance

6.1 Introduction

"Most studies on board effectiveness exclude financial firms from their samples. As a result, we know very little about the effectiveness of banking firm governance." (Adams & Mehran, 2012, p. 243).

The banking sector has often been berated for its role in the financial crisis and the weak corporate governance practices by banks has always been identified as the culprit (Kirkpatrick, 2009). In the UK, the commission headed by Sir David Walker recommended to the government various measures to improve board-level governance (Walker, 2009). These recommendations were the basis upon which the 2012 U.K governance code and subsequent codes were built. In Nigeria, the Companies and Allied Matters Act (CAMA) 1990, the Investment and Securities Act (ISA) 1999 and the Bank and Other Institutions Act (BOFIA) 1991 were the three main legislations that guided the operations of firms, financial or otherwise. The deficiencies in these regulations and their lack of comprehensive corporate governance provisions led to the development of a draft code of corporate governance in 2002 which was thereafter implemented from 2003.The financial crisis and the continuous scandals plaguing institutions including the recent collapse of construction giant Carillion in the United Kingdom brings to the fore, once again, the effectiveness or lack thereof of board governance. Also, the fact that the UK government brought director disqualification proceedings against Carillion board of directors suggests that the role of the board cannot be overemphasized. (Guardian, 2020). The Nigerian regulator (Central bank of Nigeria) in April 2021 also removed the board of directors of First Bank Nigeria ltd for ousting the Chief Executive Officer and appointing a new CEO without regulatory approval.

According to De haan and Vlahu (2016), the shareholders can use several tools to ensure that the management of a firm acts in their interest such as the size and composition of the board, management compensation schemes, concentrated ownership, and the market for corporate control. Edmans and Gabaix (2016); and Shiyyab et al (2014) noted that these tools depending on its usage either as substitutes or complements of each other can determine their effectiveness as a means of mitigating the agency problem. Theoretical literature suggests that shareholders set CEO pay and incentives to effectively minimise agency costs. However, this is not obtainable in practice, shareholders are often too numerous and too diverse to set pay hence the pay-setting is done on behalf of the shareholders by the board of directors. The shareholders by appointing the board of directors have an instrument with which to control managers and ensure that the bank is run in their interest. Board governance is one of the mechanisms that the investors/shareholders use to ensure that the management of a firm act in their interest. Although shareholders are not setting pay neither are they drawing up remuneration contracts by themselves, they do have the potential to influence pay-setting arrangements. However, by appointing board of directors to act on their behalf and monitor executives, the principal is creating another agency problem. There is no certainty that the board will not act selfishly especially if the independent directors are nominated by the executives, and they owe them their jobs. The board of directors is responsible first and foremost, for advising and monitoring top management, designing CEO compensation, and more importantly, protecting the interests of shareholders. The monitoring role of the board gives it power to supervise the managers to ensure that their behaviour is always in the best interests of the shareholders. The board in an advisory role provides directions and opinions to managers for key strategic business decisions, (De Haan & Vlahu,2016). Thus, it follows that the more effective the board of directors, the better aligned pay is to performance. Liu and Fong (2010) argue that the more power and control vested in the board and which it

exercises over the managers, the lesser the opportunity managers/agents have for activities that are not geared towards shareholder value maximisation. There is now the realization that the compensation arrangements employed by many boards do not serve the interests of the shareholders (Lucian & Bebchuk, 2004) and since the shareholders cannot physically monitor the activities of the executive, they adopt different corporate governance mechanisms to ensure that the agent acts in the best interest of the shareholders and all stakeholders.

The literature on executive remuneration documents that executive pay contracts vary in part and in different contexts depending on the quality of the board. (Bertrand & Mullarnathan, 2001; Garvey & Milburn, 2006). There are two main types of board of directors. The one tier board of directors are top executives of the firm that consist of a mix of outside also referred to as non-executive directors and inside or executive directors. This board type is adopted by the US, UK, Nigeria amongst others. Germany and most Continental European countries adopt the two-tier system with a management board and a supervisory board. The supervisory board is elected by the shareholders (sometimes by the employees) while the supervisory board is appointed by the supervisory board.

The board of directors may be weak or strong depending on its size, its constitution, and the ability of the CEO to influence their own pay. A board that is weak does not 'check' the CEO and usually rewards the Chief executives for factors beyond their control than stronger boards do e.g., stock price rises that are due to general market trends and not the manager's own efforts to improve shareholder value. According to Jensen (1993), the boards of directors often do not monitor the firm's management effectively. The board may not be able to effectively monitor executive performance because of managerial power, and because of informational asymmetry problems that exist between management and the board. Another growing concern is the effectiveness of board monitoring amidst the high compensations that CEOs receive and their performance. A properly constituted board can draw up a

remuneration contract that motivates and retains executives. Instead, flawed remuneration contracts have been widespread and are due to defects in the corporate governance structure which enable CEOs to exert undue influence over their boards, (Lucian & Bebchuk, 2004). The corporate governance structure details the rights and responsibilities among different entities such as the board, shareholders, managers, and other stakeholders and specifies the rules and procedures for making decisions on the corporate affairs of the firm. Wolfensohn (1999) submits that this provides a structure that ensures that the firm's objectives are aligned with the means of attaining those objectives as well as monitoring performance. Empirically, this research seeks to investigate if the executive compensation for bank CEOs is associated with weaker firm performance due to board governance. It tests the stabilising role of board governance as a bridge between Chief executive pay and its financial performance. The effectiveness of board governance in mitigating agency costs and how it leads to better performance by the firms have wider positive ripple effect on the economy. The effectiveness of board governance in banks have wider implications for not just the banks, but the economy and the society generally because it improves their performance and their performance have wider implications through sustainable long term value creation.

Effective boards=Effective companies=Sustainable value creation

It is important to bear in mind that financial firms are different from non-financial firms. Reason being that the failure of financial firms (banks in this case) may have serious consequences because of critical and unique position in financial intermediation in any country hence why the financial sector is more heavily regulated than other sectors (Flannery, 1998). Also, like Laeven (2012) highlighted, the risks that the failure of banks pose on the rest of the financial system is external as failure of a big bank is more likely to result in macroeconomic externalities and as such, big banks are dubbed "too big to fail" thereby receiving a de facto government guarantee (Poghosyan & De Haan, 2012). Furthermore,

banks rely on depositors for their funding and since depositors are protected by deposit insurance, depositors are less inclined to monitor the activities of the management which provides stronger incentives for risky behaviours by managers. More so, debt is a cheap source of funds for banks because depositors are insured thereby financial firms are more leveraged than non-financial firms. Laeven (2012) documents that typical leverage ratio of a bank is about 10, which is considerably higher than that of most non-financial firms. In sum, banks unlike other firms are not just aligning the interests of managers with that of the shareholders, the stakeholders are numerous including the regulators and the alignment process needs to cater to all. The financial crisis meant that regulatory oversight by authorities is another issue executives must grapple with. One of such legislation is aimed at bolstering the independence of compensation committees but imposing regulations like limits on board composition according to Bechuk and Weisbach (2010) will translate to box ticking exercises by executive and will be less effective unlike selection processes that would happen in the absence of regulation. On the flipside, regulators are wary that without regulation, insider opportunism will compromise the independency of directors. In light of this, this research will examine the complementary relationship between executive pay, board governance and performance in Nigerian and UK banks.

By doing this, this study contributes to the literature in numerous ways. To start with, it investigates the effectiveness of board governance in Nigeria and UK banks and the complementarity hypothesis by utilizing all banks listed in Nigeria and the United Kingdom. This study is also thought to be the first that will draw comparison between a developing and developed economy by comparing board elements including board size, independent directors on board among others and its relationship with pay and performance. Thus, this study will provide useful insights into the board governance composition, characteristics, and structure in both a developed economy like the UK and a developing economy like Nigeria as

well as similarities and differences between both. Second, the methodology adopted takes into consideration the endogeneity problems by applying fixed effects panel data regression model to panel data. Finally, exploring the different elements of board governance in both a developing and developed economy is useful to policymakers, bank regulators amongst others as they can draw upon results obtained to guide their decision making.

This chapter is organised as follows. Section 6.2 presents the theory and hypotheses of the study; section 6.3 introduces the data and research method. Results and discussions are presented in section 6.4 while section 6.5 draws conclusion from all the aforementioned.

6.2 Theory and statement of hypothesis

Shiyyab et al (2014) submits that the substitution or complementarity hypothesis posits that theoretically, firms in designing the executive pay contracts take into cognisance various corporate governance mechanisms albeit related either as complements or substitutes depending on the mechanism which suits the firm. The substitution hypothesis says that by effectively using any governance mechanism, the level and structure of executive compensation needed to align manager's interest with those of shareholders will reduce. (Talley and Johnsen, 2004; Ozkan, 2011). The complementarity hypothesis on the other hand infers that executive compensation mechanism is effective in mitigating agency problems when it is jointly adopted with other mechanisms or may depend on the simultaneous adoption of it with other mechanisms depending on its cost and benefits. (Fahlenbrach,2008; Aguilera et al 2009; Ward et al. 2009). This chapter in using both CEO pay and board governance mechanisms will be able to infer whether the complementarity hypothesis holds true for banks in Nigeria and the United Kingdom. Also, Bebchuk and Weisbach (2010) stated that one test of the managerial power hypothesis is that weak boards lead to high CEO pay.

Board governance encompasses the role of the board of directors, remuneration committee, compensation consultants, auditors, the size of the board among others.

Board size- The Walker Review raised an issue that the boards of U.K banks that were listed were larger than other listed companies and this is a problem because of the general view that the overall effectiveness of a board tend to vary inversely with its size (Walker,2009). Hermalin and Weisbach (2003) found this to be true for non-financial firms, but the question is, does the same hold true for banks? A bigger board encourages free rider problem and increase in decision-making time which hinders the effectiveness of the board in monitoring the activities of the manager and hence the manager is able to extract undue rent. Bebchuk and Weisbach (2010) stated that one test of the managerial power hypothesis is that weak boards lead to high CEO pay. This happens if the board is too large and thereby making it difficult for directors to oppose the CEO or if the outside directors are appointed by the CEOs making them beholden to the CEOs for their jobs. Aebi et al (2012) posits that a large board is not in the interest of shareholders because they reduce its efficacy. Larger boards are believed to provide increased monitoring of CEO activities however, this advantage is offset by poorer communication and decision making including free rider problem. The limitation of the size of the board to a 'reasonable' level is believed to improve the performance of a firm. Yermack (1996) documents a negative relationship between board size and profitability, Mak and Kusnadi (2005) also reported that firm performance is positively related to small boards. Also, decision making costs increase with board size and Ozkan (2009) argues that poor monitoring of managers in large boards will allow managerial exploitation through excessive pay. It then translates that.

Hypothesis 1*: Board size positively impacts executive pay*

However, does board size matter for bank performance? Large boards have the advantage of diversity and variety in pool of expertise and resources available to the firm for both its monitoring and advisory duties leading to increased information transparency. Although, this is assuming that there are full disclosures of private information in board discussions, but this is usually not obtainable in practice.

Board Independence- The board consists of two types of directors: the outsider(independent) and insider directors. The literature says that most directors on a board should be independent for greater monitoring and unbiased decisions which improves the overall value of the firm. De Haan and Vlahu (2016) citing Adam and Mehran (2012) says that outsiders may be more effective monitors of management because they are less 'beholden' to management. They further argued that a high representation on the board of directors by people (independent directors) without social or business ties to management i.e., outsiders may be more effective as monitors of management because they are less obligated to management and may bring alternative perspectives to problems faced by management. Outside directors is the percentage of outside directors without any executive function on the board. They are also referred to as non-executive directors or supervisory board members by banks that adopt the two-tier board system. The literature on agency theory identifies that outside director have the motivation to protect their own integrity as independent experts and make efforts to improve corporate performance by monitoring board's decision and providing knowledge, by protecting the interest of minority shareholders and ensuring that management compensation contracts are designed effectively and reduce agency costs. Bhagat and Bolton (2008) find no relationship between the proportion of independent directors and executive pay, Zakaria (2016) found a negative and significant relationship between the proportion of outside directors and executive pay. Adams (2009); Bhagat and Black (2000); Al-Hawary (2011); and Sahafi et al. (2015) all found positive evidence that support the effectiveness of

independent directors. Adusei (2011) and Al-Manaseer et al., (2012) are some of the research works that reports a negative association between non-executive directors and financial performance. Guerrera and Larsen (2008) raised the objection that outsider directors are normally people from other industries who sometimes have no financial background and have no understanding of the complexities of the banking sector, yet, they sit on highly technical board committees and as such, it is easy for the CEO to convince them that whatever decisions are being taken is in the company's interest. Thus, this research hypothesizes that.

Hypothesis 2: *Board independence has a negative impact on executive pay*

CEO Duality- Alexander, Fennell, and Halpern (1993) are of the opinion that a single person holding both the role of the CEO and board chairman improves the value of the firm because it helps to reduce agency cost. However, the opposite can happen as CEO duality can create a dictatorial chairman/CEO and create additional agency cost and monitoring cost if the CEO pursues his own self-interest. Fama and Jensen (1983) opined that CEO duality can weaken the board monitoring and control function which further increases agency cost and result in poor performance. The third hypothesis is, therefore.

Hypothesis 3: *CEO duality has a positive impact on executive pay*

Remuneration committee- The remuneration committee (REMCO) is the key institution that sets CEO pay. REMCOs that are totally independent of managerial influence makes the pay setting transparent, fair and ineffective pay committees enables the CEO an opportunity to promote his self-interests at the expense of that of the shareholders. Compensation committee was identified by Baker et al (1998) as the key institution that sets CEO pay. The presence of a CEO in a compensation committee is a potential conflict of interest and a concern for investors. Committees that are totally independent makes the pay-setting process more transparent and ineffective pay committees gives the CEO an opportunity to promote his

interests at the expense of that of the shareholders. The empirical literature has found little evidence of the ineffectiveness of compensation committees.

Hypothesis 4: *Remuneration committees have a negative impact on executive pay*

6.3 Methodology

6.3.1 Data

To test the hypotheses, data were collected from Bloomberg and the annual reports of all the banks. Data for banks in the United Kingdom such as CEO pay, total assets, financial performance and some board governance variables were obtained on Bloomberg, some of the financial performance data for Nigeria were collected on Bloomberg while most of others were manually collected from the bank's annual reports. To be included in the sample, banks must have at least seven consecutive years of data. The eleven-year sample period was from 2009-2019 and 2009 being the year post the financial crisis and reforms in the corporate governance of banks. The final sample consisted of twenty-six banks in the UK and thirteen in Nigeria.

Panel data combines cross-section and time series data. This analysis employed panel data for this study because panel data allowed the research to control for firm heterogeneity. It also provides more information and more variability and avoids the problem of multicollinearity. Baltagi, (2013) also identifies that panel data provide more efficient results and can identify and measure effects that are usually not detected in pure time series or pure cross-sectional data. Panel data can either be a balanced panel or an unbalanced panel data. A balanced panel data's cross-sectional unit is equal to the number of time-period observations. If otherwise, they are unbalanced. The data for both countries are unbalanced panel data.

Further, the panel data is analysed using Pooled OLS regression model, fixed effects regression and GMM were adopted for robustness tests. This is an important feature of our

research design and is in line with Conyon and He (2011). This is employed to control for variations in firm and managerial quality. Also, cross section regressions may not be suitable for this research analysis as it may omit significant explanatory variables which may cause statistical bias in the estimation of the pay-performance relationship.

Table 6. 1 Definition of variables

Variable	Variable Description
PERF:	Accounting and market-based measures of performance, measured alternatively as :
EPS	Earnings per share is the net income divided by shares outstanding.
ASR	The annual shares return is the natural logarithm of the ratio of equity return.
ROA	Return on Assets is operating income divided by end of year total assets.
BNKSIZE	Book value of total assets (in natural logs).
LEV	Bank leverage calculated as the ratio of total debt to total assets.
TCOMP	CEO's total earnings. The sum of all fixed and variable cash and equity compensation. (in log)
BD SIZE	Board size is the number of people on the main board
IND DIR	Proportion of outside directors to total number of directors expressed as a percentage
REMCO	Dummy variable equal to One if the bank has a remuneration committee or Zero otherwise
DUALITY	Dummy variable equal to One if the CEO is the same as the board chairman or Zero otherwise

This table provides a description of the variables used in the research

Table 6.1 gives the definition of the variables used in this chapter. The variables were translated to a common GBP exchange rate[11]. To avoid the problems of heteroscedasticity, the natural log of some of the variables were utilized while ratios and percentages were adopted as well.

[11] See appendix 2

Table 6.2 presents the descriptive statistics for the variables used in this study. The minimum value of the two measures of performance in the UK is -4.3 and -10.57 respectively while the maximum value is 3.8 and 12.8. The standard deviation is 1.22 and 1.95 which suggests that the degree of spread of the variables is low. Leverage (LEV) has a mean value of 36.5 and a standard deviation of 15.74. The minimum value is 9.43 while the maximum value is 85.4. The minimum board size in the UK is 5 while the maximum is 22. The standard deviation of board size is 3.31 which means that the dispersion of board size is small.

In Nigeria, the minimum value of the two measures of performance is -0.15 and -28.51 respectively while the maximum value is 2.23 and 10.01. The standard deviation is 0.88 and 0.65 which implies that the degree of spread of the variables is low. Leverage (LEV) has a mean value of 36.9 and a standard deviation of 14.7. The minimum value is 17.7 while the maximum value is 75.6. Board size has a minimum value is 7 while the maximum value is 21. The standard deviation is 6.21 which shows that board size in Nigeria are larger than their UK counterparts. The number of independent directors on the board is also higher in the UK than it is in Nigeria.

These shows that board governance indicators such as board size, independent directors, CEO duality and the presence of a remuneration committee vary among both countries. Surprisingly, the variations especially with respect to board size are not significant. Instead, it seems to be similar. These may be because regulatory authorities in developing economies usually use the corporate governance blueprint of developed economies to draw up their corporate governance codes and tailor it to their respective countries, Adam and Mehran (2012). Board independence which is the percentage of independent directors on the board of directors on the other hand is higher in the UK than it is in Nigeria. This could be that the bank share ownership is concentrated in the hands of few dominant shareholders (Olaniyi and Obembe,2015).

Table 6. 2 Summary statistics for Nigeria and the United Kingdom

	UK				Nigeria			
Variable	Mean	Std Dev	Min	Max	Mean	Std Dev	Min	Max
TCOMP	2655183	233978	221500	13590000	220,373	161923	85,000	822,968
Log TCOMP	6.288	2.340	5.345	7.133	5.065	1.530	4.238	6.392
EPS	2.064	1.220	-4.300	3.860	1.390	0.880	-0.150	2.230
ROA	0.644	1.950	-10.570	12.800	1.114	0.650	-28.510	10.010
LEV	36.480	5.740	9.430	85.400	36.900	4.700	17.700	75.600
BNK SIZE	317182	537177	1180	2167210	6,938,000	5,574,164	900,000	12.560,000
Log BNK SIZE	14.688	0.910	13.072	16.336	9.780	3.200	8.942	10.408
BD SIZE	11.350	3.310	5.000	22.000	10.930	6.210	7.000	21.000
IND DIR	66.120	4.470	14.290	94.120	13.920	1.228	17.250	64.710
MTBV	3.852	4.829	-12.680	32.530	4.295	0.147	-1.298	5.377
REM COM	0.420	0.350	0.000	1.000	0.370	0.480	0.000	1.000
DUALITY	0.250	0.150	0.000	1.000	0.293	1.000	0.000	1.000

6.3.2 Model

An important feature of the research design employed by this study is that it adopts the use of OLS to estimate the impact of performance on CEO pay. Further, it adopted fixed effects panel data method to control for heterogeneity in bank and managerial quality in line with Wooldridge (2002) and Conyon and He (2011). This is because the use of cross-section regressions may omit variables which may be significant in explaining the characteristics of the sample which may cause statistical bias in the estimation of the pay, governance, and performance relationship. Graham, Liu and Qiu (2010) are of the opinion that an important determinant of the executive compensation is firm fixed effects such as managerial quality, corporate culture or the quality of the firm but were usually not measured in previous studies. These are likely to be important factors in Nigerian and UK banks as well and as such, taken not of the peculiarity of the banking sector, this model controls for firm fixed effects by using leverage as proxy for firm quality. Although, this research would want to control for managerial fixed effects too but encountered similar problems to Martin and He (2011) in that isolating the identity of the CEO in the panel data is problematic and as such, the study could not control the degree of risk aversion of the CEOs as a managerial fixed effect (Conyon, Core & Guay,2010). Possible estimation problems that the research face as a result of using panel data are addressed. Heteroscedasticity that may arise because both countries in the sample have different characteristics is avoided because data for both countries were treated individually thereby retaining their different characteristics. Although, Wintoki (2012) mentioned that if the time of the panel data is small, both the OLS and fixed effects may produce biased results. To mitigate this, our panel cater to an eleven-year period and therefore addresses this problem. This research also analysed the data using Generalised Method of Moment (GMM) as a robustness test to check the validity of the results.

The study further employed a modified version of the econometric model of Miyajima et al. (2003) as adopted by Coleman and Nicholas-Biekpe (2006), and Conyon and He (2011). Therefore, we estimate the relationship as.

$$\ln(TCOMP)_{it}=\alpha_i+\beta_1 BD\ SIZE_{it}+\beta_2 IND\ DIR_{it}+\beta_3 DUALITY_{it}+\beta_4 REMCO_{it}+\beta_5 PERF_{it}+\beta_6 CONTROL_{it}+\varepsilon_{it}$$

Where:

$\ln(TCOMP)_{it}$ represents the Chief executive pay variable is the logarithm of the total remuneration paid to the CEO at time t. Board size (BD SIZE) is measured as the number of people on the main board (Yermack,1996). Board Independence (IND DIR) is defined as the proportion of outside directors to total number of directors expressed as a percentage (Hermalin and Weisbach,1998,2003). CEO duality (DUALITY) details the leadership structure of the bank and is a dummy variable equal to One if the CEO is the same as the board chairman or Zero otherwise (Brickley et al., 1997). Remuneration committee (REMCO) details the presence of a compensation or remuneration committee and is a dummy variable that is equal to One if the bank has a remuneration committee or Zero otherwise (Newman and Moses,1999). Performance variables (PERF)- Return on assets (ROA) an accounting-based performance measure, is defined as net profits divided by the book value of assets and a market-based measure, earnings per share (EPS) which is the net income divided by shares outstanding is also used. Control variables (CONTROL) are bank size (BNK SIZE) which is measured as the natural logarithm of the bank's total assets; Leverage (LEV) which reflects the of the capital structure and is calculated as the percentage of total debt to total assets. ε_{it} is the error term which accounts for the other possible factors that could influence $\ln(EPAY)_{it}$ that are not captured in the model.

The main independent variables of interest are the board governance and the performance of the banks. The performance measures are defined in two ways. First, and following the footsteps of Murphy (1999); Greg et al. (2012) and Olaniyi and Obembe, (2017), the research

used a market-based measure of performance (EPS). This is the earning per share (EPS) which is the net income divided by shares outstanding.

An accounting-based measure of performance is also adopted in the model (Core et al 1999; Conyon & He, 2011), and this is measured as Return on assets. The board governance variables are the Board size and the percentage of independent directors on board while Remuneration committee and CEO duality are dummy variables.

6.3 Correlation Analysis

Table 6.3 presents the Pearson correlation matrix for the dependent (CEO compensation), independent (Performance) and all the control variables used in the regression analysis. Pearson correlation coefficient measures the strength of the linear relationship between two variables. The value of the coefficient ranges from +1 to -1. The closer the value is to 0, the lower the association between the variables. The correlation coefficients of the dependent, independent and control variables are below 80% which suggests that multicollinearity is absent. Conyon and He (2011) asserts that correlation coefficient levels of 80% and above suggests the presence of multicollinearity.

The correlation matrix for the UK variables reveals several relationships. It suggests a negative correlation between CEO pay and Leverage, duality, and the remuneration committee. The accounting measure of performance (ROA) has no correlation with CEO pay while market measure of performance (EPS) exhibits a significant and positive correlation with CEO pay.

The correlation matrix for Nigerian variables on the other hand reveals a positive correlation between the two measures of performance and CEO compensation. These positive relationship suggests some association between performance and CEO pay and this result is

consistent with that obtained by Olaniyi and Obembe (2015). This will be further analysed using regression analysis.

Table 6. 3 Pearson Correlation Matrix UK

	TCOMP	EPS	ROA	LEV	BNK SIZE	BD SIZE	IND DIR	EQPAY	MTBV	DUALITY	REM COM
TCOMP	1										
EPS	0.37***	1									
	<0.001										
ROA	0.42	0.36***	1								
	0.139	0.002									
LEV	-0.35***	0.22***	0.47***	1							
	<0.001	0.007	0.005								
BNK SIZE	0.54***	0.44***	-0.42***	0.40***	1						
	<0.001	<0.001	<0.001	0.03							
BD SIZE	0.52***	0.17	-0.24***	-0.11***	0.70***	1					
	<0.001	0.139	<0.001	<0.001	<0.001						
IND DIR	0.36**	0.33	-0.26***	-0.16	0.28***	0.23	1				
	0.019	0.646	0.001	0.018	<0.001	0.01					
EQPAY	0.37***	0.55***	0.47***	-0.29***	0.25***	0.14	-0.14***	1			
	<0.001	0.001	<0.001	<0.001	<0.001	0.251	<0.001				
MTBV	0.66***	0.34***	0.28***	-0.56***	0.66***	0.37***	0.23	0.13***	1		
	<0.001	<0.001	0.031	<0.001	<0.001	<0.001	0.082	<0.001			
DUALITY	-0.54***	0.52***	0.21***	-0.19	-0.52***	-0.28***	-0.54***	-0.22	-0.14	1	
	<0.001	<0.001	0.001	0.064	<0.001	<0.001	<0.001	0.342	0.157		
REM COM	-0.14**	0.13	0.2	-0.47	0.76***	0.54***	0.47	0.28***	0.18	-0.37	1
	0.015	0.017	0.021	0.109	<0.001	<0.001	0.235	<0.001	0.005	0.013	

*This table presents the correlation coefficient between any of the variables. The definitions of variables are described in Table 6.1. The sample consists of twenty-six UK banks over the period 2009-2019. P-values appear below the correlations. ***, **, * denote significance at the 1%, 5% and 10% levels for a two-tailed test.*

Table 6. 4 Pearson Correlation Matrix Nigeria

	TCOMP	EPS	ROA	LEV	BNK SIZE	BD SIZE	IND DIR	EQPAY	MTBV	DUALITY	REM COM
TCOMP	1										
EPS	0.54***	1									
	<0.001										
ROA	0.21***	0.27***	1								
	<0.001	0.001									
LEV	-0.34***	-0.53***	-0.18	1							
	0.001	<0.001	0.002								
BNK SIZE	0.65***	0.32***	0.43***	0.42***	1						
	<0.001	0.001	0.001	<0.001							
BD SIZE	0.29***	-0.28	0.56***	-0.13	0.55***	1					
	<0.001	0.001	<0.001	0.001	<0.001						
IND DIR	0.23**	0.15**	0.1	-0.16	0.61***	0.54***	1				
	0.201	0.042	0.052	<0.001	0.001	<0.002					
EQPAY	0.28***	0.64***	0.41***	-0.08	0.43***	0.16	0.26	1			
	<0.001	<0.001	<0.001	0.002	<0.001	0.215	0.465				
MTBV	0.42***	0.19	0.12	-0.17	0.25**	0.28**	0.27***	0.34***	1		
	<0.001	0.145	0.207	<0.001	0.201	<0.001	0.001	<0.001			
DUALITY	-0.13	-0.11***	0.45**	0.28	0.23	0.21	0.14**	-0.42**	0.58***	1	
	<0.001	<0.001	0.001	0.321	0.314	0.607	<0.001	<0.001	<0.001		
REM COM	-0.58***	0.42***	0.37***	0.55***	0.28***	0.40**	0.22	0.21***	0.19	-0.72***	1
	<0.001	0.001	<0.001	<0.001	<0.001	<0.001	0.0254	0.001	0.092	0.001	

*This table presents the correlation coefficient between any of the variables. The definitions of variables are described in Table 6.1. The sample consists of thirteen Nigerian banks over the period 2009-2019. P-values appear below the correlations. ***, **, * denote significance at the 1%, 5% and 10% levels for a two-tailed test.*

Table 6. 5 Performance, Board governance and CEO pay

	UK				Nig			
	Tcomp	Ind dir	Bd size	Lev	Tcomp	Ind dir	Bd size	Lev
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Tcomp		-0.332*	0.810***	0.533**		0.728**	0.586***	-1.146**
		(0.227)	(0.133)	(0.089)		(0.133)	(0.013)	(0.154)
EPS	0.003	-0.057***	-0.118*	-0.284***	0.001	0.302**	0.201***	0.610**
	(0.131)	(0.140)	(0.162)	(0.037)	(0.561)	(0.081)	(0.014)	(0.239)
ROA	-0.025**	0.0812***	0.012	0.448	-0.010	1.132**	-0.0232*	1.028**
	(0.025)	(0.047)	(0.024)	(0.095)	(0.359)	(0.075)	(0.641)	(0.097)
BD SIZE	0.418**	0.083***		-0.163**	-0.074**	1.344**		0.155***
	(0.062)	(0.017)		(0.065)	(0.113)	(0.121)		(0.074)
IND DIR	0.411***		0.712***	0.851**	1.255**		0.166	-0.782**
	(0.053)		(0.130)	(0.139)	(0.163)		(0.911)	(0.082)
DUALITY	0.220**	0.247*	-0.054*	0.722**	0.911***	0.034***	0.903	1.324***
	(0.076)	(0.118)	(0.035)	(0.075)	(0.132)	(0.136)	(0.636)	(0.039)
LEV	-0.013	-0.814*	0.244***		0.113**	0.292***	-1.125**	
	(0.068)	(0.162)	(0.065)		(0.148)	(0.087)	(0.234)	
REM COM	-0.245**	0.134***	0.931*	0.413***	0.673***	0.206	0.115	1.269
	(0.053)	(0.069)	(0.116)	(0.045)	(0.078)	(0.198)	(1.642)	(0.193)
BNK SIZE	0.325**	1.454**	0.619**	-0.035**	0.249**	0.120	0.953**	0.486
	(0.076)	(0.183)	(0.177)	(0.164)	(0.094)	(0.016)	(0.133)	(0.104)
Constant	1.231*	0.801	0.039**	0.515**	1.090*	0.167**	0.266**	2.166*
	(0.406)	(0.066)	(0.095)	(0.221)	(0.189)	(0.093)	(0.255)	(0.178)
No of Obs	268	272	281	268	132	131	127	132
N_ Clust	91	91	91	91	43	43	43	43
R^2	0.276	0.342	0.542	0.271	0.503	0.621	0.662	0.455

*This table presents the OLS estimation results of the impact of performance and board governance on CEO pay as well as other explanatory variables. Robust standard error clustered at year level are in parentheses. The sample and variable definitions are described in Table 6.1. ***, **, * denote significance at the 1%, 5% and 10% levels.*

Table 6. 6 Fixed effect result for performance, board governance and CEO pay

	UK				Nigeria			
	Tcomp (1)	Ind dir (2)	Bd size (3)	Lev (4)	Tcomp (5)	Ind dir (6)	Bd size (7)	Lev (8)
Tcomp		0.149***	0.391**	-0.275***		0.231**	0.533**	1.682**
		(0.055)	(0.134)	(0.294)		(0.085)	(0.079)	(0.183)
EPS	0.205	0.382**	1.478**	1.018**	0.314***	0.216	0.281	0.344
	(0.115)	(0.072)	(0.092)	(0.064)	(0.057)	(0.031)	(0.047)	(0.075)
ROA	1.301	0.184	0.357)	0.103	0.925**	0.4364	0.488	0.923
	(0.035)	(0.032)	(0.031)	(0.023)	(0.118)	(0.0297)	(0.095)	(0.126)
BD SIZE	0.636***	0.732***		0.950**	-0.126***	0.186***		0.177***
	(0.052)	(0.037)		(0.216)	(0.353)	(0.047)		(0.033)
IND DIR	0.650***		1.194***	1.212***	0.790**		1.851**	0.050*
	(0.134)		(0.407)	(0.171)	(0.561)		(0.133)	(0.417)
DUALITY	-0.306**	-0.112**	-0.748***	-0.308**	-1.112**	0.644**	0.722**	0.831**
	(0.164)	(0.091)	(0.095)	(0.101)	(0.108)	(0.062)	(0.013)	(0.075)
LEV	-0.032	-1.295*	-1.501**		0.132	-0.157***	-0.198**	
	(0.016)	(0.149)	(0.188)		(0.051)	(0.039)	(0.073)	
REM COM	-0.258**	0.602***	0.707***	0.714**	0.852**	0.375**	0.413***	0.561**
	(0.138)	(0.045)	(0.082)	(0.107)	(0.159)	(0.082)	(0.043)	(0.152)
BNK SIZE	1.534*	0.435**	1.292*	1.436***	1.394*	-0.285	1.328**	1.364***
	(0.211)	(0.157)	(0.514)	(0.164)	(0.545)	(0.035)	(0.106)	(0.159)
Constant	1.276**	0.628*	0.292***	1.127**	1.379**	0.513**	1.185**	0.215*
	(0.251)	(0.227)	(0.087)	(0.285)	(0.164)	(0.092)	(0.214)	(0.141)
No of Obs	268	272	281	268	132	131	127	132
N_Clust	91	91	91	91	43	43	43	43
R^2	0.349	0.401	0.564	0.681	0.72	0.336	0.489	0.503

*This table presents the fixed effects estimation results of the impact of performance and board governance on CEO pay as well as other explanatory variables. Robust standard error clustered at year level are in parentheses. The sample and variable definitions are described in Table 6.1. ***, **, * denote significance at the 1%, 5% and 10% levels.*

Table 6. 7 GMM result for Performance, board governance and CEO pay

CEO pay, board governance and performance

	UK	Nigeria
	(1)	(2)
EPS	0.153	0.188***
	(0.028)	(0.002)
ROA	1.972	0.719*
	(0.020)	(0.080)
BD SIZE	0.346**	-0.042***
	(0.009)	(0.061)
IND DIR	0.552**	0.336*
	(0.055)	(0.135)
DUALITY	-0.047***	-0.985*
	(0.062)	(0.040)
LEV	-0.021***	0.011
	(0.033)	(0.045)
REM COM	-0.179**	0.544**
	(0.101)	(0.004)
BNK SIZE	0.484*	0.983*
	(0.064)	(0.016)
Firm fixed effects	Yes	Yes
No of Obs	308	281
N_Clust	85	39
K-P F statistic	12.842	14.732
K-P LM statistic	15.201	17.093
Hansen J Statistic	0.005	0.008
Hansen J p-value	0.621	0.585

*This table presents two-stage estimation results of the impact of performance on CEO pay. Robust standard error clustered at firm level are in parentheses, ***, **, * denote significance at the 1%, 5% and 10% levels, respectively.*

6.4 Results and Discussion

Table 6.5 presents the empirical results of the OLS panel data regression. It documents the relation between executive compensation, board governance variables and the performance of banks in Nigeria and the United Kingdom.

The regression results for the United Kingdom (Column 1) shows that board size is positive and significant with executive pay. This means that CEOs in the UK can extract rent because of managerial power, and the size of the board hinders its ability to monitor CEOs effectively. A positive and significant board size with excutive pay contradicts established theory and suggests that higher board size may mean higher wages for the CEO. This may

mean that board members are unable to mitigate against rent extraction by the Chief executives because of board members playing a passive role in monitoring the banks. This does not necessarily mean that the size of the board is too big relative to others, it may mean that the free-rider problem persists irrespective of the board size. A smaller board does not automatically translate to better board effectiveness although the theory posits that it does. The caveat to this is that what is applicable in theory is not always obtainable in practice. Interestingly and in Nigerian banks (Column 2), board size is negative and significant with executive pay. This means that board size is effective in reducing the agency cost that arises due to of the separation of powers between the principal and its agent. While in effect, this does not mean that the board size of Nigerian banks is small, it may mean that because of the concentration of the share ownership of Nigerian banks in the hands of a few private shareholders, they may wield greater monitoring power irrespective of board size. Pathan, Skully and Wickramanayake (2007) were also of this view when they stated that when members of a board are not cohesive, board members tend to become involved in dysfunctional conflicts that deteriorate the value of the firm. Cohesiveness is not size specific. The effect of banks leverage on CEO pay as shown by the results although negative for the UK and positive for Nigeria is insignificant. This means the indebtedness of the bank has no significance of executive pay in this regard.

This study also attempts to proffer an answer to the widely researched question of whether independent board members who have no ties with management are an effective advisory and monitoring tool in mitigating agency problems by setting optimal pay contracts and improving the overall performance of the banks. The effect of independent directors on the pay-performance relationship is positive and significant in both Nigeria and the United Kingdom. It contradicts the evidence that the independent directors perform a useful monitoring function in curbing the excesses of the executives. While this finding is contrary

to theory, this result is also consistent with the findings of Bebchuk, Cohen and Farell (2009), Pathan et al. (2007) and Conyon and He (2011). In cases where the independent directors are nominated by the executives, the independent directors may feel beholden to the CEOs for their jobs, and this affects their monitoring ability. As stated by the hypothesis, CEO duality is expected to have a positive relationship with executive pay because it affords the CEO more managerial power and more opportunities to be able to maximise pay. It eliminates oversight and does not encourage appropriate checks and balance. Although this dual capacity alleviates problems of communication and coordination between the CEO and the board of directors which arises when both roles are separated. This research work found that CEO duality has a negative relationship with the pay of executives in Nigerian and UK banks. Fama and Jensen (1983) and Jensen (1993) opined that CEO duality weakens the function of the board to monitor and control thereby increasing the ability of CEOs to extract undue rent and resulting in poor performance. The negative relationship between CEO duality contradicts the agency and managerial power theory and lends credence to the stewardship theory that posits that managers are stewards that are ethical and acts in the best interests of the firms they run and not in their own selfish interests as promulgated by the agency theory.

Remuneration committee has a significant relationship and positively impacts pay in the United Kingdom.

The research hypothesis states that the relationship between remuneration committee and CEO pay is expected to be negative because it is expected that REMCOs are an effective instrument in drawing up optimal remuneration contracts that attract, motivates, and retains executives. It then follows that, the more optimal the remuneration contract, the lower the pay and the better the performance. The results for UK banks are in alignment with the proposed hypothesis but the results obtained in the Nigerian banks show otherwise. This suggests that

either the remuneration contracts drawn up by the remuneration committees in the Nigerian banks are too generous and do not properly tie pay to performance, or that remuneration contracts are as a result of arms-length transaction as posited by the managerial power theory. It could also be that board members who are nominated as members of remuneration committee lack the knowledge or expertise to carry put their pay-setting function. Similar to previous research works (Uwuigbe, 2011; Conyon & He, 2011; Shiyyab et al., 2014), the relationship between pay and performance in both Nigeria and UK banks is better explained by bank size. The results agree with the executive labour market theory that posits that large firms especially cannot afford to gamble the future of their company by hiring relatively inexperienced managers. They would rather that these managers be hired by smaller firms and poach them later with the appeal of robust incentives.

The relationship between executive compensation and market-based measure of performance (EPS) in the UK is significant but negative. The result is not in line with the hypothesis because the assumption is that the higher the pay, the better the performance. It may be negative as a result of market-based elements that are outside of the control of executives that affect the share price of the banks. In Nigeria on the other hand, both accounting and market-based performance measures are significant and positive. This could mean that by using templates from advanced economies for their economy, the Nigerian banking sector is having the best of both worlds and are able to better optimise the pay-performance relationship of executives in the banking sector, or it could be a sort of 'flash in the pan' due to the relatively recent adoption of equity based pay whose appeal may then subsequently wear off.

6.5 Robustness test using Fixed Effects

Robustness tests was carried out using the fixed effects method. The fixed effect results for both countries are similar except for variances in their magnitude. The board governance variables show different signs across both economies similar to the Ordinary Least square

results though with a lower magnitude and significance. Both the shareholder earnings per share and return on asset variables are positive and significant in Nigerian banks after controlling for bank size, leverage, and boardroom governance. In the UK however, while return on asset variable is positive and significant, earnings per share have an insignificant relation with executive pay. Because of the omitted variable bias that plagues cross section data, the researcher performed Hausman test to compare the random effects to the fixed effects. The Hausman test did not reject the hypothesis that the random results are inconsistent but in order to eliminate omitted variable bias, the fixed effects model was accepted as the appropriate specification. Also, cross-section regression may omit several explanatory variables thereby causing statistical bias in the pay-performance relationship.

6.6 Addressing Potential Endogeneity

Performance can determine CEO pay and CEO pay can also be determined by performance which gives rise to endogeneity problem. This bi-directional relationship can lead to reverse causality. Also, there may be other factors that impact CEO pay other than performance e.g firm or managerial quality. Measurement error in the CEO pay variable may influence the pay-performance relationship which may produce inconsistent regression coefficients. This can mean that the coefficient estimates may be biased due to reverse causality, endogeneity, or measurement errors. Since the research focuses on banks; it eliminates other industry factors that may affect CEO pay and the lag of some of the variables were utilised to address some of the issues. The research re-estimated the model using the Ariellano and Bond two step Generalised Method of Moments (GMM) approach. Table 6.7 shows the GMM estimation results with standard errors. Both accounting-based performance measure (ROA) and market-based measures of performance are positive but not significant in the UK. The level of debt in the bank's capital structure (LEV) negatively impacts CEO pay in banks in Nigeria but positively impacts pay in the UK. This means that pay is lower in banks with

higher debt levels. Bank size is positive and significant in both countries which supports the assertion that bigger banks pay their Chief executives more and in line with CEO pay literature. The GMM model was tested for potential misspecification by using the Hansen J statistic. This was used to whether the instruments were valid and there were no over-identifying restrictions. The results showed that the instruments were valid. Also, the Kleibergen-Paap rk Wald F statistics rule out weak instruments since they are larger than the rule-of-thumb minimum which is 10.

Overall, the GMM results suggests that the findings of this research are largely consistent across the methodologies and the signs of the variables remained the same except for the magnitude of the coefficient which varies depending on methodology. The results portrays that the research is not plagued by endogeneity. Although, the significance of the variables may change depending on the methodology adopted, but overall, the results as depicted by the table shows that similar to the OLS and fixed effect results, market-based performance measure has a significant impact on CEO pay in UK banks while the impact of accounting-based CEO pay while positive, is insignificant. The coefficients of these variables are remarkably stable with GMM although the lag of the variables is adopted except for CEO duality and the presence of a remuneration committee. Jensen et al (2004) posits that no distinction should be made between motivation and reward in the pay-performance relationship because the current period reward is an indication of pay-performance relationship and as such affect's motivation or incentives. This was also adopted by Greggs et al (2010, 2012), Conyon and He (2011), and Ntim et al (2017). And the results show that this assertion holds true.

6.7 Conclusion

This chapter examined the relationship between executive pay, board governance and the performance of banks in Nigeria and the United Kingdom. Panel data fixed effects and pooled OLS models were used to analyse all listed banks for the period 2009-2019. Fixed Effects and two step GMM were adopted to test the robustness of the results.

The study in line with prior studies find that bank size is the main driver of executive pay thereby lending more credibility to the executive labour market theory. However, the results of board governance and bank performance variables appear to be mixed across both economies.

To start with, board size negatively affects pay in Nigerian banks, showing that the size of the board is effective in reducing agency cost and adding value to the banks. The opposite is obtainable in UK banks. A large board is thought to reduce the value of the banks because of free-rider problems as well as additional time taken to make critical decisions. The result deduces that the level of debt in the capital structure of the banks has no bearing on executive pay and performance. It is assumed that when a bank that has more debt in its capital structure, the CEO will be more prudent in the use of the 'scarce' resources than a bank whose leverage is not as high. Board composition which is proxied by the percentage of independent directors suggest that increase in the proportion of independent directors on the board of Nigerian banks helps to check CEO pay and bolster their performance. This is in line with the results reported by Sanda et al (2005). This further buttress the assertion that independent directors help to curb decisions that deteriorate shareholder value. Banks are managed by executives, not directors or shareholders and the decisions made by executives are affected by director's oversight and monitoring. These decisions are also affected by the incentives provided through their remuneration contracts. Taken together, accounting-based performance measures are still the preferred measure of performance as deduced from our

study. Market-based measure although significant in Nigeria is positive and insignificant in the UK. This could mean that executives abhor the unpredictability of the market due to activities outside their control that affects their pay and performance.

This study contributes to the debate on the role of board governance in the pay-performance relationship. Further, it expands the theory on the complementary role of board governance in the relationship. It is hoped that this study will be of use to regulators, investors, and policy makers in the banking sector in their choice of corporate governance mechanisms selection either as substitutes or complements. Further, by investigating the relationship between pay, board governance and performance, this research can serve as a guide in the design and alignment of executive award contracts. This research is however limited by data availability to the investigation of four board governance variables although these four are the most important according to the literature, future research works in this area can improve on that. Further, this study is limited to comparing results in Nigeria and the UK, future research works can examine African countries versus other developed economies.

Chapter Seven: Relationship Between CEO Equity Ownership, Board Governance and Performance

7.1 Introduction

The global financial crisis was linked to excessive risk taking in the financial sector which led to the failure of many financial institutions. There were a lot of complex reasons why such levels of risks were undertaken, but there is a consensus in the academia, financial industry, and public sector that the incentive structures in some financial sectors played an important role. To tackle excessive risk taking by executives, there were numerous reforms post the financial crisis that focused on improving corporate governance regulations in banks and regulating banker's pay. Thus, apart from addressing the issues of banks being 'too big to fail' and the improvement of the financial ability of banks to absorb losses, regulations were proposed to enhance the oversight function of boards and ensure that CEO pay conveys the appropriate incentive to align the interests of Chief executives and shareholders. The International monetary fund (IMF October 2014) working paper details that the pay-performance alignment is improved by electing more board members who are independent, the presence of institutional investors and rewarding CEOs with a high share of equity awards in their compensation. One of the most recent controversial issues since the 2007-2008 financial crisis was the recent collapse of construction giant Carillion in the United Kingdom taking down with-it billions of taxpayer funded government health projects. The anger of the citizenry is further compounded by the remuneration that was to be paid to its bosses as negotiated under their contract terms while that of other employees including their pensions were severed. A Nigerian court recently granted an injunction to the Economic and Financial Crimes Commission (EFCC) to freeze the sum of twenty billion naira(£35.170m) hidden across several banks by the former CEO and CFO of a liquidated bank (Platinum-Habib bank). This further reinforces the agency problem and the ability of CEOs to engage in

empire building and enrich themselves at the expense of the firm. CEO pay can be fixed in which case, the level of pay does not depend on performance, or can be variable. Variable CEO pay depends on a variety of performance measures which may include profits or stock performance.

Prior to the financial crisis, the UK's corporate governance code had provided rule and guidelines on the role of board governance including the role of the remuneration committee in setting the remuneration structure and level for executives. The code had recommendations which were not mandatory. Cadbury Report (1992) recommended splitting the roles of the chairman and executive, Greenbury (1995) suggested the disclosure of executive pay, the presence of a remuneration and an audit committee, and clear linkage of pay to a defined performance criterion. Hampel (1998) recommends disclosure on the size and responsibilities of non-executive directors on the board of directors, Turnbull (1999) required disclosures on internal control mechanisms while Higgs (2003) required information on the independence of non-executives. However, following the global financial crisis, the Turner report (2009) admitted that the remuneration structures that governed the code had been deficient in curbing undue risky behaviours by the firms. Since then, the Walker report(2009a,2009b) and the FSA (2009a,2009b) ran diagnosis and proffered several changes to compensation practices to ensure that executive pay structure is appropriate for the risk-management of financial institutions in the United Kingdom.

Since the financial crisis, remuneration practices in banks particularly remuneration contracts that focused on short-term objectives attracted a lot of interest. Devriese et al (2004) argued that from a regulatory perspective, the level and structure of CEO remuneration may enhance the risk appetite of banks and affect financial stability. CEOs who receive a significant proportion of their compensation based on short-term performance will probably pursue riskier investment strategies in order to increase the bank's leverage because this will

ultimately lead to increase in share prices. This misalignment was also the mechanism that is responsible for the crisis according to the FSA (2009a), since executive pay was tied to short-term profits. Since the crisis, policymakers are constantly evaluating the regulatory framework for executive pay to ensure it is not deficient. The question becomes, does the regulatory framework in place ensure that the structure of executive pay contracts is optimal for the risk management of institutions? Further, if executive pay being tied to short-term profits(bonus) is part of the contributors of the financial crisis, is equity-based pay better aligned to performance? This is a testable relationship that will be examined by this chapter.

However, performance-based pay that are linked to long-term stock performance might be a viable mechanism in aligning manager's and shareholder's interest thereby reducing agency problems. This assertion may not hold true especially where executive's managerial power allows them to influence their own pay and extract rent which then negatively affects shareholder's value (Bebchuk & Spamann, 2010). Also, since CEO pay is meant to motivate the managers, the type of compensation package favoured by the shareholders may hold no appeal to the chief executive and the remuneration package which appeals to the chief executive may not be favoured by the regulatory authorities. Also, little is known about performance and CEO equity rewards in Nigerian banks especially compared to advanced economies like the US and the UK. The stock of CEO share ownership provides direct financial incentive to the CEO to increase shareholder value (Conyon & He,2011; Conyon & Murphy,2000; Murphy, 1999; Conyon et al. 2003). CEO ownership has been suggested by the literature as a potential instrument to reduce the agency problem that arises as a result of the separation of ownership and control as it helps to align the interests of managers with that of the shareholders by increasing their monitoring effectiveness. Theoretically, linking a significant portion of director's personal wealth to the value of the firm increases the incentive of the director to act on behalf of the outside shareholders. It simply means that as

part owners due to their equity interest, executives will enjoy the benefits of high performance but will also incur the costs if otherwise (Jensen,1993; Shiyyab et al., 2014). De Haan and Vlahu (2015) also argued that it is not just about the perceived high levels of pay that executive receive, but how they are paid. They opined that the type of compensation may play a role in the risk appetite of Chief executives. But like Bruce and Skovoroda (2015) opined, not all pay components that are performance related are good at creating a robust pay-performance link in practice. The question is, how is CEO pay measured? While CEO pay is generally defined as the sum of salary, bonus, longer-term incentives, stock options and other cash payments granted during the year (Conyon & Peck, 2012).

The performance measures used in evaluating CEOs matter. Ross (1994) suggested that accounting measures eliminate the bias and idiosyncrasies that plague non-financial measures because they are more objective and verifiable while Hopwood (2000) opined that the use of financial measures for performance evaluation influences employee satisfaction and eliminates doubt of the 'reasonableness' of performance evaluation based on subjective criteria.

CEO equity shareholding and performance is also affected by another mediator, board governance. The board of directors because of their monitoring and advisory function are also instruments used in mitigating the agency problem.

This research contributes to and expands the literature is different ways. First, it analyses the proportion of total executive compensation that is equity-based using data for all listed banks in Nigeria and the United Kingdom during the period 2009-2019. Researchers such as Fahlenbrach and Stulz (2010), and Conyon et al (2010) are of the opinion that undue rent extraction by executives is mitigated against if the interests of executives and shareholders are aligned by rewarding executives with ownership of company's stock and that the

sensitivity of pay to performance is increases, this chapter will investigate whether this holds true for executives of banks in Nigeria and the United Kingdom. Also, in analysing the relationship between pay and performance, the role of board governance will be explored especially the complementarity hypothesis and whether board governance is effective in their oversight and advisory function or if they are part of the agency problem and only lead to increase monitoring costs. Therefore, this study provides useful insights into the role of equity-based incentives in the pay-performance relationship, also, it provides evidence of the role of board governance including the role of independent directors and board size in the pay-performance relationship. This is done by fitting a pooled OLS model with robust standard errors. Furthermore, this study utilizes fixed effects panel data and GMM as robustness tests to cater to the problems of endogeneity and unobserved heterogeneity that may arise as a result of the bi-directional relationship between performance and CEO pay. In conclusion, by exploring the pay-performance relationship in a developing and a developed economy and comparing them both, this study provide evidence which is important to policy makers on the relationship between pay and performance particularly the regulatory framework since the regulatory framework evolves in accordance with new research evidence (Gregg, Jewell & Tonks, 2010; 2012).

This chapter is organised as follows. Section 7.2 presents the theory and hypothesis of the study. Section 7.3 elaborates on the data and research method. Results and discussions are presented in section 7.4, and section 7.5 draws conclusions from the study.

7.2 Theory and Hypothesis

The CEOs are usually responsible for tasks such as leading the development and implementation of investment strategy and assessing the firm's principal risks. Because it is difficult and costly to directly monitor the effort of the CEO and his effectiveness in creating

shareholder value, agency theory advocates the use of executive pay contracts that ensures that the CEO's pay is tied explicitly to firm performance. This is the agency theory of the pay-performance relationship. However, the link between pay and performance is not that straightforward because CEO pay contracts that is to be used an alignment tool must be optimal. For it to be effective, it should motivate, attract, and retain executives. The contracts often specify the measures against which executives' performance are assessed. Fahlenbrach and Stulz(2010) noted that aligning the interests of executives to shareholders through executives' ownership of company stock dampen their appetite for perversive incentives.

Anglo-American executive remuneration plan is usually made up of a salary component; a bonus component which can be discretionary, or performance based; a long-term incentive component which can be share options, deferred bonuses, restricted shares; a pension component and other benefits in kind (Conyon et al,2000; Conyon, Fernandes, Ferreira, Matos &Murphy,2011; Murphy,1999; Zakaria,2012; Groysberg et al. 2021). While the pay components are largely the same, the pay elements differ across firms and countries. For example, share option plans are more popular in the United States of America while share grants are more popular and preferred in the United Kingdom. Conyon, Fernandes, et al. (2011) and Conyon, Core et al. (2011) put forward an argument that while changes in both the structure and level of executive remuneration can be explained by economic factors, a significant role is also played by the influence of tax policies and changes in legal regulations and accounting standards.

Jensen and Murphy (1990) were the pioneer study on the relationship between pay and performance and the motivation behind subsequent research works. They provided distinction between cash compensation (Base salary and bonuses) and total compensation (cash compensation and equity incentives such as stock options and LTIPS). Early research works on the pay-performance relationship adopted cash compensation because of the difficulty in

obtaining data on equity-based pay until 1997 when the Greenbury (1995) rules came into effect. Mian et al, (1996), Buck et al (2003), Ozkan, (2010) all found evidence that the sensitivity of pay to performance is higher when equity pay is included. Buck et al (2003) also suggested that apart from equity-based pay, long term incentive plans (LTIPs) should also be included in the estimation of pay-performance sensitivities. The proportion of equity pay to total pay is also mixed in the academic literature. Conyon and Murphy (2000) documents that equity-based incentives including LTIPs, and options made up about 40 percent of CEO's total compensation packages in the UK in 1997 for the non-financial sector and 35 percent for the financial sector. Fernandes et al (2009) in their own research reports equity-based pay constitutes 24.9 percent of total executive compensation in year 2006. Gregg, Jewell, and Tonks (2010) in their own study find that equity pay makes up about 45 percent of total pay for four bank CEOs in the UK between year 2000 and 2006. Main, Theiss, and Wright (2010) in their observation found that the percentage of FTSE 100 companies using share-based reward plans increased from 52 percent in 2000 to 84 percent in 2005. Groysberg, Abbott, Marino and Aksoy (2021) reported that 59% of executive pay in US firms in 2019 is equity-based. Our study will be the most up to date on the proportion of CEO pay to total compensation over the years 2009-2019.

When selecting the appropriate performance measure for executive remuneration plans, Miller (2004) and Zakaria (2012) suggests that performance measures should be tied to shareholder value creation and aligned with company strategy. They further stated that it should reflect the firm's operating performance and emphasize measures that are objective and quantifiable and linked to balanced growth and returns. Hence, financial performance measures are usually the measure adopted because they are widely seen to be objective, quantifiable, and directly linked to shareholder value. Financial performance measures are expressed in either accounting or market-based terms. Sloan (1993) favours the use of

accounting based over market-based measures in executive remuneration contracts because it shields executives from market noise. Firms favour share prices as the basis of performance evaluation for executives but Lambert and Larcker (1987) argue that this is insufficient for evaluation purposes. Hence, remuneration packages adopt both accounting and market-based performance measures in assessing executives. Therefore, we hypothesis as follows

Hypothesis 1*: Equity based pay is positively impacted by performance*

Board governance: Executive pay literature opined that pay is determined by the quality of the board. Since the function of pay setting is carried out by the board of directors on behalf of shareholders, holding other things constant, a CEO's ability of influence their own pay will likely be stronger if the board is weaker and the CEO is stronger. The relationship between equity-based pay and performance can be strengthened or weakened by board governance factors. Research evidence suggests that weaker boards reward CEOs for events outside of the CEO's control that positively influence their performance. (Bertrand & Mullainathan 2001; Garvey & Milburn,2006, Bruce & Skovoroda 2015). The pay-setting process is deemed more robust and fairer if the roles of the chairman and CEO are separated, if a high proportion of board is comprised of non-executive directors and if there is a remuneration committee that is independently nominated. However, empirical evidence is mixed and inconclusive. Core, Holtausen and Larcker (1999); Rayan and Wiggins (2004); and Adams (2012) all find that board independence is associated with lower level of pay while Renneborg and Zhao (2011) found evidence that board independence is positively associated with CEO pay. This was also the result obtained by Goh and Gupta (2011). It stands to reason that when executive's interest is aligned to shareholder's interest via equity-based pay, lesser oversight and monitoring will be required by the board thereby leading to lesser monitoring costs. Therefore, the hypothesis is;

Hypothesis 2*: Equity based pay is negatively impacted by board governance*

7.3 Methodology

The impact of performance and board governance on CEO pay is examined by a pooled OLS regression. The caveat is that OLS is a cross section which may suffer from omitted variable bias. The study recognises the possible endogeneity issues that may arise in the relationship between equity-based pay, board governance and performance which may be ignored by OLS and therefore utilized fixed effects panel data regression and GMM for the robustness tests.

Panel data regression analysis was one of the methods adopted for robustness tests because it enables the regression analysis to be carried out in both unit(spatial) and time(temporal) dimensions and addresses the concern of endogeneity due to unobserved heterogeneity. Equity-based pay is allowed to depend on performance, board governance and other control variables in the equation. Equity pay is calculated as equity pay divided by total compensation. Leverage is a control variable in the equation and reflects the influence of the capital structure of the banks on the pay-performance relationship. It is calculated as the percentage of total debt to total assets. Jensen (1986) believed the usage of debt can serve as a useful mechanism in reducing agency problems because executives extract rent from excess cash flows, and greater usage of debt by the firm will mean fewer excess cash flows to be extracted as rent by managers. On the other hand, Larcker et al (2007) and Grove et al (2009) in their research found that high leveraged firms have a negative relationship with performance because a high proportion of debt over equity could mean that the firm's corporate governance is weak.

7.3.1 Data

Data were collected primarily from the annual reports of banks in Nigeria and the United Kingdom. They were also elicited from Bloomberg database. Bloomberg was the source for a

lot of datasets on UK banks while most data for Nigerian banks were manually collected from the annual reports of each bank. The eleven-year sample period of the study was from 2009-2019. This period was selected because it was after the financial crisis and the year heralded the different reforms and regulations in the financial sector aimed at regulating executive pay. Unbalanced panel data were used for banks in both countries. The study used panel data because they enabled the researcher to control for bank heterogeneity and avoid multicollinearity problems. Baltagi (2013) highlights that they provide more efficient results and are more suitable in identifying and measuring effects that are undetected in pure cross-sectional or time series data.

Table 7. 1 Description of variables

Variable	Variable Description
PERF:	Accounting and market-based measures of performance, measured alternatively as :
EPS	Earnings per share is the net income divided by shares outstanding.
ASR	The annual shares return is the natural logarithm of the ratio of equity return.
ROA	Return on Assets is operating income divided by end of year total assets.
BNKSIZE	Book value of total assets (in natural logs).
LEV	Bank leverage calculated as the ratio of total debt to total assets.
EQCOMP	CEO's equity pay as a proportion of total earnings.
BD SIZE	Board size is the number of people on the main board
IND DIR	Proportion of outside directors to total number of directors expressed as a percentage
REMCO	Dummy variable equal to One if the bank has a remuneration committee or Zero otherwise
DUALITY	Dummy variable equal to One if the CEO is the same as the board chairman or Zero otherwise

This table provides a definition of all the variables used in the analysis.

Table 7.1 defines the variables used in this study. The existing literature documents that some form of relationship between pay and performance and as such, the listed variables play some

role in the pay-performance relationship although the extent or the nature or magnitude of the relationship is not conclusive. In carrying out this research, the dependent variable is CEO's equity-based pay which is derived as the value of CEO equity pay as proportion of total CEO pay. The main independent variables are performance (proxied by Annual shareholder returns and Return on assets), board governance variables (number of independent directors and the size of board) and leverage. The control variable is bank size. The data for Nigeria are translated into a common GBP exchange rate using the OANDA exchange rate. Using the absolute values of the variable increases the presence of heteroscedasticity because some of the variables have higher scales than others, hence, the researcher used the natural logarithm, ratio, and percentages of the variables in line with previous research works[12].

7.3.2 Independent Variables

The main independent variables are performance, and board governance.

Performance- The main measure of firm performance used is Return on assets and annual shareholder return since the objective of performance related pay is to align the interests of the executives with those of the shareholders.

Board governance-Core and Larcker (2009) believed the different corporate governance arrangements in firms may influence how much is paid to their executives. This research adopts four board governance measures: the size of the board, which is the total number of directors, the proportion of the non-executives on the board of directors, presence or otherwise of a remuneration committee and whether the role of the CEO and Chairman of the board is vested in the same person (CEO duality). Banks that have more directors on board especially executive directors will have higher wage bill because they have more directors to pay. An increase in total fee paid to board members in a particular year does not necessarily

[12] See Shiyyab et al (2015) at https://eis.hu.edu.jo/deanshipfiles/conf111542524.pdf; Conyon and He(2012) at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2071001

mean a pay increase for board members, it may also mean an addition to the existing board members. A larger board size could also signal complexities in the firm structure hence the need for more quality directors thereby translating to more pay. A high proportion of non-executive directors would mean greater monitoring and hence, lesser pay for the CEO because he will be unable to extract undue rent. The Greenbury report (1995) postulates that remuneration committees should only comprise of non-executive directors and since non-executive directors are responsible for pay-setting, CEO pay is expected to be lower.

Predicting the effect of board size and board independence on executive pay can be difficult. A larger board will mean more responsibility for the CEO in running a more complex firm. On the other hand, a larger board size may mean that there are more executives to take on major roles so that the CEO has less responsibility and therefore require lower remuneration. Cadbury (1992) recommended that roles should be separated so that not one individual has the power for reasons of checks and balances, CEO duality separates the role of the CEO and chairman and reduces executive pay and the ability of the CEO to use information asymmetry for his own self-interest. However, separating these roles will mean slower time for critical decision making and unnecessary cog in the decision-making wheel especially where there is a power tussle between the chairman of the board and the CEO.

7.3.3 Control variables

Leverage- Leverage (LEV) which reflects the of the capital structure and is calculated as the percentage of total debt to total assets.

Bank size-Bank total assets are used as a proxy for bank size in the regressions since previous literature has shown that firm size is one of the most important drivers of executive pay. Also, previous research works use total sales as the measure for firm size but because of the unique

nature of the banking sector, this variable understates the size of the firm and therefore, total assets was used.

Table 7.2 presents the summary descriptive statistics for the variables. These show that the equity and long-term incentive plans (LTIPs) make up about 48 percent of total CEO pay in the UK and about 11 percent in Nigeria. This means that the proportion of equity-linked pay and long-term incentives have increased by about 3% from the figures obtained by Gregg, Jewell, and Tonks (2010) who documented that equity pay makes up about 45 percent of total pay for four bank CEOs in the UK between year 2000 and 2006. This also updates the findings by Conyon and Murphy (2000) who in their own research found that equity-based incentives including LTIPs, and options made up about 40 percent of CEO's total compensation packages in the UK in 1997 for the non-financial sector and 35 percent for the financial sector. Fernandes et al (2009) in their own research reports equity-based pay constitutes 24.9 percent of total executive compensation in year 2006. Main, Theiss, and Wright (2010) in their observation found that the percentage of FTSE 100 companies using share-based reward plans increased from 52 percent in 2000 to 84 percent in 2005. Further, this is similar to the results obtained by CIPD (2020) for FTSE 100 CEO pay in 2018. The question is this; has the improvement in the proportion of equity-linked pay translated into a better performance? In Nigeria where share ownership is more concentrated but share ownership disclosure is not so transparent, while the average proportion of equity-linked pay may seem little at 11%, it is significant since its adoption is still in its infancy compared to developed countries like the United Kingdom. The small standard deviations for equity-pay in both countries shows that the spread of equity pay is narrow across time in the sample. This does not seem to reflect the 'jump' in pay levels predicted by literature.

The summary statistics of earnings per share shows that the average return earned on shareholder's wealth is low in both countries. Return on assets summary statistics show that

investors in Nigeria banks receive a better return on banks assets than their counterparts in the United Kingdom. The assets of Nigerian banks return on average 1.1 versus the 0.65 those assets in UK banks return. The standard deviation suggests a normal range and that the spread is not highly skewed. The representation of board independence as measured by the proportion of independent directors is also summarised. It shows that the average composition of the board in banks in the UK is about 66%. This signifies that a high proportion of directors on the board of UK banks are non-executive directors. In Nigerian banks however, the average proportion of independent non-executives who are board members is 14%. While this is low by UK standards, it is still a positive step in the right direction for a developing economy like Nigeria especially with the concentration of share ownership that characterises her banks. The board size is similar in both Nigeria and UK banks, but the spread of the standard deviation is lower in the UK. Again, possibly because most developing countries use corporate governance in developed economies as blueprint, the size of board in banks in both countries are similar despite the wide difference in economic output. Interestingly, the variance across the summary statistics for both countries are not worlds apart considering the designated status of developed and developing countries they both are. If anything, shareholders in Nigeria get a better return on company's assets than their counterparts in the United Kingdom. The most significant variation is the size of banks in both countries and the average number of independent directors on the board.

Table 7. 2 Summary statistics of the variables

	UK				Nigeria			
Variable	Mean	Std Dev	Min	Max	Mean	Std Dev	Min	Max
Equity pay	0.481	0.190	0.000	0.971	0.112	0.088	0.000	0.712
EPS	2.064	1.220	-4.300	3.860	1.390	0.880	-0.150	2.230
ROA	0.644	1.950	-10.570	12.800	1.114	0.650	-28.510	10.010
LEV	36.480	5.740	9.430	85.400	36.900	4.720	17.700	75.600
BNK SIZE	317182	537177	1180	2167210	6938000	5574164	900000	12560000
LogBNK SIZE	14.688	0.910	13.072	16.336	9.780	3.200	8.942	10.408
BD SIZE	11.350	3.310	5.000	22.000	10.930	6.210	7.000	21.000
IND DIR	66.120	4.470	14.290	94.120	13.920	1.228	17.250	64.710
MTBV	3.852	4.829	-12.680	32.530	4.295	0.147	-1.298	5.377
COMP COM	0.420	0.350	0.000	1.000	0.370	0.480	0.000	1.000
DUALITY	0.250	0.150	0.000	1.000	0.293	1.000	0.000	1.000

This table presents the summary statistics for all variables for the UK and Nigerian banks used in the analysis. The sample comprises twenty-six banks in the UK and thirteen Nigerian banks over the period 2009-2019. All variable definitions are in Table 7.1.

7.3.4 Model

To enable this research examine the relationship between equity-based pay and performance, the following model by Jensen and Murphy (1990) is modified and in line with previous literature, (Miyajima et al. ,2003; Coleman & Nicholas-Biekpe,2006; and Conyon & He 2011) is stated as;

$$(EQCOMP)_{it}=\alpha_i+\beta_1 PERF_{it}+\beta_2 BD\ VAR_t+\beta_3 CONTROL_{it}+\varepsilon_{it}$$

Where:

$ln(EQ\ COMP)_{it}$ represents the proportion of CEO compensation that is linked to equity and long term incentive plans(LTIPs) . It is defined as equity-linked pay divided by total remuneration paid to the CEO at time t. BD VAR are board governance variables which include Board size (BD SIZE) is measured as the number of people on the main board (Yermack,1996). Board Independence (IND DIR) is defined as the proportion of outside directors to total number of directors expressed as a percentage (Hermalin & Weisbach,1998;2003). CEO duality (DUALITY) details the leadership structure of the bank and is a dummy variable equal to One if the CEO is the same as the board chairman or zero otherwise (Brickley et al., 1997). Remuneration committee (REMCO) details the presence of a compensation or remuneration committee and is a dummy variable that is equal to one if the bank has a remuneration committee or zero otherwise (Newman & Moses,1999). Performance variables (PERF)- Return on assets (ROA) an accounting-based performance measure, is defined as net profits divided by the book value of assets and a market-based measure, Annual share return (ASR) which is the annualised stock return over twelve months is also used. Control variables (CONTROL) are bank size (BNK SIZE) which is measured as the natural logarithm of the bank's total assets; Leverage (LEV) which reflects the of the

capital structure and is calculated as the percentage of total debt to total assets. ε_{it} is the error term which accounts for the other possible factors that could influence $(EQPAY)_{it}$ that are not captured in the model.

The main independent variables of interest are the board governance and the performance of the banks. The performance measures are defined in two ways. First, and following the footsteps of Murphy (1999); the research used a market-based measure of performance (EPS). This is the Earnings per share (EPS) which is the net income divided by shares outstanding. An accounting-based measure of performance is also adopted in the model (Core et al 1999; Conyon & He,2011), and this is measured as Return on assets. The board governance variables are the Board size and the percentage of independent directors on board while Remuneration committee and CEO duality are dummy variables.

7.4 Results and Discussion

Table 7.4 shows the result of the regression using only cross series data. Robustness tests was carried out using the Ordinary least square method. The cross section results for both countries are similar except for variances in their magnitude. From the results, bank size has the largest impact on equity-based pay. The pooled OLS model shows that the sensitivity of total assets in the UK is around 2.05 and 1.22 for Nigerian banks. This implies that at 10% level of significance, total assets lead to a 2.05% increase in equity pay for UK bank executives and a 1.22% increase in equity-based pay for CEOs in Nigerian banks. Also, equity-based pay is strongly and significantly affected by market-based performance measure than accounting-based measure. Since the principal aim of agency theory is to align pay with shareholder value, equity-based pay is a more efficient tool in aligning pay to performance than other pay types as evidenced by the regression result. Accounting based performance measure bears no effect on equity pay of CEOs in the UK. This means that executives are

rewarded with equity-based shares irrespective of their accounting-based performance and more importantly, in line with their ability to maximise shareholder value. This also means that by rewarding CEOs with shares, a form of intrinsic motivation to perform is enabled (Edman,2012). In Nigeria, however, both market-based and accounting-based performance affect equity-based pay. This means that the rewarding of executives with equity-based shares is dependent on the ability of the executive to provide value to not just the shareholders but stakeholders. This supports the stakeholder theory of the firm and is consistent with results obtained by Olaniyi and Obembe (2015). The result also clearly portrays that equity-based pay is more sensitive to bank size than bank performance. This supports the executive labour market theory that posits that larger firms can poach high performing executives from smaller firms with attractive pay packets. Board size shows a positive and significant effect on equity-based pay. A 10% increase in board size will increase the equity-based pay received by executives by 0.19% and 0.06% in Nigeria. This could mean additional responsibilities that the CEO takes on because of increase in the number of directors or could mean that the corporate governance of the bank is weak. This can also signal the presence of free-rider executives who do not contribute meaningfully to the value maximising objectives of the banks.

The coefficient of determination (R^2) indicates that about 52% of the relationship between equity-based pay and performance is explained by the explanatory variables.

7.5 Robustness tests using Fixed Effects

Table 7.5 presents the results of the fixed effects panel data regression. From the results, bank size has the largest impact on equity-based pay. The fixed effects model shows that the sensitivity of total assets in the UK is around 1.62 and 1.12 for Nigerian banks. This implies that at 10% level of significance, total assets lead to a 1.62% increase in equity pay for UK

bank executives and a 1.12% increase in equity-based pay for CEOs in Nigerian banks. Also, equity-based pay is strongly and significantly affected by market-based performance measure than accounting-based measure. The board governance variables show different signs across both economies similar to the OLS results though with a lower magnitude and level of significance. Both the earnings per share and return on asset variables are positive and significant in Nigerian banks after controlling for bank size, leverage, and boardroom governance. In the UK however, while return on asset variable is positive and significant, earnings per share have a negative relation with executive pay. Because of the omitted variable bias that plagues cross section data, Hausman test was performed to compare the random effects to the fixed effects. The Hausman test did not reject the hypothesis that the random effects results are inconsistent but in order to eliminate omitted variable bias including the OLS results, the fixed effects model was accepted as the appropriate specification.

7.6 Addressing the Issue of Potential Endogeneity

Performance can determine CEO pay and CEO pay can likewise be determined by performance which gives rise to endogeneity problem. This bi-directional relationship can lead to reverse causality. Also, there may be other factors that impact CEO pay other than performance e.g firm or managerial quality. The potential simultaneous relationship between CEO compensation and firm performance may cause the endogeneity problem in the equation. Estimating the impact of performance on CEO equity pay using traditional panel fixed effects estimator may eliminate the firm fixed effects but may provide unreliable estimates due to finite sample bias (Baltagi, 2008, Nickell, 1981). The issue of finite bias can be addressed using traditional instrumental variable estimator provided that the perfect external instruments can be identified. System GMM was used because it is said to be more

efficient than difference GMM (Blundell and Bond, 1998). The use of System GMM is more efficient and avoids the problem of weak instruments which plagues difference GMM (Blundell and Bond,1998).

Therefore, to eliminate the firm fixed effects and address the issue of endogeneity, a dynamic panel estimator (system-GMM) was adopted. Table 7.6 shows the result of the analysis. The result shows that market-based performance positively impacts equity compensation in banks in the UK. Accounting based performance although positive does not significantly impacts equity pay. This implies the accuracy of the agency theory and the effectiveness of equity pay as a means to align performance and CEO pay. The table also suggests that the major factors in explaining CEO equity pay levels in UK banks apart from performance are board size, bank size, independent directors and the presence of a remuneration committee. Board size is positive and significantly related to equity pay and is consistent with results obtained by Jensen (1993), Yermack (1996), and Shiyyab et al (2012). They argue that larger boards are signs of weak corporate governance which can undermine the effectiveness of larger boards. Ozkan (2009) opines that poor monitoring of CEOs in large boards will lead to managerial expropriation through excessive CEO pay. Leverage is positive and insignificant while CEO duality is negative and significant.

The result in Nigerian banks tells a similar story with some little variations. Both accounting and market-based performance measures are positive and significantly impacts CEO equity pay similar to results obtained by Olaniyi and Obembe (2015,2019). The variables for Board size, bank size and remuneration committee were also positive and significant. The number of independent directors on the board and CEO duality were significant but negative while leverage was insignificant. The GMM model was tested for potential misspecification by using the Hansen J statistic. This was used to whether the instruments were valid and there were no over-identifying restrictions. The results showed that the instruments were valid.

Also, the Kleibergen-Paap rk Wald F statistics rule out weak instruments since they are larger than the rule-of-thumb minimum which is 10. Overall, the GMM results corroborate the results obtained in Table 7.4 and 7.5 below, suggesting that the findings are not plagued by endogeneity problems and that the results are robust.

Table 7. 3 Performance, board governance and Equity Compensation

	UK				Nigeria			
	Eq Comp	Ind dir	Bd size	Lev	Eq Comp	Ind dir	Bd size	Lev
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Eq comp		0.052***	0.144***	0.175**		0.159***	0.106**	0.231***
		(0.085)	(0.126)	(0.251)		(0.089)	(0.012)	(0.042)
EPS	1.569*	0.031	0.015	0.023	1.428*	0.221	0.581	0.532
	(0.189)	(0.018)	(0.021)	(0.008)	(0.293)	(0.167)	(0.063)	(0.015)
ROA	0.314	-0.054***	-0.610***	-0.075**	0.519**	-0.325**	-0.437***	-0.462**
	(0.048)	(0.021)	(0.048)	(0.061)	(0.106)	(0.159)	(0.107)	(0.054)
BD SIZE	0.188*	-1.162**		-1.994***	0.058**	-0.835**		-1.202***
	(0.193)	-(0.127)		(0.132)	(0.212)	(0.094)		(0.093)
IND DIR	0.831**		0.612**	0.858***	-0.831**		0.581**	0.654**
	(0.076)		(0.076)	(0.034)	(0.120)		(0.161)	(0.013)
DUALITY	-0.125***	0.671**	1.126**	0.133***	-0.318***	0.775***	0.816**	0.875**
	(0.044)	(0.245)	(0.533)	(0.561)	(0.246)	(0.143)	(0.246)	(0.32)
LEV	0.592	0.841	0.031**		0.140	0.167***	0.686***	
	(0.123)	(0.066)	(0.092)		(0.024)	(0.0983)	(0.255)	
REM COM	0.564**	0.516**	-1.139**	0.516***	0.714**	0.460**	-1.176***	0.136*
	(0.125)	(0.062)	(0.157)	(0.221)	(0.110)	(0.132)	(0.645)	(0.178)
BNK SIZE	2.051*	0.421**	0.976*	-0.574**	1.221*	0.477	0.039***	-0.183
	(0.419)	(0.064)	(0.118)	(0.029)	(0.617)	(0.170)	(0.052)	(0.017)
Constant	1.368***	0.392	1.521	1.176**	1.464***	0.741	0.163*	0.813
	(0.196)	(0.042)	(0.223)	(0.118)	(0.116)	(0.065)	(0.227)	(0.308)
No of Obs	293	273	273	282	140	135	133	140
N_Clust	173	173	173	173	93	93	93	93
R^2	0.524	0.443	0.421	0.726	0.464	0.316	0.273	0.336

*This table presents the OLS estimation results of the impact of performance and board governance on CEO equity compensation as well as other explanatory variables. Robust standard error clustered at year level are in parentheses. The sample and variable definitions are described in Table 6.1. ***, **, * denote significance at the 1%, 5% and 10% levels.*

Table 7. 4 Fixed effect result of Performance, Equity pay and Board governance

	UK				Nigeria			
	Eq Comp	Ind dir	Bd size	Lev	Eq Comp	Ind dir	Bd size	Lev
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Eq comp		1.411**	1.073*	0.635***		-0.036*	-1.186**	-1.158***
		(0.019)	(0.118)	(0.051)		(0.122)	(0.154)	(0.326)
EPS	1.341**	0.107***	1.251**	0.486***	1.215**	1.251**	1.602**	1.789**
	(0.082)	(0.053)	(0.163)	(0.135)	(0.058)	(0.163)	(0.231)	(0.5614)
ROA	0.217	0.216**	0.905***	0.356**	0.338**	0.915***	1.028**	1.192**
	-(0.063)	(0.071)	(0.133)	(0.164)	(0.077)	(0.183)	(0.097)	(0.103)
BD SIZE	0.139***	-0.013**		-0.038***	0.253***	0.112**		0.117***
	(0.042)	(0.065)		(0.015)	(0.039)	(0.147)		(0.053)
IND DIR	0.645**		-0.673***	0.257**	-0.141**		-0.727**	-0.817**
	(0.061)		(0.028)	(0.184)	(0.092)		(0.022)	(0.152)
DUALITY	-0.116***	0.324**	1.494**	0.536*	-1.201**	1.294**	1.244***	1.335*
	(0.039)	(0.075)	(0.097)	(0.21)	(0.145)	(0.097)	(0.031)	(0.547)
LEV	0.436	-0.032	0.018		0.118	1.091***	1.299	
	(0.030)	(0.131)	(0.561)		(0.033)	(0.188)	(0.196)	
REM COM	0.371**	-0.049**	-0.097	1.312	0.603***	0.251***	0.128**	1.396**
	(0.084)	(0.053)	(0.357)	(0.037)	(0.042)	(0.052)	(0.147)	(0.162)
BNK SIZE	1.616*	2.208*	1.010***	1.276**	1.115*	-0.633***	0.155***	-0.019**
	(0.115)	(0.409)	(0.188)	(0.207)	(0.081)	(0.028)	(0.074)	-(0.145)
Constant	-0.285	0.134	0.872	0.767**	0.432**	(0.165)	-0.165	0.423
	(0.334)	(0.210)	(0.045)	(0.066)	(0.155)	(0.1420	(0.607)	(0.065)
No of Obs	293	273	273	282	140	135	133	140
N_Clust	173	173	173	173	93	93	93	93
R^2	0.345	0.217	0.255	0.21	0.405	0.573	0.456	0.303

*This table presents the fixed effects estimation results of the impact of performance and board governance on CEO equity compensation as well as other explanatory variables. Robust standard error clustered at year level are in parentheses. The sample and variable definitions are described in Table 6.1. ***, **, * denote significance at the 1%, 5% and 10% levels.*

Table 7. 5 GMM result of Performance, Equity pay and board governance

Equity pay, board governance and performance

	UK	Nigeria
	(1)	(2)
EPS	1.226**	1.045*
	(0.007)	(0.138)
ROA	0.143	0.326**
	(0.037)	(0.028)
BD SIZE	0.071***	0.022***
	(0.108)	(0.041)
IND DIR	0.610*	-0.408**
	(0.020)	(0.105)
DUALITY	-0.025***	-0.116**
	(0.013)	(0.001)
LEV	0.323	0.059
	(0.531)	(0.009)
REM COM	0.241**	0.427*
	(0.085)	(0.033)
BNK SIZE	1.510*	1.122*
	(0.017)	(0.018)
Firm fixed effects	Yes	Yes
No of Obs	308	281
N_Clust	85	39
K-P F statistic	12.842	14.732
K-P LM statistic	15.201	17.093
Hansen J Statistic	0.005	0.008
Hansen J p-value	0.621	0.585

*This table presents two-stage estimation results of the impact of performance on CEO pay. Robust standard error clustered at firm level are in parentheses, ***, **, * denote significance at the 1%, 5% and 10% levels, respectively.*

7.6 Conclusion

The financial crisis exposed the deficiencies in the corporate governance regulatory framework for banks globally and since then, several rules and regulations have been introduced to curb excessive risk taking by Chief executives and ensure that pay is properly aligned to performance. Performance-based pay that are linked to long-term stock performance might be a viable mechanism in aligning manager's and shareholder's interest thereby reducing agency problems. Also, rewarding CEOs with shares in the firm simply means that as part owners due to their equity interest, CEOs will enjoy the benefits of high performance but will also incur the costs if otherwise. Thus, by applying pooled OLS regression model to bank panel data over the period of 2009-2019, this chapter examined the relationship between equity-based pay and performance while recognising the complementary role of board governance.

The results reveal that equity-based pay has a strong and positive relationship with market-based measure of performance (EPS) than it does with accounting-based performance (ROA) which is consistent with the agency theory and the assertion that equity-based pay is a useful mechanism in aligning the interests of Chief executives to that of the shareholders. Also, the results further lend credence to the complementarity hypothesis that posits that agency problem is ameliorated by the adoption of more than one corporate governance mechanism as complements. This is shown by the board governance results. Board size has a positive relationship with equity-based pay in both Nigeria and the United Kingdom which means that the bigger the board, the higher the equity-based pay. However, free-rider theory opines that when the number of people on the board is too large, it affects the decision-making process, and the quality of monitoring and advice board members provide. This is because it enables board members without adequate knowledge of the firm to sit and surf through board meetings without active participation. Also, the proportion of independent non-executive

directors on board has a negative relationship with equity-based pay. This is because of the complementary role of board governance in alleviating the agency problem and as such, the independent directors are able to reduce the rent which will hitherto be extracted by the executive because they are non-beholden to the firm and are more effective in monitoring the executives without bias. Across both countries, the results reveal that the size of the bank matters in awarding equity-based pay as executives value being rewarded with shares in bigger banks than smaller ones as measured by their total assets. In addition, the results show that a bank's degree of leverage has a positive and significant effect on the level of equity-based pay that it can reward its executives. This result is surprising especially for Nigeria. One would expect that in line with the rent extraction theory and hypothesis, leverage would reduce the ability of CEOs to extract rent and as such, reduce the level of equity-based pay they can earn as there is less 'excess cash flow'. However, in this case, the results show that leverage enables the CEO the ability to receive more equity-based pay. The other explanation could lie in the critic's argument that higher leveraged banks signal weak corporate governance practices and the ability of the CEO to extract undue rent. It could also mean that the bank rewards the CEO for 'making the best out of a bad situation' which means that the executives are aware of the risks posed by the bank's weak corporate governance practices and the effects it has on the bank's ability to maximise shareholder value irrespective of the efforts of the CEO.

It is found that the roles of the chairman and CEO in both countries are negative but not significant. The literature is of the opinion that the CEO is able to exert serve his own self-interest if he holds both the roles of the CEO of the bank as well as chairman of the board of directors. It places him in a dictatorial position such that there is absence of checks and balances, and he cannot be ousted for non-performance. The result show that this is of no significance for banks in Nigeria and the UK and could also mean that the other school of

thought which argues that fusing both roles together in a single executive will lead to better decision making and reduce the transaction costs that arise as a result of separating both roles cannot be dismissed. This also lends support to the stewardship theory that CEOs are motivated by success of the firm and not self-interest.

This research work contributes to the literature on the relationship between executive pay and performance particularly the role of equity-based pay. This study has implications for the banking sector, bank regulators, shareholders, and all stakeholders at large. First, the significance of equity pay to market-based performance implies that executives are more receptive to market measures. This should be considered in drawing up executive remuneration contracts. Also, the positive relationship between executive pay and board size may signify the presence of the free-rider problem. This implies that more work needs to be done by the regulators to ensure that board governance in banks is not just a 'tick box' approach to comply with governance codes. This study is limited to the use of four of the board governance variables, further research can expand on this. Further, this study is limited to Nigeria and UK banks and further research works can extend to all emerging markets.

Chapter Eight: Summary of Research Findings, Conclusions and Recommendations

8.1 Background of the study

The global financial crisis revealed deficiencies in the corporate governance structures and regulatory framework of banks, and incentive packages were stated as part of the contributors. The tenuous link between pay and performance is an issue that has been researched at length in the non-banking sector but has received less attention in banks especially outside of the United States (Shiyyab et al., 2014). Banks are engines that are pivotal to economic growth and development and their role is even more critical in developing economies. A properly designed executive pay package is fair and attracts, motivates, and retains executives to act in the interests of the shareholders and all stakeholders. The link between pay and performance of banks Chief executives are of interest because of the unique corporate financing structure of banks which means that risks are borne by the creditors and ultimately, taxpayers. The agency theory posits that the principal employs an agent to act on his behalf and adopts mechanisms to ensure that the agent does not serve his own self-interest at the expense of the principal. These mechanisms include tying pay to performance, establishing board governance and rewarding the agent with ownership of the company's shares. Therefore, ensuring that pay is properly tied to performance in banks is critical in avoiding a repeat of the excessive risks by bank executives deemed to have contributed to the financial crisis. Hence, this thesis has examined the role of bank's CEO pay, board governance variables and CEO share ownership in the pay-performance relationship in a developing economy like Nigeria versus a developed country like the United Kingdom, and compared results obtained in both countries. The banking sector was selected for this study because of the paucity of research in the sector and Nigeria was selected as a developing economy because research into the pay-performance

relationship in African countries is sparse and Nigeria is arguably the biggest economy in Africa. United Kingdom was selected as the choice for developed economy because research in the relationship between pay and performance is not as saturated as the United States and the banking sector suffered neglect by previous research works.

8.2 Summary of research methods

The nature of this thesis is empirical, and the researcher followed a positive approach. The data was collected from both primary and secondary sources. The datasets used was from the period after the financial crisis, till 2019. The data were collected from Bloomberg database and others were manually collected from the annual reports of the banks. Data on executive pay including the pay components and board governance for UK banks were obtained from Bloomberg. Most data for Nigerian banks were elicited by hand from the annual reports of each bank. Because of lack of transparency in disclosures especially for Nigeria, the numerical values of shares awarded or held by the CEOs were not disclosed and as such, the researcher adopted the method of Conyon & He (2011) and defined equity-based pay as the equity and long-term incentive pay as a proportion of total remuneration. Pooled OLS, model was used for the data analysis (Krause 2009; Beltratti & Stulz,2011; Fahlenbrach &Stulz,2012) while fixed effects (Conyon & He 2015; Olaniyi &Obembe,2015) and dynamic GMM (Gregg et al. 2010; Shiyyab et al, 2012) were adopted to address endogeneity issues and to test the suitability of the methods.

8.3 Summary of research findings

Chapter 5 examined the relationship between CEO pay and performance. It examined the sensitivity of pay to performance using a pooled OLS. fixed effects regression model and system GMM was used with panel data of all listed banks in Nigeria and the United Kingdom from 2009-2019. The two countries were treated independently except for the translation

Nigerian banks' data into a common GBP currency for comparative purposes. The study analysed the total remuneration paid to executives each year from 2009-2019 in Nigerian and UK banks and estimated the yearly difference. This was done to enable the researcher to estimate the yearly change in pay against the backdrop of the notion of excessively high remuneration paid to executives. The study found that the yearly change in pay was not as significant compared to popular pre-conceived notion of high pay, executive pay trend has neither been constant nor uniform as hitherto believed. The research found that in the aftermath of the financial crisis, executive pay in the UK and Nigeria remained on the rise for at least three years before a decline. The result evidenced that the pay awarded to executives continued to increase despite the financial crisis and public outcry about the high levels of pay contracts. The result is consistent with the assertion by Conyon et al. (2011) that pay were often restructured but not reduced. The pay trend in both countries were similar despite their economic status. However, it was deduced that contrary to popular believe that post the financial crisis, executive pay packets were slashed and reformed which served as some form of restitution for their contribution to the financial crisis, the opposite was obtained in practice. Executive pay levels rose in 2009 post the financial crisis which lend credence to the opinion that executive pay was restructured but not reduced. (Conyon et al.,2011) Further, the executive compensation results in both countries were compared and the study found that bank executives in the UK receive on average eleven times more than their counterparts in Nigeria. However, the annual growth rate of CEO pay in both countries were not that far apart. There was a significant rise of almost 87% in executive pay in Nigeria in 2010. This pay rise happened at time when the world was still reeling from the aftermath of the financial crisis. However, the significant rise may also be attributed to the reformation of the banking sector and corporate governance rules in Nigeria which could have in turn thrusted additional responsibilities on bank executives, (Olaniyi & Obembe,2015). The substitution hypothesis

of corporate governance posits that by adopting any corporate governance mechanism (executive pay in this case), the level of monitoring required is reduced and the agency problem is mitigated. (Shiyyab et al, 2015) Further to this, executive pay as a substitute to mitigate the agency problem was investigated. The research found that executive pay is sensitive to performance in both Nigerian and UK banks. However, it was sensitive to both market-based and accounting-based measure of performance in Nigeria; (Olaniyi & Obembe (2016; 2021) obtained similar results in Nigeria) while it was more sensitive to accounting based and not market-based performance measure in the UK, (Murphy, 1985; Conyon et al, 2000). The empirical results obtained supports the substitution hypothesis theory that executive pay is in fact a useful means of reducing agency problem as postulated by the hypothesis. This view was also supported by Gregg et al (2010) but Shiyyab et al (2012) found otherwise in a sample of EU banks. It is also found that the major determinant of executive pay is bank size. This confirms the managerial labour market theory that posits that larger firms are usually the pace setters with respect to executive pay and are able to lure CEOs away from smaller firms with attractive pay contracts, (Bebchuk & Weisbach, 2010). The result also shows that CEOs in higher leveraged banks are less likely to extract rent than Chief executives with lower levels of debt in their capital structure. Also, the research estimated the pay-performance relationship by using the lag approach. This was achieved by regressing the log of change in pay on the other independent and control variables. The fixed effect result shows a 44.8% increase in bank size is associated with 9% increase in pay. This is consistent with Murphy's (1999) review which states that the change in CEO compensation size is in the range 0.20 to 0.45. The results obtained in this study has great implications for future research works on the relationship between executive pay and performance in the financial sector and may be of help to regulators to assess the effectiveness or otherwise of

current corporate governance codes, assist policy makers and potential investors in making decisions about executive pay contracts and the alignment of pay to performance.

Chapter 6 examined the relationship between executive pay, board governance and performance in a developing and a developed economy. An Ordinary Least Square (OLS) and a fixed effects model was applied, using panel data from all listed banks in Nigeria and the United Kingdom for the period of 2009-2019. Robustness tests were carried out using dynamic GMM. The complementarity hypothesis argues that executive compensation as a corporate governance mechanism is effective in mitigating agency problems when it is jointly adopted with other mechanisms or may depend on the simultaneous adoption of it with other mechanisms depending on its cost and benefits. (Fahlenbrach,2008; Aguilera et al 2009; Ward et al. 2009; Ozkan,2011.). Chapter six examined the pay-performance relationship through the joint adoption of executive pay alongside board governance variables. Also, Bebchuk and Weisbach (2010) stated that one test of the managerial power hypothesis is that weak boards lead to high CEO pay. Taken together, the research examined the managerial power and the complementarity hypothesis by adopting executive pay and performance alongside board governance as joint corporate governance mechanisms. In general, the result of the analysis suggests that bank size alongside leverage are important drivers of executive pay in the banking sector of both countries. (Gregg et al 2010; Shiyyab et al,2015; Olaniyi &Obembe,2016). The board governance and performance variables in both countries however differs. Board governance variables used include board size, independent directors, remuneration committee and CEO duality. Consistent with managerial power theory about weak boards, the research finds that board size in UK banks enables bank executives to extract rent thereby leading to higher pay. The result obtained contrasts the findings of De Andres et al, (2005) and (Shiyyab et al, 2012) although both researched European banks. Board size positively affects executive pay in UK banks, but the caveat is that this does not

necessarily mean that the board is weak, it may be that the bank is compensating the CEO for additional responsibilities that may arise because of the increment in board members. It could also mean the presence of free-rider problem as posited by literature which means that by reason of a large board, directors do not participate productively to shareholder value creation, (Hermalin & Weisbach, 2003). In Nigerian banks however, the research found that the managerial power hypothesis does not hold true. The board size of Nigerian banks negatively affects pay in line with results obtained by Hassan & Ahmed (2012). This suggests that the size of the board is optimal and effective in reducing the ability of bank executives to extract undue rent. This could mean that there is the absence of free-rider problem or that ownership of shares in Nigerian banks is concentrated in the hands of a few dominant shareholders, (Kajola,2008). However, absence of transparency with regards to share ownership disclosure in Nigerian banks means that this can neither be confirmed or refuted. Contrary to complementarity hypothesis and in agreement with managerial power theory, the independence of the board of directors positively impacts the pay-performance relationship. This may happen when independent directors are nominated for appointment by CEOs, and they feel obligated to them because of their job. This affects the ability of the independent directors to monitor the bank executives and carry out their roles without prejudice, Fama &Jensen (1983). The research also found that remuneration committees are effective in alleviating the agency problems in UK banks but the role of the remuneration committees in Nigerian banks need to be assessed by policy makers, Hassan & Ahmed (2012). It could be that the members of the remuneration committee do not possess the adequate knowledge of pay-setting arrangements and are overridden by managerial power. It could also be that they are a 'tick box' approach to executive pay to project compliance with corporate governance rules. CEO duality was found to have a negative relationship with the pay of executives in Nigerian and UK banks consistent with Shiyyab et al. (2012). Accounting based performance

has a positive impact on executive pay in both Nigerian and UK banks while market-based performance is significant in Nigerian banks but not in UK banks (Olaniyi & Obembe,2015; Hassan & Ahmed, 2012 obtained similar result for Nigerian banks). In general, the result of the analysis suggests that both executive pay and board governance variables behave differently depending on whether it is substituted as a monitoring mechanism or jointly adopted simultaneously, Ozkan (2009). Also, it further suggests that the behaviour of executive pay, performance and board governance differ albeit in a developing economy like Nigeria or a developed economy like the United Kingdom. This knowledge will be of help to regulators, investors and policy makers in the financial sector in developing and developed countries.

Chapter 7 examined the relationship between executive equity pay and performance while recognising the complementary role of board governance. Fahlenbrach and Stulz(2010) noted that aligning the interests of executives to shareholders through executives' ownership of company stock motivates them to add more value to the firm.

Linking executive pay to long-term stock performance may be a viable mechanism in aligning manager's and shareholder's interest and reducing agency problems. Further, by rewarding executives with shares in the firm means that as part owners due to their equity interest, they will enjoy the benefits of high performance but will also incur the costs if otherwise (Bhagat & Bolton 2000; Carpenter & Sanders,2002) . This study investigated the relationship between equity-based pay and performance while recognising the complementary role of board governance by applying fixed effects regression model to bank panel data over the period of 2009-2019.

It is found that equity-based compensation has a strong and positive relationship with market-based measure of performance than it does with accounting-based performance in the UK in

line with results obtained Conyon et al., 2000. This suggests that the agency theory holds true for Nigerian and UK banks, and equity-based pay is a useful tool in aligning the interests of executives to that of the shareholders. Also, the theoretical predictions of the complementarity hypothesis that posits that agency problem is reduced by the adoption of more than one corporate governance mechanism as complements holds true (Boyd, 1994; 1995). This is evidenced by the result of the board governance variables. Board size is found to have a positive relationship with equity-based pay in both Nigeria and the United Kingdom which suggests that the bigger the board, the higher the equity-based pay (Jensen, 1993; Hermalin & Weisbach,2003). Furthermore, the proportion of independent non-executive directors on the board of directors negatively impacts equity-pay in agreement with results obtained by Cheng (2008). The results may be because of the complementary role of board governance in alleviating the agency problem and as such, the independent directors are able to reduce the rent extraction ability of the bank executives, Ozkan (2009). The result obtained indicates that bank size is a major factor in awarding equity-based pay as Chief executives place more value on being rewarded with shares in bigger banks than smaller ones (Olaniyi & Obembe 2012; Conyon & He 2011). Also, leverage has a positive and significant effect on the level of equity-based pay that the banks can reward their CEOs. This result contradicts theoretical predictions, by theory, leverage is expected to reduce the ability of CEOs to extract rent and thereby reduce the level of equity-based pay as there is less cash surplus (Jensen, 1986; Macey & O'Hara, 2003). The results obtained however shows that leverage enables the CEO to receive more equity-based pay. This could be attributed to the argument that a higher level of leverage in banks could be a signal that the corporate governance practices are weak and ineffective, and the CEO has enough managerial power to extract undue rent. Therefore, this study contributes to the empirical debate on the effectiveness of

equity-based pay in aligning the interests of executives to the shareholders and all stakeholders.

It is found that the roles of the chairman and CEO in both countries are negative but not significant. The literature is of the opinion that the CEO is able to exert serve his own self-interest if he holds both the roles of the CEO of the bank as well as chairman of the board of directors. It places him in a dictatorial position such that there is absence of checks and balances, and he cannot be ousted for non-performance.

Therefore, this chapter used both CEO pay and board governance mechanisms to infer whether the complementarity hypothesis holds true for banks in Nigeria and the United Kingdom.

8.4 Contribution of the study

This research work makes various contributions to the empirical and theoretical literature. To start with, it analyses the total remuneration paid to bank executives in Nigeria and the United Kingdom post the financial crisis on yearly basis to estimate the yearly growth rate and compared the pay differentials between both countries. This thesis contributes to theory by adopting a multi-theoretical approach in examining the hypotheses. The research first examined the CEO compensation contract and the theoretical basis for its design which is to attract, motivate and retain CEOs. It examined agency theory and concluded that CEO pay is an effective tool in ameliorating agency problems. It further tested the accuracy of the substitution/complementarity hypotheses. The research also examined CEO compensation as a substitute for monitoring and then in its complementary role with board governance. The thesis concluded that a unilateral theoretical approach in insufficient in addressing the agency issues in the banking sector because of its peculiarities and as such, a multi-theoretical approach is more suitable.

This will be of use to policy makers in developing economies where policy making, and implementation tend to follow the blueprints of developed economies. Furthermore, it analyses the relationship between total remuneration paid to executives and financial performance in UK and Nigerian banks and estimated the impact of change in performance on change in CEO pay. It then compared results obtained in both countries. It examined the competing theoretical perspectives of executive pay (agency theory, stewardship theory, managerial power theory, optimal contracting theory and the substitution or complementarity hypothesis) and expands on the theoretical perspectives on the design and structure of executive pay. The research reviewed the theories and finds that an integrated approach is essential in explaining the relationship between executive pay and performance. This study is thought to be the first that examines the pay-performance relationship in an African country versus a developed economy like the UK. Also, the study examined the relationship between executive pay and performance vis-à-vis the complementary role of board governance and its effect on executive pay. By doing this, the study will be a guide to regulators, investors, and other stakeholders on the adoption of corporate governance mechanisms and its role as substitutes or complements. In addition, the study examined, the use of equity-based pay as a corporate governance mechanism to align pay to performance and will be of use to regulators on the effectiveness of share ownership and to investors. It will also be of use to the public as it will educate them on the pay-performance process in banks and minimise public outrage due to perceived high levels of pay. The research contributes to methodology by examining the pay-performance trend in a developing versus developed economy using OLS as well as two other regression models. The research addressed the limitations of the OLS method by accounting for endogeneity and simultaneity using dynamic GMM. This expanded upon the methodology adopted by Kajola (2008); Hassan and Ahmed (2012) in Nigeria, Gregg et al (2010) and Shiyyab et al (2012) in the UK. Finally, the use of GMM methodology for data

analysis controlled for the problem of endogeneity and the use of panel data solved the problem of unobserved heterogeneity.

8.5 Implications of the study

This study examined the relationship between pay and performance in Nigeria and UK banks. The agency theory suggests that issues arise because of separation of powers between owners of the firms and agents who acts on their behalf. To mitigate against this, corporate governance mechanisms can be adopted as substitutes or complements. Based off this, this study examines the role of executive pay as a substitute, executive pay and board governance as complements, and share ownership or equity-based pay and board governance as complements in the pay-performance relationship. Since executive pay was highlighted as one of the contributors to the global financial crisis and subsequent public outrage on the perceived levels of high pay received by Chief executives, this research investigated the total remuneration paid to bank CEOs after the financial crisis and found that despite public outcry, CEO pay rose in the aftermath of the crisis for at least three years before a decline. This knowledge provides an insight into the executive pay levels post the financial crisis in Nigerian and UK banks. Further, empirical results suggest that pay in Nigerian banks is sensitive to both accounting and market-based performance while executive pay in the UK is sensitive to accounting based measure of performance but not market based performance. The sensitivity of the pay-performance relationship in both countries were found to be within the range predicted by the literature. This confirms that the substitution hypothesis holds true and that by using any corporate governance mechanism, the agency problem is reduced. It also confirmed that bank size and leverage are useful tools in alleviating the agency problem and the major driver of executive pay in both Nigerian and UK banks is size. This knowledge will help managers in choosing an appropriate corporate governance mechanism for their

banks. It will further be of use to regulators in the assessment and modification of corporate governance rules. It also compares the results obtained in both countries providing an insight into pay packages in developing versus developed economies.

Also, this research examined the role of CEO pay and board governance as complementary corporate governance mechanisms in solving the agency problem. The impact of performance on executive pay could differ due to the uniqueness of the banking sector and its regulatory environment. The result suggests that irrespective of economic status, the major factor in explaining executive pay in Nigeria and UK banks is bank size. Executive pay appears higher when there are more outside directors on the board in both countries. The result varies in both Nigeria and UK banks and does not support the hypothesis of a negative relationship between executive pay and board governance. This suggests that there is no perfect and standard structure for board governance. The structure of the board of directors will depend on inherent characteristics that are peculiar to each bank. Pay is affected by accounting-based measure but not market based measure in UK banks but is sensitive to both accounting and market-based measure in Nigerian banks. The findings may imply that banks are special and as such may require a sector focused pay paradigm that will consider leverage, regulation and depositor insurance and ensure its compatibility with incentives. Also, the results suggest the need to incorporate holistically multiple theories beyond the agency theory to understudy the performance implications of executive pay in banks. It also has important policy implications especially for regulators for ongoing executive compensation reforms.

Finally, the study investigated the role of share ownership using equity-based pay and its relationship with board governance and performance in Nigerian and UK banks. The study revealed that the rewarding CEOs with shares strengthened the relationship between executive pay and performance and that this relationship is more greatly strengthened with market-based performance than it is by accounting based. It also revealed that the monitoring

and advisory role of board governance is reduced when executives are rewarded with equity-based pay as the level of monitoring needed to align pay to performance is reduced thereby translating to reduced transaction cost. This information is helpful to banks in designing and drawing up remuneration contracts for executives as it provides an insight into the pay packages that motivates and attract executives and is useful to set appropriate pay policies in banks in developing and developed countries.

8.6 Limitations of the study

Like other research works, this study has limitations. First, this study is limited to CEO pay and performance relationship in the United Kingdom and Nigeria, other research works can compare emerging versus emerged countries or across African countries. Thus, it will be interesting to examine the executive pay structure and landscape across different countries. Moreover, the role of institutional investors and share ownership can be explored especially the role of concentrated ownership. This is because the concentration of shares in the hands of few investors will mean that they have greater authority in critical decision making and greater monitoring incentives. This research was unable to explore the role of concentrated ownership in the pay-performance relationship due to data restriction. In Nigeria, for example, the proportion of shares held by the chairman was not explicitly disclosed and estimation by the author would have distorted the validity or reliability of any results obtained. Furthermore, this research is quantitative in nature. The executive remuneration landscape is evolving such that a mixed method approach may provide a better understanding of the pay-performance relationship. There may be other qualitative factors which influence pay that is not captured by quantitative methods. Another limitation is the inclusion of four variables of board governance i.e., board size, board independence, remuneration committee and CEO duality. Although, these are the key board governance variables according to the

literature, broader understanding of board characteristics like board diversity, CEO age and tenure, CEO experience and education could provide a broader understanding of the relationship between board governance and performance. The sample size of banks in Nigeria after the inclusion/exclusion criteria is another limitation of this study. The fourteen banks used for Nigeria compared to the total number of banks is small due to data availability. Considering this, extending the results of the study to the whole of the Nigerian banking sector should be done cautiously.

8.7 Recommendations

Drawing inference from this research study, the research recommends the following.

- The regulators should ensure that corporate governance regulations are not just a 'tick box' exercise for banks. While it is recommended that a significant majority of directors on the board should be independent non-executives, the optimal board structure varies from on bank to another and the compulsory nature of this exercise may mean that the required knowledge for independent directors to carry out their duties effectively is secondary to ensuring that majority as required by regulation is achieved.
- The duties of the remuneration committee should be broadened to include company culture, diversity, environmental, social and governance (ESG). This will demonstrate regard for not just shareholder value but for all stakeholders.
- Remuneration committees should strive that a greater proportion of CEO pay is linked to alternative measures of performance that are non-financial through the balanced scorecard. This ensures a balanced approach to executive pay and that pay is aligned to value creation for all stakeholders.

- The corporate governance codes should be amended to require worker representation on the remuneration committee and not just on the board. This can boost stakeholder confidence in pay practices and this monitoring role can ensure fair distribution of rewards and incentives.

8.8 Areas for future research

There are several other routes that future research can explore and improve on. This study examined the role of internal board governance in CEO pay and performance relationship. Future studies can investigate the role of external governance mechanisms such as bank regulators, external auditors amongst others that can also influence the relationship. Also, the interactions and interdependencies between these internal and external mechanisms and how it impacts financial performance can be investigated. Further research is also required on the characteristics of CEOs and boards. The experience of bank executives amongst other characteristics can influence their performance. There is therefore the need to go beyond quantitative research and explore a mixed methodology such as a balanced score card which focuses not just on the financial performance of executives but performance measures that encompasses all their roles. Future CEO pay theories are required that accounts for the specific features and peculiarities of their job descriptions for example, in circumstances where the skills of CEOs are scarce, the nature of executive pay contract will differ. Further, this study focused on the banking sector in both countries however, further research works can examine the whole of the financial sector and how executive pay contract and pay performance relationships differ across them.

Also, this research work used data from 2009-2019 and the global Covid-19 pandemic struck soon after. The pandemic ripped up the rulebook on executive pay and performance measurement especially with the global lockdown. Therefore, further research on the

evolving relationship between pay and performance during the pandemic and its aftermath will be an interesting discourse.

Appendix 1: Executive pay measures around the world.

Jurisdiction	Legislation/initiative	Governance dimension	Measures
United States	Dodd-Frank Act(2010)	Compensation	"Say on pay": Listed companies are required to hold nonbinding vote on compensation of named executives at least once every three years; these companies must also hold a vote at least once every six years on the frequency of "vote on pay." "Say on golden parachutes": Listed companies must hold a nonbinding vote on "golden parachute" compensation when having to vote on a takeover bid. "Increased disclosures and transparency": Companies must disclose (1) the relationship between executive pay and the company's financial performance (including share value and dividend payout); (2) the median pay in firm (excluding CEO), the CEO's total pay, and its ratio; (3) any hedging against decreases in values of securities awarded to any employee or director. "Integrity and accuracy of executive compensation": (1) new standard for compensation committee independence, (2) clawback provisions allowing the recovery of any excess payment based on misreported financial data
		Board of Directors	Risk management: (1) banks and some other financial companies with assets greater than $10 billion must have a separate board risk committee that includes at least one expert with experience in managing risks of large companies; (2) requirement may be extended to bank holding companies with assets less than $10 billion by the Federal Reserve.
	SEC proxy rules	Board of Directors	Banks must disclose in the annual report the extent of the board's role in risk oversight.
		Compensation	Companies must discuss: (1) the extent to which risks arising from compensation policies are likely to have a material adverse impact on the company; (2) how compensation policies and practices relate to risk management and risk-taking incentives.
European Union	CRD IV and CRR	Board of Directors	Requires separation between CEO and Chairman for banks with a one-tier board structure, unless authorized by competent

		authorities. Large banks must set up a nomination committee, making explicit its responsibilities (including self-evaluation). Requires the board to reflect "a broad range of experiences" and to possess sufficient collective knowledge to understand risks. Limits the number of directorships (subject to supervisor approval). Increases individual board members' responsibilities: Must have knowledge, integrity, and independence to assess and challenge management. Promotes diversity within boards.
	Compensation	Caps ratio of variable to fixed compensation at 1:1, which could be increased to 2:1 if approved by a super-majority of voting shareholders (65 percent if quorum exists and 75 percent otherwise). Up to 25 percent of variable pay may be exempt from the ratio requirement if paid in long-term deferred instruments (at least five years vesting period). Bonus-malus and clawback clauses must apply to 100 percent of variable compensation (that is, all compensation that is not required by law). At least 40 percent of each executive's bonus must be deferred and up to 60 percent for senior executives. Rules apply to MRTs (senior management, risk takers, control functions, and anyone receiving equal remuneration). Restrictions apply to worldwide employees of EEA firms, as well as to those of EEA-based subsidiaries of non-EEA firms, and to non-EEA-based employees with material responsibility for EEA operations. Bans hedging strategies or insurance contracts that would undermine the risk-alignment effects of the remuneration package. Requires complete and detailed disclosure of remuneration practices for large and complex firms: information on the link between pay and performance, shares award criteria, and aggregate figures of remuneration. Some qualitative disclosure required for smaller firms.

Canada	Ontario Securities Commission Toronto Stock Exchange	Board Structure	Gender diversity: Requires disclosure of practices and policies — comply or explain. Director term limits — comply or explain Majority votes needed to confirm directors.
Bank for International Settlements	BCBS Principles for Enhancing Corporate Governance		Sets principles for sound corporate governance in six major areas: 1. Board practices 2. Senior management 3. Risk management and internal controls 4. Compensation 5. Complex and opaque corporate structures 6. Disclosure and transparency
Financial Stability Board	FSB Principles and Standards for Sound Compensation Standards	Compensation	Principles for effective governance of compensation: 1. Board must oversee the design of compensation policies. 2. Board must monitor and review compensation system. 3. Financial and risk-control functions must be independent and have appropriate authority, and compensation must be independent of business functions. Principles for effective alignment of compensation with prudent risk taking: 4. Compensation must be adjusted for all forms of risk. 5. Compensation must be symmetric with risk outcomes. 6. Compensation schedules must be sensitive to time horizon of risks. 7. Mix of cash, equity, and other forms of pay must be consistent with risk alignment. Principles for effective supervisory oversight and engagement by stakeholders: 8. Supervisory review of compensation practices must be rigorous and sustained; supervisors must include compensation practices in risk assessment of firms. 9. There should be a comprehensive and timely disclosure of compensation practices, as well as risk-management control practices. Principles for sound compensation practices — implementation standards: 1. Bonus-malus and clawback clauses must apply on cash bonuses. 2. At least 40 percent of each executive's bonus must be deferred. The requirement increases to up to 60 percent for senior executives. At least 50 percent of variable compensation should be awarded in

	shares or share-linked instruments. 3. Minimum deferral period is three years and at least half of bonuses are to be paid in restricted shares rather than cash.

Source; IMF (2014)

Appendix 2: Exchange rate

Year	Value
2009	0.0049
2010	0.00409
2011	0.00418
2012	0.00391
2013	0.00391
2014	0.00374
2015	0.00348
2016	0.00336
2017	0.00262
2018	0.00204
2019	0.00215

Source: Oanda

Appendix 3: Summary of literature review

GOVERNANCE DIMENSION	AUTHORS	VARIABLES	MEASURES	METHOD	SIGNS	ENDOGENEITY	YEAR	COUNTRY
CEO pay	Shiyyab, Girardone and Zakaria, (2012)	Bank size, managerial ownership, board size, Tier 1 capital ratios and dividend status	Return on Assets, Earnings per share, Annual share returns	Three stage least square(3SLS)	None	Yes	2000-2010	European Union
Bank Performance	Olalekan and Obembe,(2015)	Board size, board composition, leverage and Bank size	Earnings per share, Return on Assets	Generalized method of moments (GMM)	Negative	Yes	2005-2012	Nigeria
Performance	Rarthatha and Komeria,(2016)	Size, Leverage and Risk	Return on assets, Return on Equity, Tobin's Q and annual stock returns	Generalized method of moments (GMM)	Positive	Yes	2002-2012	India
Bank Performance	Cooper, Gulen and Rau, (2009)	Firm size and Industry	Total compensation, Cash compensation	Panel data Regression (Fixed and	Negative	No	1994-2006	United States

				Random Effect)				
Board Pay	Gregg, Jewell and Tonks, (2010)	Firm size, firm performance, Risk and board composition and structure	Base salary, Non-equity bonuses	Fixed Effect Regression	Mixed	No	1994-2006	United Kingdom
Pay performance sensitivity	Gan and Park, (2016).	Size, Leverage, age and tenure.	Managerial ability, options and stocks	Fixed Effect Regression	Positive	Yes	1993-2013	United States
Firm performance	Bhagat and Bolton, (2008)	Performance, Governance, Ownership and Capital structure	Return on assets, stock return, Tobin's Q, Industry performance, GIM index, BCF index, board independence, median director Dollar value ownership, median director percent value ownership,	Correlation and simultaneous equation	Positive	Yes	1990-2004	United States

			CEO chair duality. % of firm's stock owned by CEO, Leverage.					
CEO share-based pay	Steenkamp & Wesson (2018)	CEO incentives	Earnings per share Total shareholder return	Mixed model ANOVA	Decrease	No	2002-2005	South Africa
CEO pay Slice	Bebchuk,Cremers & Peyer(2011)	CEO pay Top directors compensation	Book value of assets Firm size Board characteristics Return on Assets	Fixed effects	Negative	Yes	1993-2004	Universal
Pay-performance relationship	Djebali N. and Zaghdoudi K.(2020)	CEO pay Board structure	Net Interest Margin Bank size Board size	GMM	Negative Positive	Yes	2005-2009	Tunisia
Bank size and performance	Alfadhli M. and AlAli M. (2021)	Bank size Performance	Total assets ROE,ROA	OLS	Insignificant	No	2008-2018	Kuwait
CEO and Director compensation	Chen,Georgen,Leung and Song(2019)	Ownership structure CEO pay Performance	Board characteristics Firm size Return on Assets	Fixed effects	Negative	Yes	1998-2009	United Kingdom

Compensation	Acrey, McCumber, and Nguyen (2011)	Compensation elements (salary, bonus, shares, and options)	ROA, ROE Market capitalization		Mostly None		2008	United States
Compensation	Bai and Elyasiani (2013)	Sensitivity to return on assets	volatility of ROA		Positive		1992-2008	United States
Compensation	Balachandran, Kogut, and Harnal (2011)	More equity-based pay and less nonequity pay	CEO shareholding		Positive		1995-2008	United States
Compensation	Chen, Steiner, and Whyte (2006)	More option-based pay	ROA, ROE, Stock options		Positive		1992-2000	United States
Compensation	Ntim, C. G., Lindop, S., Thomas, A., Hussein O., Kwaku K.(2017)	Performance Ownership	ROA.EPS Board size, Independent directors Bank size	Fixed Effects	Positive Negative Negative Positive	Yes	2002-2012	South Africa
Compensation	Chesney, Stromberg, and Wagner (2012)	Sensitivity to asset return volatility	Write-downs		Positive		2007-2008	United states

	DeYoung, Peng, and Yan (2013)	Sensitivity to asset return volatility Sensitivity to asset return	Equity		Positive None		1994-2006	United States
	Fahlenbrach and Stulz (2011)	Cash bonus relative to salary Sensitivity to ROA	Buy-and-hold equity pay, ROE, and ROE during crisis		None Negative		2007-2008	United States
	Jokivuolle and Keppo (2014)	Sensitivity to ROA Cash bonus per net income	Stock returns		None or negative None		2008	United States
	Vallascas and Hagendorff (2013)	CEO cash bonus	Default risk		None or negative		2000-2008	United States and Europe
Board Structure	Adams (2012)	Board independence, board size, and number of outside directorships	Bank bailouts		Positive		2008-2009	United States

	Adams and Ragunathan (2013)	Gender diversity on the board	percent of market based shares in total assets		Positive		2006-2009	United States
	Battaglia, Curcio, and Gallo (2014)	Board size Number of board meetings	Tail and systemic risks		Positive Negative		2006-2010	European Union
	Beltratti and Stulz (2012)	Shareholder-friendly board governance	Stock performance during the crisis		Negative		2007-2008	International
	Berger, Kick, and Schaeck(2014)	Executive director age Executive director education Female representation in executive board	Risk-weighted assets over total assets and loan portfolio concentration		Negative Negative Positive		1994-2010	Germany
	Erkens, Hung, and Matos (2012)	Board Independence	Independent directors, Board size		None		International	2008

	Fernandes and Fich (2013)	Financial experience of outside directors	Bank failure and bailouts		Negative		United States	2006-2007
	Ferreira and others (2013)	Management insulation from shareholders	Bank bailouts		Negative		United States	2008-2009
	Hau and Thum (2009)	Financial experience of directors	Age, Education		Negative		Germany	2007-2008
	Pathan (2009)	Shareholder-friendly governance	Equity ownership Meetings		Positive		United States	1997-2004
	Wang and Hsu (2013)	Board size Board independence Age heterogeneity Tenure heterogeneity	Operational size		Negative Negative Positive None		United States	1996-2010
Risk management/Risk culture	Aebi, Sabato, and Schmid (2012)	CRO reports to board instead of CEO	Stock performance during the crisis		Positive		United States and Canada	2007-2008

Changes in CEO pay and performance in Insurance firms before the financial crisis	Bhuyan R.,Butchey, D.,Haar, J. and Talukdar, D. (2020)	Firm size Performance Board structure Growth opportunities	Total assets ROA CEO duality CEO tenure MTBV		Positive Positive Insignificant Positive Positive		United States	2000-2006
	Fahlenbrach, Prilmeier, and Stulz (2012)	Stock return in 1998	Bank Failure		Negative		United States	2007-2009
	Beltratti and Stulz (2012)	Ownership by a large shareholder	Stock performance during the crisis		None or Positive		International	2007-2008
	Berger, Imbierowicz, and Rauch (2014)	Ownership by lower management Ownership by chief officers and outside directors	Proportion of equity shareholding		Positive		United States	2007-2010
Executive compensation	Olaniyi and Obembe(2017)	Bank size, Bank performance, Growth	EPS, Tobin's Q for growth opportunities, Total	GMM	Negative	Yes	Nigeria	2005-2012

		opportunities, board size and Leverage	board pay					

Source: Researcher using IMF(2014) as a guide.

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