

CORPORATE EMPLOYEES' COMPENSATION AND PERFORMANCE OF NON-FINANCIAL LISTED FIRMS IN NIGERIA

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Abstract

The study on corporate employees' compensation and performance of non-financial listed firms in Nigeria specifically examined the effect of employees' compensation on financial performance of non-financial listed firms in Nigeria. It covered a period of 14 years (2009-2022). This period was considered important due to the fact that a number of corporations witnessed much distress and ultimate failure within the period. *Ex-post facto* research design was employed and data used for this study were obtained from secondary source through extraction of information from the financial reports of the listed non-financial firms in Nigeria. The study considered the entire 105 listed firms. The choice of the entire population was to enhance the robustness of the study. The sample size for this study is 85 non-financial listed firms purposively selected. The study employed the Panel Corrected Standard Errors (PCSEs) regression analysis to test the hypothesized effect between corporate compensation and financial performance. The result revealed that employee compensation have mixed result and the effect on firm value shows a negative and significant effect on financial performance while the effect on returns on assets is positive. Conclusively, the study provides valuable insights into the nuances of compensation structures and their consequences on corporate financial outcomes. The findings shed light on critical factors contributing to poor corporate financial performance, including ineffective boards, suboptimal pay packages, and insufficient financial control mechanisms.

INTRODUCTION

Stakeholders' natural expectation worldwide is that firm's record and report positive performance consistently and uninterruptedly. That is, corporate entities are expected to grow perpetually in the interest of all parties involved. Corporate performance could either be financial or non-financial (Sakha, 2022). This is because a well-structured and progressively performing business entity attracts the economic attention of local and foreign (potential) investors. This is attributed to the fact that such business outfits have been well managed to give back to their stakeholders after all they have invested or contributed to existence and smooth running (Vu & Vuong, 2019).

However, the form of reward or compensation strategy employed has propensity to impact the performance of corporate establishments (Kayani & Gan, 2022), especially in the event of increasing poor corporate performance, threat of imminent collapse, coupled with skyrocketing corporate compensation and agitation for higher pay packages (Akinwumi, 2020; Keller & Olney, 2021). On the flipside, compensation to corporate workforce and other stakeholders could be driven by prospects of improved corporate performance (Lili & Loang, 2023).

Interaction between corporate compensation and the performance of firms has increasingly gained researchers' attention as much as it has also attracted the interest of professionals in the recent past. Compensation, which includes direct financial resources such as salary and wages and indirect benefits, is influenced by both external and internal factors such as the economy, labour market, business strategy, and performance appraisal among others (Milkovich et al., 2014). However, most of the existing studies such as Wang et al. (2021), Keller and Olney (2021), Kayani and Gan (2022), Adelopo et al., (2023), Ferry, He and Yang (2023) have accorded much attention to the executive compensation aspect, perhaps because of the huge pay package earmarked for the top management team. Less empirical investigation on employees and shareholders compensation has been documented in the literature. Whereas according to Milkovich et al. (2014), the four major perspectives of corporate compensation are stockholders, management, employee and society.

Consistent with agency theory, it has been advocated that reasonable compensation need be paid to the executive in order to ameliorate probable agency issues that could arise (Wang *et al.*, 2021).

In Nigeria's financial reporting clime, the issue of compensation is obvious in both private and public sectors, leading to humongous effects on the country's ability to attract foreign direct investment, poor market performance and cross-border listing restrictions. Specifically, studies have been widely carried out with major attention on financial sector and executive compensation perspective. Therefore, the current study contributes to extant knowledge with investigation into effect of compensation of employee on Nigerian firms' financial performance, in relation to those which operate outside the financial sector.

Statement of the Problem

Globally, several factors have been attributed to the poor corporate financial performance which is one of the major concerns of all business stakeholders. Some of these factors are ineffective board and pay-package, inadequate financial control, risk blindness, unwise dividend policy, new competitors, economic distress among several others. These factors have contributed to needless collapse of many viable listed and unquoted businesses (Otubelu et al., 2021).

Specifically in Nigeria, corporate compensation is significant as trepidations are raised over some directors' uncontrolled lifestyles which result in poor performance of the organization as a whole (Yusuf & Abubakar, 2014; Omoregie & Kelikume, 2017; Olaniyi & Obembe, 2015). Also, there is managers' high tendency of influencing their pays where the institutions are weak and corporate governance practices are poor.

Corporate compensation is perceived as an integral feature agency issue instead of solution (Saidu & Lawal, 2020; Akram et al., 2019). Additionally, business expansion in order to enhance future returns is also impeded by unguided compensation pay package to shareholders through excessive dividend payment (Nguyen et al., 2021).

The compensation level offered by organizations and relationship between executive remuneration and companies' financial performance are issues in corporate governance literature. By empirical means, certain authors have shown that the association between executive remuneration and firms' financial performance is positive, and of significance (Kurawa & Saidu, 2014; Opudu et al., 2022), while others have not found such relationship at all (Nenova, 2017; Akinwumi, 2020; Esthi, 2021).

In countries where shareholders monitor investment, except for those with more holdings in the firm (controlling interest shareholders), most shareholders in Nigerian companies do not monitor their investment. Due to the fact that many Nigerian shareholders are not critical of their investment, they lack relevant information on the major operational and strategic activities of the employees and board of directors (Solarin, 2021). This usually engenders a mutual relationship between the board and the CEO, resulting in collaboration to negotiate excessive compensation. The collaboration further gives CEOs the leverage to pursue strategies that best suit their personal interests against the shareholders' interests (Aina, 2013).

Summarily, most studies in Nigeria focused on corporate compensation and financial performance of listed firms with reference to either manufacturing sector or all listed firms combined (Adeusi, 2021; Adeoye et al., 2021; Akinyomi & Olagunju, 2013; Akowe et al., 2023) without specific attention on non-financial listed firms. The study examined corporate compensation and firms' financial performance of non-financial firms listed in Nigeria.

Findings from the study will guide business owners on how best to compensate the executive, employees and investors based on performance. Internal stakeholders such as corporate executives, employees and potential investors are expected to be motivated by the outcomes of the study, especially in engaging and running firms in such a way that will not result in agency conflict. The study is presumably in the interest of all stakeholders.

This study is useful to future researchers as it will serve as a point of academic reference. It will also contribute to improved decision making as well as enable relevant stakeholders to make adequate comparison which will ultimately help them to make predictions. For investment analysts and financial policy experts, this study provides another basis for measurement and review of corporate compensation in the light of recurrent financial instability and shareholders' continual desire for increase in dividends payment.

Research Question

Based on the problem identified, the study addressed the research question; how does employees' compensation affect financial performance of non-financial listed firms in Nigeria?

Objective of the study

The broad objective of the study was to examine the effect of corporate compensation on financial performance of non-financial listed firms in Nigeria. The study addressed the specific objective which examined the effect of employees' compensation on financial performance of non-financial listed firms in Nigeria.

Hypothesis of the Study

To achieve the specific objective of the study, the hypothesis, stated in null form to be tested was: there is no significant effect of employees' compensation on financial performance of non-financial listed firms in Nigeria

Scope of the Study

This study is within corporate compensation aspect of financial reporting with contextual focus on effect of corporate compensation on financial performance of non-financial listed firms in Nigeria. It covered a period of 14 years (2009-2022). This period was considered important due to the fact that a number of corporations witnessed much distress and ultimate failure within the period.

Thus, there is need to investigate the contributory role of corporate compensation. The choice of 2009 as base year was because it marked the period that efforts were made to rescue corporate entities from the effect of global financial crisis that began in 2007. Also, 2022 is regarded as terminal year for this study as a result of availability of data as at the time the study was embarked upon. As to population scope, the study focused on 105 non-financial listed firms at the Nigeria exchange group as at 31st December, 2022. This population became the subject of concern because its distinctive empirical finding still requires attention in literature.

LITERATURE REVIEW

This chapter reviews relevant literature around corporate compensation and financial performance. It captures conceptual review, theoretical review, and empirical review which paved way for the identification of gap in literature that the study intends to fill.

Conceptual Review

Financial Performance

Financial performance is largely described as the extent to which firms use their assets to generate revenues (Adeoye et al. 2021). It is any company's financial situation in a time period, and this includes use of funds. It is measured with a number of indicators, including capital adequacy ratio, liquidity, leverage, solvency, and profitability (Fatihudin, 2018).

It is a quantitative means through which a corporate entity is being evaluated after a given reporting period other than non-financial performance indicators. Financial performance measures help stakeholders to assess management on how it has employed and utilized resources committed into its care during a financial period. It can be measured with methods that allow the calculation of details of firms' effectiveness in the use of assets (Mochklas & Teguh, 2018).

As corporate financial performance can be affected or influenced by myriad of controllable and non-controllable, endogenous and exogenous parameters, it also has consequential impact on market-based and accounting-based measures.

That is, corporate actions such as compensation policy, production/sales policy, governance and externalities such as tax and fiscal policies, natural occurrences among others are potential drivers of firm (financial or non-financial) performance.

Meanwhile, these actions/policies consequently determine accounting-based measure of performance as well as market-based processes. In order to evaluate firm financial performance, researchers adopt accounting-based methods, which are return on assets (ROA), return on equity (ROE), return on sales (ROS), and return on investment (ROI) or market-based methods such as Tobin's Q and market return which indicate the market value or the share of the firm as well as the financial prospect of the firm in the future (Gentry & Shen, 2010; Didin et al., 2018).

Accounting-Based Financial Performance

Assessment of financial performance using accounting-based measures has been traced to quantitative approaches (Marin, 2018). Over time, greater emphasis was given to application of non-financial measures to report business performance (Malik et al., 2019). At the level of operations, performance management is conducted by using specific performance indicators (Gill et al., 2018).

The following accounting measures of performance are engaged to assess financial health: gross profit margin, net profit margin, operating cash flow, working capital, current ratio, quick ratio and debt-to-equity ratio.

Market-Based Financial Performance

Market based performance measures reveal aspects of shareholders' expectations about company's future performance (Wahla et al. 2012; Shan & McIver, 2011; Ganguli & Agrawal, 2009). Hence, market measures focus on the stock market's evaluation of the firm's performance. The performance measures most commonly engaged are stock price and earnings per share.

Use of market-based performance measures is premised on the fact that it reflects firms' financial performance fairly compared to the accounting-based measures. Market-based measures differ from the accounting-based measures because they focus on present value of future income inflow, but accounting-based measures are directed at past firm performance (Wahla et al., 2012).

Corporate Compensation

Corporate compensation refers to the payment and rewards given to employees in a company in exchange for service rendered (Martin et al. 2019). It includes salary, bonuses, benefits, and stock options, among others. Corporate compensation attracts, retains and motivates employees to perform better, which ultimately drives the growth and success of the company. Directors of any company play a strategic part in setting compensation packages (Malik et al., 2019; Gill et al., 2018).

This process involves evaluating the performance of the employees and comparing it to the industry benchmarks and best practices. Compensation committees oversee this process to ensure that the executive are paid fairly and that company's interests are in alignment with shareholders' interests.

Another one is the Say-on-Pay rule, which is a provision in the Dodd-Frank Act stipulates that public companies hold an unbinding shareholder vote on executive remuneration package. The purpose of this provision is to give shareholders a greater voice in the executive compensation process and to raise the board of directors' accountability. Hence, corporate compensation is critical aspect of corporate governance because it influences the attraction, retention and motivation of employees.

Executive Compensation

Executive remuneration comprises financial and non-financial benefits that executive employees earn for their productive contribution to organizations (Kim et al., 2017). This is made up of fixed salary, cash, and other stock options (Emmanuel et al., 2017).

In general, the board of directors sets executive compensation through a committee which consists of autonomous directors. The purpose of the committee is to motivate the executive team to drive the mission and vision of the organization. Company executives are mainly decision makers, corporate strategists and value creators. Consequently, incentives motivate them to adopt strategies that facilitate investments and take actions that increase shareholder value.

Preceding studies have established that full executive remuneration is in two models (Ntim et al., 2019; El-Sayed & Elbardan, 2016). The first is total fixed cash remuneration which comprises base salary, annual bonus, contributions, and benefits. The second compensation is equity-based, that is, value of equity granted, and incentive plans. Equally, Singh et al. (2021) have reported that executive officers play a significant role to advance corporate growth, and development. Since they have been observed to generate profits for shareholders, they are entitled to fixed remuneration and performance-based remunerations.

Employees Compensation

Employee compensation refers to the total rewards or benefit that an organization offers to its employees in exchange for their services rendered to the organization (Sudiardhita et al., 2018). It includes various forms of financial and non-financial benefits such as wages, salaries, bonuses, benefit packages (health insurance and retirement savings plans), paid time off, and others. Conceptually, employee compensation is important for organizations as it can positively impact employee motivation, retention, and job satisfaction (Barde & Zik-Rullahi, 2020).

One way that employee compensation can positively impact motivation is through the use of performance-based incentives such as bonuses and commission structures (Marin, 2018). These types of compensation encourage employees to work harder, produce better quality work, and ultimately improve their job performance (Bigelow et al., 2018).

Additionally, providing regular salary increase and promotions can make employees feel valued and recognized for the work they do, leading to improved job satisfaction (Askoy, 2021). Employee compensation can also impact retention as organization packages are more likely to retain their employees.

Employees who are satisfied with their compensation are less likely to leave the organization, reducing turnover and its associated cost (Kim & Lee, 2018). Furthermore, offering benefits such as flexible work arrangement and paid time off can demonstrate to employees that the organization values work-life balance and cares about their well-being, leading to increased retention rates (Hlaing & Stapleton, 2022).

Another important consideration for employees' compensation is impact on equity and fairness. Organizations that offer compensation packages that are perceived as fair and equitable are more likely to have motivated and engaged employees (Colquitt et al., 2005). Conversely, pay inequalities and unfair compensation practices can lead to decrease morale and dissatisfaction among employees.

Employee compensation includes but not limited to bonus, employee stock ownership, profit and gain sharing, and broad-based stock options, which is otherwise known as shared capitalist compensation (Freeman et al., 2010).

Shareholders' Compensation

Another form of corporate compensation is shareholders compensation. Shareholders compensation refers to the reward received by shareholders in the form of dividends, stock options, or other forms of shareholders rights.

This is very crucial as it helps to motivate investors to invest in the firm and engage in long-term relationships. It is also a way for firms to reward investors for taking the risk to invest in the company (Adegboji & Ajidahun, 2016). It is also referred to as equity compensation. It is a way or process of providing employees with an ownership stake in a company in exchange for their service (Al'azhary et al., 2022; Singh et al., 2021).

It is a means of rewarding ownership for their contribution towards the success of the company. It refers to the compensation given to owners or shareholders of a company for the risk they take and the work they do. The concept ensures that business owners are incentivized to take calculated risks and make wise decisions that will lead to the growth. Some of the various types of ownership compensation will also be reviewed (Marin, 2018).

Executive Compensation and Financial Performance

Compensation is an indispensable feature in corporate governance. It exerts impact on firm performance and growth. It is suggested that executives with high talents should receive higher pay as motivation in anticipation of better and improved performance (Anginer et al., 2019). On this basis, higher remuneration for executive is seen as beneficial (Craig et al., 2020). From another perspective, the agency and stakeholder theories prescribe high executive remuneration in comparison to low or average employee compensation which tends to reduce employee morale, dedication, and creativity.

The consequence of such action is fall in corporate productivity and performance. Higher executive pay could therefore be damaging to corporate performance.

Employee Compensation and Financial Performance

Employee performance has been defined based on behaviours or activities that are associated with the goals of an organization (Salah, 2016; Awang et al., 2010). The mission of organization and judgments of the behaviours made by the managers or supervisors in the organization are often used to identify these goals.

Moreover, employee performance is the action or behaviour itself and not the result of actions or a consequence. That is to say, the conceptualization of employee performance is premised on the well-being and functionality of the employee rather than the output of the work (Asfaw et al., 2015; Kum *et al.*, 2014; Dziuba et al., 2020).

Shareholders Compensation and Financial Performance

Shareholders' characteristics are significant in the efforts addressing organizational issues. Size and composition of board of directors serve as a vital mechanism for setting executive compensation. But when non-executives dominate board composition, they tend to introduce know-how and dynamism to the firm. Similarly, they also monitor and control managers' actions.

THEORETICAL REVIEW

Agency Theory

Jensen and Meckling (1976) are credited with the agency theory which refers to firms as the 'black box.' Both Jensen and Meckling submitted that no single theory explains the way in which objectives of participants are brought to equilibrium for value maximization. Agency relationship is defined as contract in which two or more individuals (the principal(s)) and another individual (the agent) are engaged in business which involves delegation of decision-making authority. Both parties are utility opportunists.

The theory relates financial reporting since it helps to resolve information asymmetry (Filalotchev & Boyd, 2009). This study views executive and employees compensations as means to enforce a contract between principal and agent (Grabke-Rundell & Gomez-Mejia, 2002). Thus, the theory has become an appropriate basis for the explanation of the connection between executive remuneration and corporate financial performance in line with objective one of this study.

Managerial Power Theory

This theory is attributed to Burnham (1960). It is posited that market forces exert influence on executive compensation and make contract attainment difficult. This gives executives the opportunity to swing compensation modalities as well as extract rents (Bebchuk et al., 2002).

However, where managers possess relatively some more power and authority, Anjam (2010) argued that executive pay has little effect. Bebchuk and Fried (2004) conclude that CEOs have influence over the board of directors in the determination of pay.

According to Bebchuk and Fried (2004), when the power of CEOs supersedes that of board of directors, CEOs dominate negotiation. This implies that they will negotiate for pay at firm's expense. In the present case, the board of director tends to lose monitoring responsibility. While CEOs maximize their interests through negotiation for higher pay, shareholders are not privileged to employ such power. This study applied managerial power theory because it gives insight into CEO power and management influence on pay determination.

Stakeholder Theory

The theory was progressively developed by Freeman (1984), and it relates with corporate accountability on a broad range of issues surrounding stakeholders. According to Rehman (2016), stakeholder theory is the product of sociological and organizational disciplines. Unlike the agency theory by which managers serve stakeholders, proponents of stakeholder theory propose that managers have a system to serve suppliers, employees and business partners. It argued that the network is important (Wheeler *et al.*, 2017).

Kamran et al. (2019) confirm that the theory attempts to address a group of individuals that deserve management's attention. Meanwhile, the objective of all business stakeholders is to obtain paybacks. The business firm is a system for the creation of wealth its stakeholders (Babalola, 2014). Stakeholder theory acknowledges that there are diverse stakeholders who are keenly interested in the behaviour of companies. (Hafeez et al., 2018).

To this end, companies consider the interest of their stakeholders and they voluntarily disseminate required information to satisfy their needs (Micah et al., 2012). Hence, the development of stakeholder theory provides full support for corporate compensation (Affes & Jarboni, 2023). However, the study was hinged on stakeholder's theory on the grounds that the executive, employees and shareholders are part of corporate stakeholders whose interests are of paramount importance to the sustainability of firms' performance.

EMPIRICAL REVIEW

Employee Compensation and Financial Performance

Yan and Sloan (2016) focused on employee compensation and financial performance of organisation. It was also established that the existence of collective impact of employee pay and financial performance on organisations' sources of fund. However, the study did not include firms on any stock exchange. It only investigated non-profit organisations which have no competitive business rivals. Nyawa (2017) investigated the effects of Compensation on employee Productivity, in Kenya Literature Bureau in Nairobi.

The target population is one hundred and fifty (150) employees of Kenya Literature Bureau South. By random sampling, a sample size of 45 respondents was pooled into the study. Findings reveal that compensation strategies increase employee motivation and morale.

Although Nyawa's (2017) study is a case of non-financial establishment, the study employed primary data which might be fraught with subjectivity. A study of that nature would have relied on secondary data for robustness and accuracy. The sample size is also considered small.

Craig et al. (2020) investigated employee compensation and the performance of five Nigerian firms. A statistically significant relationship was found in the interaction among the following variables: staff salaries, post-employment benefits, and profit after tax. In a study designed to test employee compensation, and training effect on the financial performance, Mahssouni *et al.* (2022) engaged both panel data and Generalised Methods of Moments for analysis. The study revealed that emergence of Covid-19 exerted a strong negative impact on both employee compensation and corporate financial performance.

A test of the two variables would have given a clearer dimension and impact of each variable. Kim and Jang (2020) engaged a study of the effect of employee compensation on firm's financial growth. It drew annual financial data from 58 public restaurants, covering 1995-2018. The researchers employed time series to analyse the relationship between employee compensation and firm revenue. It found a progressive increase in employee compensation over the period under study.

Another study involving commercial banks in Nepal investigated the extent of correlation between workforce compensation and financial performance (Sakha, 2022). Using a string of econometric, descriptive, correlational and trend analyses, the study found a positive impact of employee compensation on the financial performance of the selected firms. It was also found that size of firm negatively affects banks' financial performance. The study was set in Nepal and did not indicate the total number of banks and respondents selected. The current study is set in the non-financial sector, but Sakha's study concentrated on the Nepalese financial sector.

In yet another study, Abebe (2018) assessed the effect of compensation on employee productivity in an Addis Ababa food manufacturing factory, using a combination of descriptive and explanatory types of research design. The study incorporated primary data and used correlation and regression. It revealed that financial compensation has a significant effect on employee productivity on the one hand. On the other hand, non-financial compensation was shown to have an insignificant relationship with employee productivity. The study focused essentially on three variables namely: financial compensation, non-financial compensation and employee productivity, though not in a listed company. The study, however, did not give any significant attention to corporate financial performance,

A study (Obieze, 2018) investigated the influence of compensation management practices on employee performance. The study used primary data, and a single regression was conducted on the research hypotheses. Results had it that employee pay has a strong effect on employee performance. Similarly, allowances were revealed to have significant impact on employee performance. Results overall showed that compensation policy exerts a significant effect on employee performance among bank employees. The study only examined employee compensation in financial institutions not non-financial. Furthermore, it examined compensation management and employee performance.

Subekti and Sumargo's (2016) showed that compensation has positive effect on financial performance of firms selected from the stock exchange in Indonesia. Results of the study can only be generalized in part to listed Indonesian firms. Moreover, the study combined three variables: family management, compensation and financial performance. Although it aligns with objective two of the ongoing study, the researchers made no indication of the sectors in which the selected firms operate.

Gap in Literature

Corporate compensation and financial performance of non- financial firms in Nigeria has not been given robust attention by Nigerian researchers. Most documented studies are rooted in foreign economies other than Nigeria. Moreover, a large volume of available studies investigated employees and CEO compensation (Alqahtani et al., 2019; Do et al., 2022). There has been no significant attention by researchers to studies that consider shareholders' compensation as an integral feature of corporate compensation. Moreover, past studies have reflected a diversity of methodological approaches and dissimilarities in data types and range, consequently leaving some gaps in the empirical literature on corporate compensation and financial performance. Such diversities are attributable to inconclusive results.

Not many studies have investigated the combined effect of corporate compensation on financial performance among non-financial listed firms in Nigeria, using proxies such as executive, employees and ownership compensations. Insufficiency of studies on these proxied variables is a gap. This study therefore attempts to examine the effect of corporate compensation on financial performance of non-financial listed firms in Nigeria for a period of 14 years using both accounting and market based measures of performance. The current study is significant because it gives scientific insight into a fresh practice of investment decision making among stakeholders in listed firms in the non-nancial sector.

METHODOLOGY

Research Design

Since the study is an investigation of the existing performance of selected corporate firms, *ex post facto* design is accordingly preferred.

To achieve the objective of this study, the study considered the entire 105 listed firms. The choice of the entire population was to enhance the robustness of the study.

The sample size for this study is 85 non- financial listed firms. The sample size was achieved after purposively selecting firms that met the selection criteria adopted. The criteria were introduced to eliminate firms that did not adequately meet the requirements of the study.

The criteria are stated as follows: Firms that were incorporated after 2009 which was the base year of the study were not used in the study. This criterion led to the elimination of 11 firms. The second criterion was to eliminate firms that were suspended or not active as at the end of 2022. This also disqualified 9 firms that failed the test. Thus, only the key players and firms that had all relevant data due to continuous existence were included in the sample. The Table

3.1 shows a summary of the schedule of selection and determination of sample size. The empirical model for this study was based on measures of corporate compensation (independent variables) proxy being employee compensation and financial performance (dependent variable) being proxies by using return on assets. This study adopted a similar model as in the study of Abdul-Kareem (2016). The model was chosen because it would help to achieve the specific objectives of the study and test the hypothesis earlier formulated. The functional specification of model assumed the following form:

$$FP = f(EXC, EMC, SHC)$$

The regression specification of model in general form is econometrically as follows:

$$ROA = \beta_{0it} + \beta_1 EXC_{it} + \beta_2 EMC_{it} + \beta_3 SHC_{it} + \mu_{it} \dots \dots \dots Eqn (2)$$

$$Tobin's Q = \beta_{0it} + \beta_1 EXC_{it} + \beta_2 EMC_{it} + \beta_3 SHC_{it} + \mu_{it} \dots \dots \dots Eqn (3)$$

Where:

ROA= Return on Asset proxy dependent variable.

Tobin's Q = Tobin's Q

EXC= Executive Compensation

EMC= Employees Compensation

SHC= Shareholders Compensation

it = Time subscript for panel data

μ = Error Term

β_0 = Intercept

$\beta_1 - \beta_5$ = Coefficient of the Parameters

***A priori* Expectations:**

The *a priori* expectations are as follows:

$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_4 > 0.$$

Measurement of Variables

Past empirical studies helped to determine the choice of variables for this study. The independent variable is corporate compensation which is being represented by non-financial listed firms as employees' compensation, The dependent variable is performance, and is measured by return on asset (ROA) and Tobin's Q.

Data analysis Techniques

The study employed the Panel Corrected Standard Errors (PCSEs) regression analysis to test the hypothesized effect between corporate compensation and financial performance. The study similarly employed Stata as the tool for data analysis. The study relied on secondary data

obtained from the annual reports and accounts of the non-financial listed firms in Nigeria over the period 2009-2022. Robustness tests such as normality test of error term, multicollinearity and heteroscedasticity tests were conducted to validate the results.

To examine the effect of employees' compensation on financial performance of non-financial listed firms in Nigeria

The model to determine the effect of employees' compensation on financial performance is stated as (6)

$$ROA_{it} = \beta_{0it} + \beta_1 ECR_{it} + \mu_{it} \dots \dots \dots Eqn (6)$$

$$Tobin's Q_{it} = \beta_{0it} + \beta_1 ECR_{it} + \mu_{it} \dots \dots \dots Eqn (7)$$

Where:

ROA_{it} = Return on Asset proxy for dependent variable

Tobin's Q_{it} = Tobin's Q

EE = Employees cost ratio

β_1, β_2 = Coefficient of the Parameters

DATA PRESENTATION, ANALYSES AND DISCUSSION OF FINDINGS

Data Presentation

Descriptive Statistics

Table 1: Descriptive Statistics

	TQ	ROA	FSZ	DOWN	DRNM	EMPR	DPS	DPVR
Mean	1.7686	4.4624	7.0668	20.9013	-0.2865	0.42866	1.1942	1.0063
Std. Dev	2.0146	14.3292	0.8811	26.9846	0.7301	0.2812	4.5180	1.7248
Coeff.V	1.1391	3.2110	0.1246	1.2910	-2.5476	0.6562	3.7830	1.7138
Minimum	0.09	-39.61	4.25	0	-2	-0.9641	0	-8.23
Maximum	11.89	56.82	9.45	136.48	4.2552	0.9999	68.2	45
Sum	1881.81	4748.09	7519.1	22239.04	-304.941	456.0963	1270.73	1070.79
Skewness	2.9488	0.4167	0.0667	1.2941	0.3521	-0.0738	9.0176	15.2097
Kurtosis	12.60056	6.236206	2.693077	3.803253	5.70808	4.542894	108.2498	400.6005
Jarque-Bera	290.627	501.207	4.853	327.112	351.616	108.283	48.521	19.057
Probability	0.0000	0.0000	0.088	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	1064	1064	1064	1064	1064	1064	1064	1064

Source: Researcher's Computation (2024)

Table 1 shows that employee ratio of the company total profit on the average of 0.4286619 with standard deviation of 0.2812934 and this imply high variation in the employee cost ratio of the of the sampled listed non-financial firms considering its distance to the mean. The coefficient of variation imply over 65 percent variation with the minimum value of -0.964101 and the maximum is 0.9999.

Effect of Executive Compensation on Financial Performance of Non-Financial Listed Firms in Nigeria

In order to achieve the specific objective of the study which is to find out the effect of executive compensation on financial performance of non-financial listed firms in Nigeria, the variables involved were first tested to ensure they are fit for statistical analysis and will produce empirical results that is capable of drawing good inferences. The hypothesis formulated to achieve the objective is subsequently tested and the result presented thereof.

Table 2: Executive Compensation and Financial Performance

	OBS	TBQ	ROA	DOWN	DRNM	FMZ
TBQ	1064	1.0000				
ROA	1064	0.1960* (0.0000)	1.0000			
DOWN	1064	-0.1087* (0.0004)	-0.0965* (0.0016)	1.0000		
DRNM	1064	-0.0756* (0.0137)	-0.0656* (0.0324)	0.1618* (0.0000)	1.0000	
FMZ	1064	0.0414 (0.1773)	0.0806* (0.0085)	-0.2261* (0.0000)	-0.5199* (0.0000)	1.0000

Source: Researchers' Computation (2024). * 5 percent; ** 10 percent

Effect of Employee Compensation on Financial Performance of Non-Financial Listed Firms in Nigeria

In order to achieve the specific objective of the study which is to find out the effect of employee compensation on financial performance of non-financial listed firms in Nigeria, the variables involved were first tested to ensure they are fit for statistical analysis and will produce empirical results that is capable of drawing good inferences. The hypothesis formulated to achieve the objective is subsequently tested and the result presented thereof.

Test of Variables

Pairwise Correlation Matrix of Effect of Employee Compensation on Financial Performance of Non-Financial Listed Firms in Nigeria

The correlation results showing the relationship between executive compensation and financial performance of non-financial listed firms in Nigeria are presented in Table 4.10

Table 4.10: Executive Compensation and Financial Performance

	OBS	TBQ	ROA	EMPR
TBQ	1064	1.0000		
ROA	1064	0.1960*	1.0000	
		0.0000		
EMPR	1064	-0.0415	0.0756*	1.0000
		0.1763	0.0136	

Source: Researchers' Computation (2024). * 5 percent; ** 10 percent

Discussion of Findings on the Effect of Employee Compensation on Financial Performance of Listed non-Financial Service Firms in Nigeria

The result revealed by the study indicated that employee compensation have mixed result and the effect on firm value shows a negative and significant effect on financial performance while the effect on returns on assets is positive. The results were therefore compared with existing empirical literature to establish if the findings form consensus to existing results and if there are differences, establish the possible reasons for the difference.

This findings aligned with the results of Craig et al. (2020) which investigated employee remuneration and the performance of selected Nigeria manufacturing companies and the findings revealed that there is a statistically significant relationship between staff salaries, post-employment benefits, and Profit after tax of selected Nigeria manufacturing companies. It further support the result of Kim and Jang (2020) that studied the effect of employee compensation on firm's financial growth in the restaurant industry. It found a progressive increase in employee compensation over the period under study.

CONCLUSION

Improved financial performance is the ultimate objective of owners of business, but the motivation behind it is compensation that is considered commensurate. This includes all corporate stakeholders' expectation such as executive, employee and shareholders. Much evidence based on existing studies, which has mixed conclusions, abounds to show the correlation between compensation and financial performance of quoted firms. Therefore, it is evident from the study that market value has no strong link with these variables. Evidence from the study affirms and supports the effect of compensation on financial performance of non-financial firms with listing on the Nigerian Stock Exchange.

With a focused investigation into the impacts of employees' compensation, the study provides valuable insights into the nuances of compensation structures and their consequences on corporate financial outcomes. The emphasis on compensation issues within Nigeria, particularly concerning non-financial listed firms, makes this study highly relevant to the local business landscape. The findings shed light on critical factors contributing to poor corporate

financial performance, including ineffective boards, suboptimal pay packages, and insufficient financial control mechanisms. Thus, the study concluded as follows:

Drawing from the correlation analysis, the study concluded that corporate compensation proxies examined in this study majorly have very weak positive and negative relationship with both measures of firm financial performance of Tobins' Q and Return on Asset. This form the basis for further regression analysis.

As to the effect of employees' compensation, based on the findings of the current study, it is concluded that employee compensation has decreasing influence on the firms' market values but increases the firms' returns on assets. This shows that employee compensation has significant but diverse effect on firm value and returns.

Recommendations

Based on the study's findings, this recommendation emerge for stakeholders in the Nigerian business landscape as follows:

1. Firms' attention should be directed to strategies to improve financial performance and motivation of employees through productive or enhancing financial incentives. Along this line, a committee consisting of the firm's accountant and a few highly skilled managers should be constituted and charged with the mandate of stimulating strategies that improve firms' financial performance viz a viz compensation paid to the employee.

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