http://journals.uonbi.ac.ke/index.php/adfj
ISSN 2522-3186

African Development Finance Journal http://journals.uonbi.ac.ke/index.php/adfj
August Vol 8 No.7, 2025 PP 21-38 ISSN 2522-3186

Corporate Governance, Firm Performance, and CEO Compensation

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Abstract
Corporate governance is crucial for shaping policies and decisions in emerging economies like Nigeria. A key focus is executive compensation, which should align executives' interests with those of shareholders to boost firm performance. However, in many developing markets, weak governance, high executive pay, and limited accountability raise doubts about the effectiveness of these compensation systems. The effect of corporate governance and firm performance on CEO compensation in Nigeria remains underexplored mainly, especially within the non-financial sector, which constitutes a significant part of the Nigerian economy. Non-financial firms operate across diverse sectors with unique regulatory and competitive landscapes, making it essential to investigate how board structures impact CEO compensation within this context. This study examined the influence of corporate governance and firm performance on CEO pay among listed Nigerian non-financial firms, utilising a panel dataset of 28 firms spanning 2011 to 2023. Guided by agency theory, the study explores how board attributes—precisely board and board independence—and corporate performance metrics, measured by return on enterprise value and assets (ROA), influence CEO compensation. Employing the System Generalised Method of Moments for analysis, the results reveal that firm performance significantly positively affects CEO compensation. In contrast, board size shows no significant impact, while board independence negatively affects CEO compensation. These results highlight the nuanced interplay between governance mechanisms and executive remuneration in the Nigerian corporate context. Based on the findings, the study recommends empowering shareholders with voting rights on CEO compensation packages during annual general meetings to ensure alignment between executive pay and shareholder interests, fostering improved corporate accountability.

Keywords: *Agency theory, CEO, Enterprise value, Return on Assets*

1. Introduction

Corporate governance has attracted considerable attention in academic and industry circles owing to its crucial role in enhancing firm performance, aligning the interests of management and shareholders, and fostering transparency. As the primary governance body, the board of directors oversees management, including setting CEO compensation. An effective board can align executive pay with firm performance, while a weak board may allow excessive compensation not

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justified by performance. In recent years, the discussion surrounding the effect of board attributes on CEO compensation has intensified, particularly in emerging economies like Nigeria, where governance practices are evolving and the regulatory landscape is continually developing (Mallin, 2019; Oke & Babalola, 2023).

The Chief Executive Officer (CEO) is the highest-ranking executive within an organization, tasked with overseeing operations, making significant corporate decisions and serving as the principal conduit of communication between the company's operational framework and the board of directors. Executive compensation encompasses the various benefits that executives receive from the organization, which include, but are not limited to, salaries, bonuses, and share options. Executive compensation contracts are designed to integrate implicit incentives that encourage executives to enhance corporate performance and maximize shareholder value (Solomon, 2020; Ibeawuchi & Onuora, 2021).

Two essential components of board structure are size and board independence. The size of a board significantly affects its effectiveness, the quality of decision-making, and its ability to monitor and control managerial actions. Board size varies significantly across firms and industries (Mallin, 2019). Agency theorists argue that larger boards may be less effective in monitoring the CEO, potentially leading to increased compensation less tied to performance. Jensen (1993) states that when a board becomes too large, it can lead to difficulties in coordination and increase the likelihood that a CEO can exert control. This is often a result of director shirking and free riding. In contrast, Resource Dependence Theorists suggest that larger boards provide greater resources, expertise, and networks, which can justify higher CEO compensation (Pfeffer, 1972; Naciti, 2019). However, Managerial Power Theorists contend that a powerful CEO can exert significant influence over a larger, less coordinated board, resulting in elevated pay (Marie L'Huillier, 2014). As quantified by the non-executive or independent directors' ratio, board independence is crucial for effective governance. Independent directors deliver impartial oversight and alleviate agency conflicts, ensuring that managerial actions align with shareholder interests. Non-executive directors are responsible for assessing the CEO's performance by setting clear metrics and regularly reviewing outcomes to ensure alignment with the organization’s strategic objectives and shareholder expectations. They create compensation packages that tie bonuses to long-term goals,

linking pay directly to performance and shareholder value creation. By overseeing executive actions, Non-Executive Directors help mitigate reckless behavior that could threaten the organization's financial health. They implement a management framework and promote a culture of ethical decision-making and accountability (Mallin, 2019; Solomon, 2020).

"Firm performance" pertains to how effectively a company achieves its objectives, typically evaluated through financial and non-financial metrics. Agency theory posits that CEOs, acting as agents, may not always prioritize the best interests of shareholders, who are the principals. To mitigate this agency problem, companies frequently establish compensation packages that align CEOs' incentives with the firm's performance. Performance-based compensation—such as share options, bonuses, and profit-sharing—motivates CEOs to enhance shareholder value (Jensen & Meckling, 1976). Conversely, the theory of managerial power indicates that CEOs often significantly influence their compensation, which can result in inflated salaries that are disconnected from firm performance. Despite poor company performance, powerful executives may negotiate higher salaries, bonuses, and perks. This scenario raises concerns regarding deficiencies in corporate governance (Bebchuk & Fried, 2005, 2006),

1.2 Research Problem

The Financial Reporting Council (FRC) (2018) establishes guidelines for CEO compensation, highlighting the necessity of linking rewards to individual and company performance. This framework emphasizes that a substantial portion of the compensation should be tied to long-term business performance, such as share options and bonuses. Unfortunately, the reporting standards for listed Nigerian firms fall short of the FRC's requirements. Although nearly all Nigerian companies disclose the remuneration of their highest-paid executive, none offer a comprehensive breakdown of that compensation (Olalekan & Bodunde, 2015; Shitta-Bey et al., 2020).

The recent trend of increasing CEO compensation in publicly listed non-financial firms in Nigeria has generated significant debate and concern. Advocates argue that substantial pay motivates CEOs to perform at higher levels. At the same time, critics assert that it results in excessive wealth extraction for executives without a corresponding improvement in firm performance. This discrepancy raises important questions about the effectiveness of current CEO compensation

frameworks in fostering positive outcomes for both firms and their stakeholders (Olalekan & Bodunde, 2015; Buachoom, 2017; Abdulkadir, 2021).

Previous studies such as Conyon (2014), Al Farooque et al. (2019), Edeh (2020) and Yang et al. (2020) have produced mixed results, with some finding no significant effect on CEO compensation. This study aims to provide empirical evidence on whether corporate governance and firm performance significantly influence CEO pay in Nigerian-listed non-financial firms. Given the strategic importance of non-financial firms in Nigeria's economy, examining how corporate governance and firm performance affect CEO compensation is essential. This study investigates how corporate governance and firm performance impact CEO compensation in listed Nigerian non-financial firms.

1.3 Research Hypotheses

The following alternative hypotheses were formulated to address the study's objectives.

H_{11}: board size significantly affects the CEO compensation of listed Nigerian non-financial firms.

H_{12}: board independence significantly affects CEO compensation of listed Nigerian non-financial firms.

H_{13}: Return on assets significantly affects the CEO compensation of listed Nigerian non-financial firms.

H_{44}: Enterprise value significantly influences the CEO compensation of listed Nigerian non-financial firms.

2. Theoretical Framework

The agency theory underpins the study.

2.1 Agency Theory

Agency theory focuses on the dynamics of the relationship between principals—those individuals who delegate tasks—and agents—those who execute tasks on behalf of the principals. This theory investigates the conflicts and challenges that emerge when the interests of principals and agents

are not adequately aligned. The concept holds significant importance in business environments, as exemplified by the relationship between shareholders, who assume the role of principals, and company executives, who act as agents (Jensen & Meckling, 1976; Babalola et al., 2023). Agency theory emphasizes the significance of compensation structures that align the interests of Chief Executive Officers (CEOs) with shareholders' objectives. Implementing a combination of performance-based remuneration by linking a substantial portion of CEO remuneration to performance metrics, such as share price, return on assets, or other profit-based metrics, complemented by stringent oversight from an independent board, enables shareholders to motivate CEOs to make decisions that are beneficial for both parties and aligned with the long-term success of the company. The primary objective is to construct CEO compensation packages that address agency issues, reduce agency costs, and promote sustained value creation (Oke & Babalola, 2023; Aljughaiman et al., 2024).

2.2 Empirical Review

2.2.1 The effect of CEO Compensation on firm performance

Conyon (2014) examined CEO compensation's effect on organizational performance in the United States from 1992 to 2012. To evaluate firm performance, the researchers employed two key metrics: return on assets (ROA) and shareholder returns. The data analysis was conducted using the ordinary least squares (OLS) regression method. The results revealed that firm performance—ROA and shareholder returns- significantly positively affect CEO total compensation.

Al Farooque et al. (2019) examined the relationships between corporate governance, corporate performance, and CEO remuneration in Thailand's publicly listed firms. The research employed a substantial sample size of 432 firms from 2000 to 2011. To assess firm performance, the researchers selected several key financial metrics, including return on Tobin's Q, equity (ROE), return on stocks (ROS), and return on assets (ROA). The data analysis was conducted using the dynamic generalized method of moments (GMM) regression technique. They found that corporate performance significantly positively affected CEO total compensation.

Edeh (2020) used OLS to investigate the influence of CEO pay on organizational performance. The sample comprises thirteen (13) quoted commercial banks between 2010 and 2017. They found

that CEO remuneration measured by salary and bonus shares has no effect on CEO compensation and organizational performance proxied by ROE, ROA, and Tobin's Q.

Yang et al. (2020) investigated the effect of company size and performance on CEO compensation. The study focused on 225 publicly listed companies in Canada from 2012 to 2014. The data analysis was conducted using the OLS regression technique. Firm performance was proxied by total shareholder return (TSR), return on equity (ROE), overall shareholder value and return on assets (ROA). The findings revealed that neither return on assets, equity, total shareholder return, nor shareholder value had a statistically significant impact on CEO cash and total compensation packages.

2.2.2 The Impact of Board Attributes on CEO Remuneration

Olaniyi and Obembe (2017) examined the factors influencing the compensation of Chief Executive Officers (CEOs) within a sample of 11 publicly listed banks in Nigeria, covering a time frame between 2005 and 2012. They employed a dynamic panel generalized method of moments (GMM) to analyze the data. The researchers focused on several key determinants of CEO compensation, including firm performance measured by Earnings per Share (EPS), board size, independence, bank size, the CEO's tenure, and the CEO's age. Their findings revealed that board size does not affect the compensation of CEOs. Conversely, they found a significant inverse correlation between board independence and CEO remuneration.

Rehman et al. (2021) employed the Generalized Method of Moments (GMM) to investigate the relationship between corporate governance, CEO pay, and the corporate performance of 860 listed Chinese non-financial companies, spanning 2004 to 2018. To assess corporate governance, the researchers focused on key indicators, including CEO duality, board independence, and board size. Their findings revealed that board independence and size significantly positively affect CEO remuneration.

Jatana (2022) investigated the influence of corporate governance on executive remuneration, utilizing a sample of 196 publicly listed Indian companies from 2010 to 2019. The analysis employed the random effects estimation technique. The results show that board independence

significantly positively impacts CEO remuneration. In contrast, board size has an insignificant impact on total CEO compensation.

Aljughaiman et al. (2024) used the OLS regression technique to explore the influence of board structures on CEO compensation. The study encompassed 65 banks operating across 11 countries in North Africa and the Middle East, covering data between 2009 and 2020. In their analysis, the authors measured board structure through two primary variables: board size and independence. The results showed that board size positively and significantly impacts CEO compensation. Conversely, the study found that board independence negatively influences CEO compensation.

3. Methodology

3.1 Population, Scope, Sample Size, and Sources of Data

The sample comprises 28 listed Nigerian non-financial firms listed between 2011 and 2023. The data for this analysis was sourced from the annual reports published by these companies.

3.2 Model Specifications

$CEO_{it} = \beta_0 + \beta_1 BSZ_{it} + \beta_2 BND_{it} + \beta_3 ROA_{it} + \beta_4 ENT_{it} + \beta_5 FAGE_{it} + \beta_6 FSI_{it} + \mu_{it}$

Where:

CEO = CEO compensation,

BSZ = Board Size

BND = Board Independence

ROA = Return on Assets

ENT = Enterprise Value

FAGE = Firm Age

FSI = firm size

μt = error term

$\beta 0$ = represents the constant $\beta 1$ -$\beta 6$ = represents the coefficient of the independent variables

β_0, β_1, β_2, β_3, β_4, β_5, and β_6 = Model Intercept

4. Data Analysis and Results

4.1 Descriptive Statistics

Table 4.1: Descriptive statistics

VARIABLES	MEAN	MIN.	MAX.	STD. DEV.	OBS. (N)
CEO Compensation (₦' 000)	84,594.376	59979.12	888,000	121,000	364
Return on Assets	4.0170	-54.8600	53.9600	11.330	364
Enterprise Value (₦' 000000)	237,000	-890,000	5,970,000	740,000	364
Board size	9.519	4.00000	17.0000	2.529	364
Board Independence	70.291	16.6667	93.3333	13.592	364
Leverage	60.687	0.84000	236.833	29.916	364
Firm Age	32.278	1.0000	58.000	13.335	364
Total Assets (₦' 000000)	161,000	2,200	3,940,000	367,000	364

Source: Authors' Computation (2025)

CEO Compensation: The average CEO compensation across the sampled firms stands at ₦84,594,376. The lowest recorded compensation is ₦59,979,120, representing these firms' minimum reported CEO pay. In contrast, the highest compensation reaches an impressive ₦888,000,000, significantly above both the mean and the minimum figures. This substantial amount likely indicates the presence of exceptionally high-paying firms, potentially influenced by factors such as firm size, profitability, or specific industry conditions. The standard deviation of ₦121,000,000 illustrates a considerable level of variability in CEO compensation, indicating diverse practices in pay structures that may stem from differences in firm size, performance, or compensation strategies.

Return on Assets: The average return on assets (ROA) for the firms in the dataset stands at approximately 4.02%, suggesting that, on average, these firms generate a return of 4.02% on their assets. The lowest recorded ROA is -54.86%, indicating that some firms have experienced

significant losses, with asset values declining by more than half during a particular period. Conversely, the highest observed ROA is 53.96%, reflecting that certain firms have performed exceptionally well, achieving returns exceeding 50% on their assets. The standard deviation of 11.33 signifies a notable level of variability in the ROA across these firms.

Enterprise Value: The average Enterprise Value of the firms stands at ₦237 billion, indicating that, on average, their market capitalisation—adjusted for debt and cash—tends to revolve around this figure. The minimum value of -₦890 billion is noteworthy, as it suggests that at least one firm possesses an enterprise value below zero. A negative EV may arise when a company's cash reserves surpass its market capitalisation and debt, often signalling financial distress or mispricing. Conversely, the maximum EV is ₦5.97 trillion, highlighting that some firms are highly valued. These firms are likely large-cap companies with substantial operations and considerable market influence. Additionally, the standard deviation of ₦740 billion reflects significant variability in Enterprise Values across the firms. This high standard deviation, which is more than three times the mean, indicates a wide dispersion in the size and valuation of these companies.

Board Size: The smallest board size recorded in the dataset consists of four members. In contrast, the largest board size observed is 17 members. The standard deviation is 2.529, which reflects the degree of variation or dispersion around the mean. This relatively low standard deviation, in relation to the average of approximately 9.5 members, suggests that most firms have board sizes close to this average.

Board Independence: The average level of board independence across the firms is approximately 70.29%. This figure indicates that around 70% of board members are independent, suggesting a considerable degree of independent oversight. The lowest recorded level of board independence is 16.67%, highlighting that at least one firm has a significantly low proportion of independent board members, which may raise concerns about governance objectivity within that firm. Conversely, the highest level of board independence observed is 93.33%, indicating that some firms feature nearly entirely independent boards, reflecting a strong commitment to governance practices. The standard deviation of 13.59% illustrates the variability in board independence among the firms, with a

moderately high standard deviation suggesting notable diversity in implementing board independence across different organizations.

Leverage: The average leverage ratio across the sampled firms is 60.687, indicating that they utilize approximately 60.69% of debt financing relative to their total assets. The firm with the lowest leverage ratio in this sample has a ratio of 0.84%, demonstrating a minimal reliance on debt financing. Conversely, the firm with the highest leverage ratio exhibits an extraordinary figure of 236.83%, suggesting a high level of debt dependence. This disparity highlights the variation in leverage ratios among the firms. With a standard deviation of 29.92, there is a moderate spread in leverage levels; while some firms cluster around the mean of 60.69%, others exhibit significant deviations.

Firm Age: The average age of the firms in the sample is approximately 32.28 years, indicating that most are relatively well-established, though not necessarily very old. The youngest firm in the sample is only 1 year old, while the oldest is 58 years old, highlighting the presence of some long-standing companies within this group. The standard deviation is 13.335, reflecting a moderate degree of variation in the ages of the firms. Consequently, although the average age hovers around 32 years, there is a notable spread, with certain firms being significantly younger or older than the mean.

Firm Size (Total Assets): The average total assets among these firms is ₦161,000,000,000. The firm with the smallest total assets has ₦2.2 billion, indicating that some companies possess relatively limited financial resources. In contrast, the largest firm in total assets boasts ₦3.94 trillion, demonstrating that there are firms within the sample with asset bases significantly exceeding the average. With a standard deviation of ₦367,000,000,000, this figure highlights considerable variability in total assets across the firms. The high standard deviation indicates that the total assets of these firms are widely spread, with some having assets substantially higher or lower than the mean.

4.2 Test for Multicollinearity

Tables 4.2 and 4.3 display the correlation matrix and the VIF test results.

Table 4.2: Correlation analysis

	ENT	BSZ	BND	ROA	Firm Size	Leverage	Firm Age
ENT	1.0000						
BSZ	0.4275	1.0000					
BND	0.0753	0.1657	1.0000				
ROA	0.2452	0.0095	-0.1928	1.0000			
Firm Size	0.8346	0.4407	0.1872	0.0906	1.0000		
Leverage	0.1692	0.0029	0.0575	-0.3635	0.0919	1.0000	
Firm Age	-0.0542	0.1021	-0.0978	-0.0733	-0.0764	0.1145	1.0000

Source: Authors' Computation (2025)

Table 4.3 Variance Inflation Factor

VARIABLES	VIF	1/VIF
ENT	4.23	0.2366
FSI	3.78	0.2646
ROA	1.46	0.6838
LEV	1.34	0.7439
BSZ	1.33	0.7494
BND	1.12	0.8913
FAGE	1.06	0.9413
Mean VIF	2.05	

Source: Authors' Computation (2025)

Table 4.2 shows a strong correlation of 0.8346 between enterprise value and firm size, with the second highest at 0.440 between firm size and board size. Table 4.3 displays the variance inflation factors (VIF) for each independent variable included in the regression analysis. Remarkably, the highest VIF recorded among these variables is 4.23, well below the commonly accepted threshold

of 10, as outlined by Wooldridge (2015). This finding suggests no evidence of multi-collinearity among the independent variables.

4.3 Empirical Results

The results in Table 4.5 reveal the findings of the panel regression analysis.

Table 4.5: Empirical results

Variables	Coefficient	P-Value
Constant	4.238***	0.000
CEO (-1)	0.064***	0.000
Board size	0.034	0.166
Board Independence	-0.005***	0.001
ROA	0.007***	0.000
ENT	0.118***	0.000
Leverage	0.003*	0.064
Firm Age	0.021***	0.000
Firm Size	0.345***	0.000
F-Statistic/Wald Statistics	1.55e+06***	0.000
AR (2)	0.700	0.483
Hansen test	22.650	0.363

Source: **Authors' Computation, 2024**

Statistical significance levels at 0.10*, 0.05 **, and 0.01 ***

F-Statistic/Wald Statistics (1.55e+06, p-value = 0.000): The overall model demonstrates a high significance level, indicating that the independent variables collectively account for the variations observed in CEO compensation. AR (2) Test (p-value = 0.483): The Arellano-Bond test for second-order autocorrelation reveals no evidence of autocorrelation, which supports the validity of the dynamic model. Hansen Test (p-value = 0.363): The Hansen test for over-identifying restrictions indicates that the instruments employed in the model are valid, as the p-value exceeds the conventional threshold of 0.05.

i. **Board Size:** The findings on board size indicate a positive coefficient of 0.034 with a p-value of 0.166. However, this result is not statistically significant, suggesting that board size does not significantly influence CEO compensation. This aligns with the conclusions of Olaniyi and Obembe (2017) and Jatana (2022); however, Rehman et al. (2021) and Aljughaiman et al. (2024) found that board size significantly positively affects CEO compensation. Agency theory emphasizes that monitoring effectiveness is contingent not only on the quantity of oversight but also on the expertise and commitment of those involved. This means that a smaller board composed of well-informed members could have a greater impact on controlling CEO compensation than a larger board that lacks engagement and insight. Furthermore, if the size of the board increases without a corresponding enhancement in the quality of monitoring, its overall influence on CEO compensation may remain minimal.

ii. **Board Independence**: The findings on board independence indicate a negative correlation with CEO remuneration, as evidenced by a coefficient of -0.005 and a p-value of 0.001. Having a higher proportion of independent directors on the board is associated with reduced pay for the CEO. This correlation implies that independent directors, less likely to have personal stakes in the company's management, may prioritize shareholder interests and fiscal responsibility, leading to more restrained executive compensation packages. This aligns with the findings of Olaniyi and Obembe (2017) and Aljughaiman et al. (2024). Nonetheless, Rehman et al. (2021) and Jatana (2022) found that board independence significantly positively affects CEO compensation. This trend supports the notion that boards composed of independent members are effective in curbing excessive compensation practices. Independent directors, separate from the company's management, are uniquely positioned to offer impartial oversight. They can critically evaluate the CEO's performance and ensure that compensation is aligned with shareholders' objectives. In Nigeria, where governance issues such as nepotism and conflicts of interest can be common, independent boards bolster credibility and help mitigate agency costs. This enhanced level of oversight often leads to performance-based compensation structures, which can result in increased remuneration for CEOs who create value.

iii. **Return on Assets (ROA):** ROA has a positive and significant relationship with CEO compensation, as indicated by the coefficient of 0.007 and a p-value of 0.000. This suggests that increased firm profitability, as measured by ROA, is associated with higher CEO compensation, highlighting the practice of performance-based pay within organizations. This aligns with Conyon's (2014) and Al Farooque et al. (2019) findings. Nonetheless, Edeh (2020) and Yang et al. (2020) found that ROA has no significant effect on CEO compensation. CEOs may be inclined to prioritize personal agendas or pursue short-term objectives that do not enhance shareholder wealth. The CEO's interests can effectively align with creating shareholder value by tying CEO compensation to Return on Assets (ROA). ROA measures the efficient use of assets, which is a critical concern for shareholders, particularly in resource-intensive industries prevalent in Nigeria.

iv. **Enterprise Value**: The results show a positive and statistically significant relationship between enterprise value and CEO pay. Specifically, a higher enterprise value is associated with increased compensation for CEOs. This is consistent with Conyon's (2014) and Al Farooque et al. (2019) findings. However, Edeh (2020) and Yang et al. (2020) found that enterprise value has an insignificant effect on CEO compensation. This correlation likely reflects the greater responsibilities of managing larger organizations and the expected performance outcomes tied to such companies. When a firm has a higher enterprise value, it often implies that the CEO is perceived to be handling more complex operations, necessitating a higher remuneration level to attract and retain capable leadership.

5. Conclusions and Recommendations

The study examined the correlation between corporate governance, organizational performance, and CEO remuneration in listed Nigerian non-financial companies from 2011 to 2023, utilizing System GMM within the agency theory framework. The findings reveal that firm performance significantly affects CEO pay, underscoring the alignment of pay with performance metrics. However, corporate governance variables present a mixed picture. While board independence negatively influences CEO compensation, board size has no effect. These results highlight the importance of firm performance as a key determinant of executive pay but also point to the need for improved governance mechanisms. Regulatory bodies like the SEC in Nigeria should enforce stricter board independence requirements and provide guidelines that closely link CEO

compensation to measurable performance metrics. Furthermore, enhancing board members' capabilities through training can strengthen their oversight functions, fostering greater accountability and ensuring that executive pay structures serve the broader interests of stakeholders. Ultimately, aligning corporate governance practices with firm performance will optimize CEO compensation frameworks and bolster shareholder confidence and long-term organizational growth.

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