

Corporate Governance Attributes, Firm Performance and Directors' Remuneration

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Abstract

This study investigated corporate governance attributes, firm performance and directors' remuneration as evidenced by quoted firms on the Nigerian Stock Exchange. The specific objectives examined: the effect and relationship between Board size, Board independence, director ownership, chief executive officer (CEO) Duality, Audit Committee Independence, firm performance and firm size with directors' remuneration. In view of this, 100 firms were selected using stratified purposive sampling technique. Data were collected Historical data on the dependent and independent variables were extracted from the financial statements and accounts of the sampled firms over the period of 5 years from 2008-2012, employing the Panel Least Square regression statistical instrument employed This study found that board size, firm performance and firm size has significant effect on directors remuneration, while, board independence, ownership structure, CEO duality and Audit committee have no significant (negative) relationship with directors remuneration. Conclusively, good corporate governance is crucial in assessment and fixing of directors remuneration and resolving the agency problems.

Keywords: Corporate Governance, Board Size, Firm Performance, Firm Size, Directors' Remuneration.

1. Introduction

Corporate governance is principally on the structure of relationship within an organisation which is directed at best practice in the overall interest of the firm and its dispersed stakeholders. Jerab (2011) opines that corporate governance has many benefits and effects; it creates more open, transparent society, corruption prevention, rule of law with fairness and order and promoting ethical wealth creation. The strategy for addressing the challenges of corporate governance has taken various forms at both the national and International levels and has culminated in initiatives such as: the OECD Code; the Cadbury Report; the Basel Committee Guidelines on Corporate Governance; the King's Report of South Africa. In a bid to improve corporate governance in Nigeria, the Securities and Exchange Commission (SEC), in pursuance of its regulatory and supervisory role over the securities of public companies in Nigeria vested in it by Section 13 of the Investment and Securities Act, 2007, inaugurated a National Committee in September, 2008 to review the 2003 Code of Corporate Governance for Public Companies. The objective was to identify and address the weaknesses in the 2003 Code with a view to improving the mechanism for the enforceability of the Code and recommend ways of effecting greater compliance.

Corporate governance is a system by which firms are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders (CBN, 2006) corporate governance is the ability of boards of directors to combine leadership with control and effectiveness with accountability that will primarily determine how well companies meet society's expectations (Cadbury report, 1993). Directors of a company are the essential fulcrum upon which the management of companies rest. The roles, duties and importance of Company directors are well documented in the Nigerian Companies and Allied Matters Act, 2004.

The high remuneration received by directors' of corporate bodies have been questioned as to if such remuneration are justified by the underlying economic performance of the company in question. These debates have tended to focus on four areas: the overall level of directors' remuneration and the role of share options, the suitability of performance measures linking directors' remuneration with performance, corporate size, the role played by the remuneration committee in the setting of directors' remuneration and the influence that shareholders are able to exercise on directors' remuneration (Rashidah, 2004). The debate on executive directors' remuneration has been driven by the view that some directors, and especially those directors in the banking sector, are being overpaid to the detriment of the shareholders, other employees, and the company as a whole. The need for the practice of good corporate governance is therefore not only necessary but could be defeated when directors remunerations are not questioned Most studies on corporate governance and director remuneration were conducted in developed countries. To the best of our knowledge, existing studies in Nigeria have produced little or no clear consensus on the relationship between corporate governance attributes, corporate financial performance and directors' remuneration. The thrust of this study therefore is to investigate the relationship among corporate governance, firm performance and directors' remuneration.

2. Literature Review

Concept of Directors Remuneration

A director is referred to as the professional manager, in this regards his judgment may not be the best amongst alternatives, as he cannot represent the shareholders and impartially sit in judgment of himself (Wallace & Zinkin,

2005). As stated under Section 224(1) of CAMA (2004), directors of a company are persons duly appointed by the company to direct and manage the business of the company. This is the most important need and responsibility which the law places on company directors. But while the need for company directors is primarily that of overseeing the day to day management of the company, the need of the Board of Directors, is policy formulation. In course of the directors discharging their duties and responsibilities, they are expected to receive remuneration. Remuneration is every form of salaries, allowances or incentives and bonuses received by the employee (Oviantari, 2011). Broadly speaking, remuneration obtained consists of cash remuneration and remuneration based on shares that are associated with short-term performance and long term Chief executive (CEO) compensation.

Empirical Evidence between Corporate Governance Attributes and Director Remuneration

Board Size and Director's Remuneration

The size of the board is imperative in fixing the directors' remuneration. Board size refers to the total number directors in a company (Abdullah 2004). The number of directors in a board of directors of a company ranges from a small number to a large number. Kajola (2008), examined the relationship between Corporate Governance and Firm Performance he examined the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), using a sample of twenty Nigerian listed firms between 2000 and 2006 based on panel data and Ordinary Least Square as a method of estimation, he found a positive significant relationship between Return on Equity and board size as well as chief executive status.

Meanwhile, Yermack (1996) found that small boards give CEOs larger incentives and force them to bear more risks than large board firm. Holthausen and Larcker (1993) argue that board size might influence directors' pay, also Core, Holthausen & Larcker (1999) established a positive association between board size and executive remuneration. Ozkan (2011) evidenced a positive and significant association between CEO compensation and board size. Also Yatim (2013) employed across-sectional analysis of 428 listed firms on the Bursa Malaysia for the financial year ending 2008 and found that board size is positively and significantly related to directors remuneration We hypothetically state that, *H1: Board size has no significant influence on directors' remuneration.*

Board Independence and Directors' Remuneration

The independence board is vital aspect of the firm designed to promote good corporate governance. The Code in Nigeria provides that the Board should comprise a mix of executive and non-executive directors and that the non-executive directors should be in the majority. Indubitably, the rationale behind this wise provision is to ensure a check on the activities of the executive directors by the non-executive directors. In proposing a model structure for the Board, the Code stipulates that there should be at least, one independent director in the Board and directors are to receive any form of remuneration.

Ozkan (2007) empirically examined the influence of corporate governance mechanisms, that is, ownership and board structure of companies, on the level of CEO compensation for a sample of 414 large UK companies for the fiscal year 2003/2004, based on their findings, firms with large board size and a higher proportion of non-executive directors on their boards pay their CEOs higher compensation. Also, Sapp (2007) studied the impact of corporate governance on executive compensation, by examining the relationship between the compensation of the top five executives using a sample of 400 publicly listed Canadian firms while considering various internal and external corporate governance-related factors. They find that the variances in internal governance, is related to the differences across firms in the characteristics of the CEO, compensation committee and board of directors do influence both the level and composition of executive compensation, especially for the CEO. Following the outcome of the findings, we hypothesized that, *H2: There is no significant relationship between board independence and director remuneration.*

Ownership Structure and Directors' Remuneration

Ownership of the firm forms another basis for the determination of directors' remuneration. Several prior studies have really argued the rationale on directors' remuneration. Firth, Tam & Tang, (2007) in their study on top management pay, provides evidence that ownership structure is an important determinant of executive compensation because it determines the owners' incentives to monitor the managers' performance and set their compensation. Hartzell and Starks (2003) studied the relationship between institutional investors and executive compensation using a sample of 1914 firms for the years 1992 to 1997, their findings shows a negative relationship between institutional percentage stock ownership and the level of cash executive compensation. Cheung et al. (2005) analyze a sample of 412 Hong Kong firms and argue that CEOs with large share ownership may complement their cash compensation with dividend income. .

Parthasarathy, Menon and Bhatthacherjee (2006) empirically studied the relationship between Executive Compensation, Firm Performance, and Corporate Governance using a sample of 409 companies listed on Bombay Stock Exchange their findings show that institutional ownership has a positive relationship and statistically

significant on executive compensation. According to Ozkan (2007) institutional ownership and block-holder ownership have a significant and negative impact on CEO compensation, the results show that CEO compensation is lower when the directors' ownership is higher. Based on the outcome of the studies, we hypothetically state that, *H3: Ownership structure has no significant effect on directors' remuneration.*

CEO Duality and Director's Remuneration

Several studies have examined the separation of CEO and chairman of the board. It is reported that too much power is concentrated on the Chief Executive Officer (CEO), and the CEOs, more often than not, are also the Chairmen of the boards of directors. This lack of check and balance compromise the ability to make independent decisions on behalf of the shareholders (Quadric, 2010). Ryan & Wiggings (2004) study focused on who is in whose pocket? Directors' compensation board Independence and barriers to effective monitoring they find that CEO duality has a negative impact on total director compensation. Having examined the finding, we hypothesize that, *H4: There is no significant relationship between CEO Duality and directors' remuneration.*

Audit Committee and Directors Remuneration

The Audit Committee is a committee composed of independent, non-executive directors charged with oversight functions of ensuring responsible Corporate Governance, a reliable financial reporting process, an effective internal control structure, a credible audit function, an informed whistleblower complaint process and an appropriate code of business ethics with the purpose of creating long-term shareholder value while protecting the interests of other stakeholders (Rezaee, 2009). According to Habbash (2010) audit committee independence is measured as the number of independent non-executive directors on the audit committee compared to the total number of committee members.

The Audit Committee remains one of the most important governance mechanisms that has been suggested for improved corporate transparency, accountability and reporting quality in organisations (Zhang et al, 2007). Similarly, Choi et al. (2004) find that, when members of the audit committee hold shares in their firm, they are less effective in mitigating earnings management. Thus, the independence of the audit committee is a key factor in enhancing its role in preventing miss-statements in the financial statements. Hence, we hypothesized that, *H5: Audit committee independence has no significant effect on directors' remuneration.*

Corporate Firm Performance and Directors Remuneration

A firm's financial performance serves as a general measure of a company's overall financial health over a given period of time. Parthasarathy, Menon & Bhatthacherjee (2006) empirically studied the relationship between Executive Compensation, Firm Performance, and Corporate Governance using a sample of 409 companies listed on Bombay Stock Exchange their findings show that corporate performance has positive and significant influence on executive compensation. Kato and Long (2006) found a positive executive pay-performance relation by examining 937 listed firms from 1998 to 2002. Tosi, Werner, Jeffrey, Kartz, Luis & Mejia (2000) found a weak relationship between compensation and performance, while Fleming & Stellios (2002) found no relation between executive compensation and firm performance.

Crumley (2008) studied the relationship between firm performance and CEO compensation in U.S. commercial banking industry. The study uses 36 sample banking companies in the U.S. in period 2001-2003. The results show that there is a weak relationship among the percentage change in stock return and percentage return on assets and CEO compensation.

Sigler (2011) examines the relationship of CEO pay and company performance for 280 firms listed on the New York Stock Exchange for a period from 2006 through 2009. It is their findings that there is a positive and significant relationship between total CEO compensation and company performance measured by return on equity. Greg (2011) examines the pay- performance relationship of executives in all UK companies and in financial services companies, and finds a weak relationship between executive pay and company performance. Following the outcome of the above, we therefore hypothesized that: *H6: firm performance has significant influence on directors' remuneration.*

Firm Size and Directors Remuneration

The size of the firm has been another crucial issue in directors remuneration. According to Chalmers (2006), CEOs having higher quality skills, qualification and diverse characteristics are required for larger firms and they are paid accordingly. Hijazi and Bhatti (2007), found that the Company size is closely related to job complexity and employer's ability to pay in determining executive pay. Parthasarathy, Menon and Bhatthacherjee (2006) empirically studied the relationship between Executive Compensation, Firm Performance, and Corporate Governance using a sample of 409 companies listed on Bombay Stock Exchange their findings show that firm size has positive and significant impact on compensation. According to Li, Moshirian, Nguyen and Tan (2007) the inverse relation between company size and pay-performance sensitivities is not surprising, since risk-averse and

wealth-constrained CEOs of large firms can feasibly “own” only a tiny fraction of the company cash flows through their stock, options, and incentive compensation.

Mengistae and Xu (2004), Firth, Tam and Tang (2006), and Conyon (2008) found that the compensation level increases with firm size, possibly because larger firms are more complex and hence require more management skills or because they have a larger resource base to attract top talent. Growth opportunity is also found to be positively associated with executive compensation (Conyon, 2008), possibly because a high-growth firm requires a more competent manager who deserves higher pay. Based on the above indications, we hypothesized that, *H7: Firm size has significant effect on directors remuneration.*

Theoretical Framework

This study is anchored on agency theory. The agency theory paradigm, first formulated in the early 1970s (Ross 1973, Jensen & Meckling 1976) and had become the dominant institutional logic of corporate governance (Zajac & Westphal 2004). Agency theory explains a situation whereby management acts as agent for owners’ or shareholders’ best interest. According to Mohammad, Abdullah and Md Shukor (2009) the association between corporate governance and directors’ remuneration can first be explained by the agency theory. Agency theory refers to the relationship between management and shareholders, in which management acts as agent for shareholders’ best interest. The agency relationship arising from the separation of ownership from management is sometimes characterized as agency problem. Agency relationships occur when the principals hire the agent to perform a service on the principals' behalf.

Principals commonly delegate decision-making authority to the agents. Agency problems can arise because of inefficiencies and incomplete information. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: 1.) the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify (because it difficult and/or expensive to do so) what the agent is actually doing; and 2.) the problems that arise when the principal and agent have different attitudes towards risk. Conflict of interest may arise. One of the reasons is executives receive their salaries, bonuses and stock option in a different form from shareholders who receive dividends and capital gains.

3. Methodology

Design and Method

This study is a longitudinal survey, covering a time period of five years (2008-2012). A total of one hundred and ninety-eight(198) firms quoted on the Nigerian Stock Exchange as at 31st December, 2012 constituted the population (The NSE, Annual Report and Accounts, 2013:122). A sample of one hundred (100) firms was selected using stratified purposive sampling technique since these firms usually publish regular annual financial reports and accounts. However, in considering sample size, Saunders and Thornhill (2003) suggested that a minimum number of thirty (30) for statistical analyses provide a useful rule of thumb. Historical data used were obtained from published annual reports and accounts of the sampled firms.

Model Specification

A Model is a miniature and replica of real world situation. Model specification is essential in every study, in the sense that it gives direction of the variables specifically examined. Model specification entails the determination of the endogenous and exogenous variables that needed to be included in the model and the a priori expectation about the sign and the size of the parameters of the function (Brooks 2008; Gujarati & Porter, 2009; Kozhan, 2010) as stated in Emeh & Appah (2013).

$$REM_{it} = \beta_{0t} + \beta_3 BSIZE_{it} + \beta_4 BIND_{it} + \beta_1 DIROWN_{it} + \beta_2 CEODUAL_{it} + \beta_5 AUDCOM_{it} - \beta_7 ROA_{it} + \beta_6 FSIZE_{it} + \epsilon_{it}$$

Where; REM (directors’ remuneration), Corporate financial performance is represented by ROA (Return on Assets), FirmSize (Log of Total Assets), BIND (Board Independence), BSIZE (Board Size), DOWN (Directors’ Ownerships) CEOD (CEO duality), AUDCOM (Audit committee independence), it (time element and cross sectional data)

Operationalisation of Variables

| Variables | Proxy | Notation | Apriori/Sign |
|------------------------------|--------|--|--------------------------|
| Directors' remuneration | REM | Directors' remuneration has been taken as a dependant variable which is measured by Log of Directors' salaries plus benefits | |
| Board Size | BSIZE | Board size: Board size is the number of directors present on the board. Henderson & Fredrickson (1996), Yu et al. (2002) | +ve/-ve (>or <1) |
| Board Independence | BIND | Board Independence is measured as the ratio of the Number of Independent Non executive Directors to Total Number of Directors on the board (Kajola , 2008) | +ve (BIND>1) |
| Directors' owning | DOWN | Directors' Owning is measured by the ratio of Shares held by Board of directors to the total number of shares held by the company | +ve (>1) |
| CEO duality | CEOD | CEO Duality is measured by taking a dummy variable putting one if duality is present otherwise 0. Conyon & Peck (1998) | +ve (>1) |
| Audit committee independence | AUDCOM | This is measured by the ratio of independent non-executive directors on the audit committee compared to the total number of committee members Habbash (2010), Kajola (2008). | -ve (AUDCOM <1) |
| Return on Assets | ROA | performance measure is the Return on Assets(ROA) is an indicator of the management's ability to efficiently utilize corporate resources (assets) that ultimately belong to shareholders (Shah, Javed & Abbas, 2009) | +ve / -ve (ROA>or<1) |
| Firm Size | SIZE | Firm size is measured as the log of total assets (Shah, Javed & Abbas, 2009) | +ve/-ve (Fsize > or < 1) |

Source: Researchers' survey (2015)

The statistical device employed is the Panel least square (PLS) regression for the purpose of testing the relationship that exists between corporate governance mechanism, firm performance and directors' remuneration. To ensure that our model is statistical and econometrically valid, diagnostic test such as, normality test, goodness fit, heteroscedasticity test and Ramsey RESET test were carried out. Data collected were estimated with econometric software (EViews 7.0 and SPSS. 20).

4. Data Analysis and Interpretation of Result.

This section analysed the diagnostics procedure, descriptive statistics, Pearson correlations and the Panel Least square (PLS) regression as below.

Diagnostics procedure

Table 1: Heteroskedasticity Test: Breusch-Pagan-Godfrey

| | | | |
|---------------------|----------|---------------------|--------|
| F-statistic | 1.403830 | Prob. F(4,145) | 0.2356 |
| Obs*R-squared | 5.592377 | Prob. Chi-Square(4) | 0.2317 |
| Scaled explained SS | 34.77847 | Prob. Chi-Square(4) | 0.0000 |

Table 1 shows the Breusch–Pagan-Godfrey Serial Correlation LM test for the presence of auto correlation. The result reveals that the probability values of 0.2356 (24%) and 0.2317 (23%) is greater than the critical value of 0.05 (5%). This implies that there is no evidence for the presence of serial correlation.

Table 2: White Heteroskedasticity Test:

| | | | |
|---------------------|----------|----------------------|--------|
| F-statistic | 0.925740 | Prob. F(12,137) | 0.5233 |
| Obs*R-squared | 11.25072 | Prob. Chi-Square(12) | 0.5076 |
| Scaled explained SS | 69.96717 | Prob. Chi-Square(12) | 0.0000 |

Table2 indicates the White Heteroskedasticity test for the presence of heteroskedasticity. The outcome of econometric result shows that the calculated P-values of 0.5233 (52%) and 0.5076 (51%) are considerably higher than 0.05 (5%) level of significant. Therefore, there is no evidence for the presence of heteroskedasticity in the

model.

Table 3: Ramsey RESET Test

| | Value | df | Probability |
|------------------|----------|----------|-------------|
| t-statistic | 0.581844 | 499 | 0.5616 |
| F-statistic | 0.338542 | (1, 499) | 0.5616 |
| Likelihood ratio | 0.352234 | 1 | 0.5529 |

Table 3 reveals the Ramsey RESET test for misspecification. The econometric result indicates that the p-values computed were at 0.5616 (56%) and 0.5529 (55%) were greater than the critical value of 0.05 (5%). Hence, it is obvious that there is no apparent non-linearity in the regression equation and we therefore concluded that the linear model is appropriate

Table 4: Descriptive Statistics

| | DIREM | BSIZE | BIND | DIROWNCEODUALAUDCOMINDROA | FSIZE | | | |
|--------------|----------|----------|----------|---------------------------|----------|----------|-----------|----------|
| Mean | 1.01E+08 | 9.861723 | 73.01844 | 8.515701 | 0.416834 | 0.547896 | 18.10591 | 10.16713 |
| Median | 29281000 | 10.00000 | 71.40000 | 8.596100 | 0.000000 | 0.500000 | 14.48000 | 9.974428 |
| Maximum | 3.67E+09 | 18.00000 | 800.0000 | 11.83210 | 1.000000 | 1.000000 | 88.21000 | 14.07859 |
| Minimum | 0.000000 | 5.000000 | 41.60000 | 5.131900 | 0.000000 | 0.300000 | -23.53000 | 7.181958 |
| Std. Dev. | 2.74E+08 | 2.707812 | 35.56459 | 1.311652 | 0.493530 | 0.123188 | 14.39159 | 1.008883 |
| Skewness | 8.936044 | 0.424706 | 17.13960 | -0.174419 | 0.337365 | 1.425234 | 1.398971 | 0.749562 |
| Kurtosis | 108.0652 | 2.570467 | 351.3368 | 2.771490 | 1.113815 | 5.726379 | 7.198760 | 3.933162 |
| Jarque-Bera | 23.61540 | 18.83721 | 25.47261 | 3.615761 | 83.43600 | 32.34831 | 52.93155 | 64.83177 |
| Probability | 0.000000 | 0.000081 | 0.000000 | 0.164001 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |
| Sum | 5.06E+10 | 4921.000 | 36436.20 | 4249.335 | 208.0000 | 273.4000 | 9034.850 | 5073.398 |
| Sum Sq. Dev. | 3.75E+19 | 3651.459 | 629890.3 | 856.7752 | 121.2986 | 7.557291 | 103144.6 | 506.8869 |
| Observations | 499 | 499 | 499 | 499 | 499 | 499 | 499 | 499 |

Table 4 highlights descriptive statistics of the variables examined with emphasis on mean, maximum, minimum and standard deviation and the Jarque-Bera test results. Outcome of the Jarque-Bera P-value calculated in respective variables were less than critical 5% level of significant indicating that the results are normally distributed as shown in appendix.

Table 5: Pearson Correlations

```
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/READNAMES=on
/ASSUMEDSTRWIDTH=32767.
EXECUTE.
DATASET NAME DataSet1 WINDOW=FRONT.
CORRELATIONS
/VARIABLES=DIREM BSIZE BIND DIROWN CEODUAL AUDCOMIND ROA FSIZE
/PRINT=TWOTAIL NOSIG
/MISSING=PAIRWISE
```

| | | DIREM | BSIZE | BIND | DIROWN | CEODUAL | AUDCOMIND | ROA | FSIZE |
|-----------|---------------------|---------|---------|-------|---------|---------|-----------|---------|---------|
| DIREM | Pearson Correlation | 1 | .413** | -.071 | .260** | -.186** | -.071 | .180** | .400** |
| | Sig. (2-tailed) | | .000 | .114 | .000 | .000 | .114 | .000 | .000 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| BSIZE | Pearson Correlation | .413** | 1 | -.083 | .395** | -.345** | -.167** | .020 | .539** |
| | Sig. (2-tailed) | .000 | | .064 | .000 | .000 | .000 | .660 | .000 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| BIND | Pearson Correlation | -.071 | -.083 | 1 | -.011 | .015 | .031 | .012 | -.069 |
| | Sig. (2-tailed) | .114 | .064 | | .798 | .745 | .492 | .795 | .124 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| DIROWN | Pearson Correlation | .260** | .395** | -.011 | 1 | -.498** | -.189** | .267** | .448** |
| | Sig. (2-tailed) | .000 | .000 | .798 | | .000 | .000 | .000 | .000 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| CEODUAL | Pearson Correlation | -.186** | -.345** | .015 | -.498** | 1 | .200** | -.157** | -.411** |
| | Sig. (2-tailed) | .000 | .000 | .745 | .000 | | .000 | .000 | .000 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| AUDCOMIND | Pearson Correlation | -.071 | -.167** | .031 | -.189** | .200** | 1 | .116** | .109* |
| | Sig. (2-tailed) | .114 | .000 | .492 | .000 | .000 | | .010 | .015 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| ROA | Pearson Correlation | .180** | .020 | .012 | .267** | -.157** | .116** | 1 | .204** |
| | Sig. (2-tailed) | .000 | .660 | .795 | .000 | .000 | .010 | | .000 |
| | N | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 499 |
| FSIZE | Pearson Correlation | .400** | .539** | -.069 | .448** | -.411** | .109* | .204** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .124 | .000 | .000 | .015 | .000 | |
| | N | 499 | 499 | 499 | 499 | 499 | 499 | 499 | 499 |

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 5 shows associations of variables captured in the study. Meanwhile, all the Pearson correlations of variable were positively and negatively related 1% and 5% significance level and at 2-tailed as indicated in appendix.

Table 6:

Dependent Variable: DIREM
 Method: Panel Least Squares
 Date: 16/12/14 Time: 03:58
 Sample: 2008 2012
 Periods included: 5
 Cross-sections included: 100
 Total panel (unbalanced) observations: 499

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| C | -9.68E+08 | 1.47E+08 | -6.594483 | 0.0000 |
| BSIZE | 26589347 | 4958930. | 5.361912 | 0.0000 |
| BIND | -185427.0 | 302729.0 | -0.612518 | 0.5405 |
| DIROWN | 3285463. | 10589037 | 0.310270 | 0.7565 |
| CEODUAL | 39394487 | 26932415 | 1.462716 | 0.1442 |
| AUDCOMIND | -1.40E+08 | 91977618 | -1.519739 | 0.1292 |
| ROA | 2348165. | 795413.7 | 2.952130 | 0.0033 |
| FSIZE | 79724709 | 13965605 | 5.708647 | 0.0000 |
| R-squared | 0.653685 | Mean dependent var | | 1.01E+08 |
| Adjusted R-squared | 0.643046 | S.D. dependent var | | 2.74E+08 |
| S.E. of regression | 2.39E+08 | Akaike info criterion | | 41.43532 |
| Sum squared resid | 2.80E+19 | Schwarz criterion | | 41.50286 |
| Log likelihood | -10330.11 | Hannan-Quinn criter. | | 41.46183 |
| F-statistic | 23.84279 | Durbin-Watson stat | | 2.087143 |
| Prob(F-statistic) | 0.000000 | | | |

The coefficient of determination R^2 which stood at 0.65, shows that over 65% of the systematic variations in the dependent variable were explained by the independent variables, while the remaining 35% were unexplained. Similarly, the adjusted coefficient of determination (adjusted R-square) R^2 which revealed significant value of 0.64 implies that over 64% changes in the dependent variable (Directors Remuneration) were accounted for by the independent variables while the remaining 36% were unaccounted for hence captured by the stochastic disturbances.

The overall F-statistics (goodness-of-fit measure) stood at significant value of 23.84 and P-value of 0.000 while standard error of regression (S.E Regression) indicates a minimal value of 2.39. Durbin-Watson (DW) statistic stood at a value of 2.087 indicating absent of auto-correlation. The entire results were highly significant, capable for prediction and meaningful for decision making.

Discussion of Findings

The findings are discussed as follows.

Board size which has Jacque-Bera test value of 18.837 with P-value of 0.000 (0%), positively associated at Pearson correlation value of 0.413** (significant at 10%) and t-statistics value of 5.3619 with P-value of 0.000 (0%) which is less than critical P-value of 5%, implied that Board size has significant influence on directors' remuneration. This means that the size of the board is crucial issue influencing directors' remuneration and the responsibilities and tasks to be carried out. It is important that the board size (comprising of executive and non executive), their compensation must be aligned with the interest of the shareholders. The finding is in line with Yermack (1996) who established that boards of directors are given higher incentive so as to increase their performance. Consequently, Ryan and Wiggings (2004); Firth et al (2007) and Feng et al (2007) argued that there is negative relationship between board size and directors compensation.

Board independence which stood at Jacque-Bera test value of 25.472 with P-value of 0.000 (0%), negatively associated at Pearson correlation value of -0.017 and t-statistics value of -0.016 with P-value of 0.5405 (54%) which is greater than critical P-value of 5%, implied that there is no significant (negative) relationship between board independence and director remuneration. This shows that a well organized board independence with a regulated corporate governance can frustrate over increased directors' remuneration. To buttress the finding, Conyon and Peck (1998) established that board independence has no effect on CEO Compensation. Similarly, Ozkan (2007) empirically found that firms with large board size and a higher proportion of non-executive directors on their boards pay their CEOs higher compensation, suggesting that non-executive directors are more efficient in

monitoring than executive directors.

Ownership structure (shareholdings) stood at Jacque-Bera test value of 3.615 with P-value of 0.164 (16%), positively associated at Pearson correlation value of 0.260** and t-statistics value of 0.3104 with P-value of 0.7565 (76%) which is greater than critical P-value of 5%. This indicated that Ownership structure has no significant effect on directors' remuneration. This finding supports the empirical studies of Cyert et al (2002), Hartzell and Starks (2003), Ozkan (2007) who revealed that directors ownership has negative relationship with directors compensations and remunerations. However, Menon and Bhatthacherjee (2006) argued that directors shareholdings and institutional ownership have positive relationship and statistically significant on executive compensation.

CEO Duality which stood at Jacque-Bera test value of 83.436 with P-value of 0.000 (0%), negatively associated at Pearson correlation value of -0.186** and t-statistics value of 1.4627 with P-value of 0.1442 (14%) which is greater than critical P-value of 5%, This indicated that there is no significant (negative) relationship between CEO Duality and directors' remuneration. This finding is similar with Ryan and Wiggings (2004) who established that CEO duality has a negative impact on total director compensation.

Audit committee independence which revealed Jacque-Bera test value of 32.348 with P-value of 0.000 (0%), negatively associated at Pearson correlation value of -0.071 and t-statistics value of -1.520 with P-value of 0.1292 (13%) which is greater than critical P-value of 5%, suggested that audit committee independence has no significant effect on directors' remuneration. The finding supports the view of Zhang et al, (2007) who stated that the Audit Committee remains one of the most important governance mechanisms that has been suggested for improved corporate transparency, accountability and reporting quality in organizations.

Firm performance proxied by ROA which stood at Jacque-Bera test value of 52.9316 with P-value of 0.000 (0%), positively associated at Pearson correlation value of 0.180** (at 10% significant level), and t-statistics value of 2.9521 with P-value of 0.0033 (0%) which is less than critical P-value of 5%, revealed that firm performance has significant influence on directors remuneration. This buttresses the findings Kato and Long (2006), and Parthasarathy, et.al (2006) who found a positive executive pay-performance relationship, but vehemently argued by Crumley (2008), Greg (2011) and Sigler (2011) that a weak relationship exists between company performance and executive pay.

Firm size which stood at Jacque-Bera test value of 64.831 with P-value of 0.000 (0%), positively associated at Pearson correlation value of 0.400** (10% significant level), and t-statistics value of 5.7086 with P-value of 0.000 (0%) which is less than critical P-value of 5%, indicated that firm size has significant effect on directors remuneration. This supported the findings of Parthasarathy, et.al (2006), Mengistae and Xu (2004), Firth, Tam et.al., (2006), and Conyon (2008) found that firm size has positive and significant impact on compensation and that the compensation level increases with firm size,

5. Conclusion and Recommendations

The link between corporate governance and directors' remuneration has been issue of considerable focus. Since corporate governance practices are aimed towards ensuring that affairs of firms are directed and controlled, the manner in which directors are remunerated become important. With corporate governance, the manner in which directors are remunerated are expected to be credible. Hence directors' remuneration are based on the overall interest of the firm and for the crucial roles they perform in the firm. The corporate governance practice paves ways upon which special procedures need to be followed in the remuneration of directors. All protocols are observed in the firms in the way directors are remunerated based on corporate governance practices of the firm. We therefore conclude that with good corporate governance the manner in which firm financial resources are judiciously spent and directors' remuneration are fixed based on the laid down practices of the firm.

Based on the findings, these recommendations were put forward.

Board of directors size should be used as criteria and basis for fixing directors remuneration. A large board size should be assigned large amount for the payment of the directors' remuneration compare to when the board size is small.

The independence board of directors as a powerful corporate governance attributes charged with the responsibility of monitoring and controlling executive directors activities should not be used as criteria for the remuneration of the directors.

Director shareholding or ownership should not be basis for fixing directors remuneration. Irrespective of the proportion of shares held by both executive and non executive directors, their remuneration should be based on the firm. On no account should directors of firms take advantages of the numbers of shares owned in the firm as basis for the determination of their remuneration. The corporate governance practices designed to be followed irrespective of the shares held as regards directors remuneration must be strictly followed.

The chief executive officer (CEO) duality tends to have influence in the firm. One person acting as chairman and CEO of the firm should not be a yardstick in the determination of directors' remuneration. The CEO duality as corporate governance mechanism should act within the ambit of the task responsibility and authority but

not to be interfered with the directors' remuneration.

The audit committee independence in the firm are expected to possess financial expertise who are in better position to assess what should be paid as remuneration to the directors. The opinion and consent of the independence audit committee is very necessary in fixing the remuneration of directors.

The performance proxy by the returns on assets should be another criterion the corporate governance practices of firms should consider in the remuneration of directors. When the firm is performing excellently well from the assessment of the returns on total assets of the firm, the directors should be well remunerated.

The size of the firm should be a vital basis for the remuneration of directors. A large firm is expected to possess more challenges, complexity, responsibility and bottleneck in terms of direction and control. An organized corporate governance practices are expected in large firms compare to small firms. As such the size of the firm should be a yardstick in fixing directors remuneration.

The position of companies and Allied Matters Act (CAMA) 2004 as regards to directors' remuneration should be carefully followed. The manner in which the CAMA 2004 has addressed the director remuneration must not be altered by any director irrespective of his or position. All the various institutions and bodies responsible for the drafting of CAMA should ensure that companies in Nigeria comply with the conditions and manners in which directors are remunerated in firms.

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