Executive Compensation Packages and Return to Shareholders at Selected Deposit Money Banks in Lagos State, Nigeria

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Abstract

Background: The competitive and dynamic operating environment at deposit money banks in Lagos State requires focussed management of resources which attractive compensation management of the organisation executive directors could guarantee. The operating environment has brought about series of challenges including rendering poor services, culminating in steady decline of profitability which had impacted negatively on returns accruable to shareholders.

Methods: The study employed cross sectional survey research design where four hundred and twenty-nine copies of the research instruments were administered to purposively selected respondents who were senior and executive staff of the selected banks in Lagos State. The response rate on the questionnaires distributed was 398, which represents 92.8% of the study population. The data were processed using (SPSS version 26).

Results: The result of multiple regression analysis showed that executive bonus ($\beta = 0.086$, $p = 0.009$) and recognition ($\beta = 0.133$, $p = 0.007$) have positive and significant effect on return to shareholders and base salary ($\beta = 0.054$, $p = 0.293$) and supplemental benefits ($B = 0.040$, $p = 0.179$) also have positive, but insignificant effect on return to shareholders. Further analysis revealed a collective positive significant effect of executive compensation sub-variables on customer acquisition ($F_{14,926} = 9.248$, $p<0.000$, $R^2 = 0.078$) indicating that combination of executive compensation sub-variables was statistically significant in explaining changes in return to shareholders.

Conclusion: The study concluded that executive compensation packages is important to shareholders value creation and management of deposit money banks should ensure that their senior and executive staff compensation management are attractive to motivate higher productivity. It is recommended that process driven compensation management should be instituted to promote competitive spirit and ensure objective evaluations to reduce conflicts arising from perceived double standard treatment.

Key Words: Base salary, Deposit money banks, Executive bonus, Return to shareholders, Supplementary benefits, Recognition

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I. Introduction

Return to shareholders is defined by Arhin (2018) as the totality of gains or returns that accrued to investors on their investing activities. Such returns include dividends payments, bonus issuance and share price appreciation over a period of time. Khalid and Rehman (2015) explained that consistent dividend payments, bonus shares issuance and direct share price appreciations over a period of time signify evidence of company good performance and would most probably enable it to attract new investors, especially if quoted at the stock exchange. A company with dwindling fortunes may rapidly lose members of their shareholders through dumping of shares at the stock exchange which will invariably drive down their market capitalisation with its negative consequences including share price loss and difficulty to attract fresh funds. Such scenario signifies a red flag that the financial health of such company is in doubt which can contribute to loss of potential customers and consummation of high-ticket transactions.

Abayomi and Ziska (2014) defined executive compensation as the financial compensation and other non-financial awards received by an executive employee for the services to the organisation. The study by Boxall and Purcell (2016) emphasised that executive compensation is an important aspect of organisational development because of the strategic role which executive staff play in organisational management. Successful organisations rely on effective executive staff support to run their organisations efficiently to realise the corporate objectives of the institution, hence it is imperative that organisations must get their composition and...
welfare of their executive directors (good salary, generous bonus, competitive benefits) right from the onset, in order to guarantee stability and focused management of resources.

II. Literature Review

Executive compensation is a major strategy being employed by organisations to achieve and sustain steady growth and productivity (Sultania, 2018). There are several ways in which organisations compensates and incentivise their executive employees. One of such method is cash compensation which entails cash being offered to executive staff as part of their compensation packages in the form of salary. The advantage of cash compensation is access to immediate funds, and they can use it for virtually anything they need. However, its disadvantages relate to taxation (Adam & Omari, 2015). The study by Alex, Xavier and Dirk (2017) revealed another benefit which executive staff enjoy is employee stock options which are options granted to corporate employees to purchase certain amount of corporate stocks at a specific price (called a strike price) during a given period of time. The employee then has the option to hold onto the shares or sell them for additional income. Its advantage is that they will be taxed at a long-term capital gains rate when they are sold, which is lower than the normal income tax rate.

2.1.1 Base Salary

Sule, Amuni, Obasan and Banjo (2015) defined salary as the cost of acquiring and retaining human resources for performing organisational tasks. Salary is also regarded as the financial compensation which an employee receives for performing organisational tasks. Yusuf and Abubakar (2014) posited that employees’ salary could be paid on hourly, daily, weekly or monthly basis. Some of the characteristics of base salary include payments are made on specific days, mostly on monthly basis. Also, the details and its covenants are embodied in an employment contract between the organisation and employees. The study by Amoatema and Kyeremeh (2016) emphasised that there are different factors that determines the type, nature and volume of salary to be paid to an employee. Such factors include the level of education, professional certifications, experience and special considerations especially on gender issues, disabilities and other social factors.

Menezes and Raposo (2014) enumerated advantages of salary payment, stressing that they are consistent, as most employees are usually paid at predetermined dates of the month. The disadvantages of salary payment include being excluded from certain payments like overtime, holiday and certain bonuses payment because they do not work for such payments. Most salaried employees would be paid the same amount, no matter what. Also, it has been observed that most salary pay is often based on equity instead of job complexity and task accomplishment. Deposit money banks executive staff salary is usually made attractive considering the important roles they play in the organisation management. Falola (2014) stressed that the success or failures of companies is directly linked to the actions and inactions of their executive staff and unless the executive staff are focused and committed, the organisation might not be functioning optimally. Ayesha (2013); Bagger, Bent and Dale (2010) concluded that a better way to motivate executive employees is to give them competitive salaries with their peers within the same industry and environment.

2.1.2 Supplemental Benefits

The study by David and Karl (2018) stated that supplemental benefits are type of benefits paid to employees in addition to their base salary to encourage them to be more focused and committed to the organisation objectives. The benefits can be paid in cash (monetary) or in kind (non-monetary). Itoyia and Nwabuzo (2017) enumerated advantages of benefits type of payment that they enjoy non-taxable status which could be housing, transportation, utilities like electricity, water, telecommunication dues; group insurance, health and dental, tuition reimbursement; sick leave; vacation (paid and unpaid); domestic help (servants); and other specialised benefits. However, Iyanda, Majid and Mohammad (2015) revealed a major disadvantage of supplemental benefits as being difficult to keep every employee happy in the organisation. Other disadvantages as stated by John (2018) that it is more costly for small employers to provide benefits than for large number of staff and also, due to relatively higher costs of administration; the more benefits a business offers, the more it must pay for administrative overheads; offering benefits creates concerns regarding legal compliances, which in turn causes a company to incur legal fees; when organisations make mistakes in benefit plans, it could often lead to costly lawsuits, or to regulatory fines thus incurring avoidable expenses.

Bernardin (2017) opined that supplemental benefits focus on maintaining and improving the quality of life for executive employees and providing a level of protection and financial security for their family members. The central aim of these benefit programmes is to attract, retain and motivate qualified, competent executive employees. Also, Mathis and John (2013) stated that an employer that provides more attractive benefits and packages often enjoys an advantage over other employers in hiring and retaining qualified executive employees when the competing firms offered similar base pay. Such benefits may invariably create psychological golden handcuffs that make these employees more reticent to move to other employers. In some of the older generation
DMBs in Nigeria, they give generous benefits, especially medical treatment to their executive employees and their immediate family members which explains why some of these executive staff are unwilling to leave such institutions despite their seemingly low salary and packages when compare to newer generation banks that show less empathy in health relation predicament of the same category of employees.

2.1.3 Executive Bonus

A bonus according to Serena, Muhammad and Emran (2012) is a form of pay outside of an employee's base pay, and it is usually given to reward specific behaviour or for a specific purpose. Executive bonus is the bonus made available to executive staff and it play significant roles in the attraction, motivation and retention of executive employees. Mensah and Dogbe (2011) stated that employees are not entitled as of right to a bonus scheme, unless this has been agreed to in a contract of employment or collective agreement. Under most bonus payment programmes, the pay consists of two components - the fixed component and the variable component. Brian, Simone and John (2018) explained many dimensions of pay for performance programmes which could take the form of discretionary bonus which is the type of bonus payment that is entirely left at the discretion of the employers and is not guaranteed; performance bonus is the payment that is dependent on individual or company performance threshold being met, no bonus would be paid; guaranteed bonus is a type of bonus that is payable to employees irrespective of the individual performance. Example of such payment is the thirteen-month salary or bonus payment usually made to all staff in the employment of the company. They are payment which the employee is entitled to as of right.

Nagaraju and Pooja (2017) revealed that a major advantage of bonus schemes is incentive and motivation of executive employees. Appreciation is another advantage of bonus payment. Employees that receive regular bonus payments feel far more appreciated than those that do not and this will serve as a source of motivation to excel. Ndulue and Ekechukwu (2017) highlighted the disadvantages of bonus programmes to include high cost of administering the bonus schemes, especially in a large institution with many employees. When the cost of the bonus exercise is distributed amongst all employees, it can end up costing the company a great deal of financial resources, whether the amount is supplied on a quarterly or annual basis.

2.1.4 Recognition

Amoatemaa and Kyeremeh (2016) described employee recognition as the non-monetary reward given to organisation employees to show that the organisation treasure and value their contributions towards the success of the organisation. Recognition is an intangible expression acknowledging individuals or group, for their positive behaviours, personal efforts or contributions to accomplishing specific objectives (Daniel, 2017). Recognition programmes are the regular, typically monthly, quarterly or annual formal and informal organisational procedures and online administered programmes for providing individual or team acknowledgment, awards, incentives or rewards, for achieving various strategic, behavioural or performance-based criteria (Tausif, 2012). Some of the characteristics of recognition are that they are relational, experienced, non-transferrable, unconditional, surprise and emotional affair (Fagley & Adler, 2012).

Advantages of recognition according to Abayomi and Ziska (2014) allows executive employees to feel valued and important to the organisation wellbeing which enhances motivation of such employees. According to Daniel (2017) established that recognising employees may not really be costly as envisaged – a simple management ‘thank you’ or handshake from the Chairman or CEO may be all it requires which could elicit incredible boost to the employee overall morale, because happier employees will maintain higher productivity levels. Amoatemaa and Kyeremeh (2016) highlighted the disadvantages of recognition of executive employees’ efforts to include when institutions embark on wrong method of executive employee recognition, it has the potential to destroy whatever motivation a hard-working executive staff may have. Furthermore, it could become very costly or too expensive to recognise executive employees on a consistent basis, especially if this recognition is not be supported via steady growth in productivity.

2.2 Return to Shareholders

Return to shareholders relates to total gains accruable to investors from their investment activities (Khalid & Rehman, 2015). Almumani (2014) listed several benefits which shareholders enjoy by investing in companies. Such benefits include receiving cash dividends at the end of the financial year after all the required appropriations have been made. Shareholders also enjoy bonus and script issues for company that does not want to declare cash dividend, and they also benefit from stock price rises which is the different between cost of stock acquisition and the current prices. There is also capital gain from the investment which arise due to rise in market price of the share. In most limited liability and publicly quoted organisations, the liability of each shareholder or investor is limited to the extent of the investment made. If the company goes into liquidation or losses, the share of loss will be in the proportion of shareholding that would be borne by the investor. By investing in the company, the shareholder gets ownership status in the company and thereby he can exercise
control in the company especially through voting rights at the annual general meetings where key decisions about the company’s operation are usually taken.

Despite the aforementioned advantages, Arhin (2018) enumerated some of the disadvantages of shareholding to include that the dividends which a shareholder receives is neither fixed nor controllable by the investor and it is the management of the company that decides how much dividend would be paid, which signify technically that the investor cannot determine the level of dividends or bonus they will receive at the end of the year. Further, the peculiar characteristic of equity share investment suggest that it is a risky venture when compared to other investments like debts, because investors faces possible loss of their investment through bad policies, (especially by governments), management actions and inactions especially on wrong decisions relating to productions, investments etc. Also, the market prices of these shares fluctuate due to many factors within and outside the company’s control.

Additionally, Enekwe, Nweze and Agu (2015) established that different companies have different policies guiding their dividend payout, bonus issuance and the rate of capitalisation of their earnings; hence, we may have companies of high growth, but with low dividends payout while others may be low growth with high dividend payout ratio. This is not static as it changes from year to year depending on the performance of the company and the policy of their management. In most instances, the current year dividend payout always has some bearings to previous years’ payout ratios except a major negative occurrence affects the performance of the organisation in the current year. Investors usually go after companies with high dividend payout ratio because the probability of recouping their stake in the business is shorter period of time.

III. Methodology

The study adopted cross sectional survey research and four hundred and twenty-nine respondents were sampled using a validated questionnaire of 6-point Likert scale structured from strongly agree to strongly disagree. The respondents who were senior and executive staff of the deposit money banks based in Lagos. A total of three hundred and ninety-eight copies were returned, which represents 92.7% response rate. The banks were selected because of their consistent good performance (industry leaders on profitability, deposit growth, asset quality, efficiency of operations, value for shareholders, tax obligations, prompt rendition of returns to the regulatory authorities) and their contribution to the development of the Nigeria economy in terms of efficient financial intermediation (CBN, 2018).

Multiple regression analysis was used to analyse the data as follows:

**Table 1.1 Results of multiple regression analysis on effect of Executive Compensation on Return to Shareholders**

<table>
<thead>
<tr>
<th>N</th>
<th>Variables</th>
<th>Coefficients</th>
<th>B</th>
<th>β</th>
<th>T</th>
<th>Sig</th>
<th>R²</th>
<th>Adj. R²</th>
<th>$F_{(4,292)}$</th>
<th>$F$ Sig²</th>
</tr>
</thead>
<tbody>
<tr>
<td>392</td>
<td>Constant</td>
<td></td>
<td>17.979</td>
<td>11.948</td>
<td>0.000</td>
<td></td>
<td>0.087</td>
<td>0.778</td>
<td>9.248</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Base salary</td>
<td></td>
<td>0.054</td>
<td>0.055</td>
<td>1.052</td>
<td>0.293</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplementary benefits</td>
<td></td>
<td>0.040</td>
<td>0.075</td>
<td>1.345</td>
<td>0.179</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Executive Bonus</td>
<td></td>
<td>0.086</td>
<td>0.147</td>
<td>2.637</td>
<td>0.009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recognition</td>
<td></td>
<td>0.133</td>
<td>0.147</td>
<td>2.720</td>
<td>0.007</td>
<td></td>
<td></td>
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</tbody>
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a. Dependent Variable: Return to Shareholders  
b. Predictors: (Constant): Base Salary, Supplementary Benefits, Executive Bonus, Recognition

**Interpretation**

Table 1.1 represents the result of multiple regression analysis for the effect of executive compensation (base salary, supplemental benefits, executive bonus and recognition) on return to shareholders. The results revealed that executive bonus ($B = 0.086, p = 0.009$) and recognition ($B = 0.133, p = 0.007$) have positive and significant effect on return to shareholders at the selected deposit money banks in Lagos State, Nigeria. This means that executive bonus programmes at these institutions have been a major motivator that drives the executive staff to meet their corporate goals. It shows that there was a strong connection between awarding generous bonuses to deserving staff and return to shareholders. Likewise, employees’ recognition dimension also has significant positive effect on shareholders return. Most of the executive staff that were directly involved have close affinity with the shareholders, especially the major ones and considering the directorate level at which they operate would possibly value intrinsic awards from the Board and shareholders especially during Annual or Extra-ordinary general meetings of the organisation which often psyche them up for more sustained performance.

Conversely, the result also showed that base salary ($B = 0.054, p = 0.293$) and supplemental benefits ($B = 0.040, p = 0.179$) have positive, but insignificant effect on return to shareholders. Possible reasons that could be adduced to both base salary and supplemental benefits might be that the executive staff are no longer
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motivated to achieve extra ordinary feats for their shareholders, which could be due to company policies on dividend payment or bonus issuance during annual accounts appropriations. Further analysis of Table 1.1 also revealed that the adjusted coefficient of determination, \(R^2\) was 0.078 which indicates that all the components of executive compensation of base salary, supplemental benefits, executive bonus and recognition accounted for 7.8% variance for return to shareholders at the selected deposit money banks. The results of the multiple regression also indicated there was a collective significant effect of executive compensation sub-variables on return to shareholders at the deposit money banks (\(F_{(4,992)} = 9.248, p<0.000, R^2 = 0.078\)). This means that the combination of executive compensation sub-variables was statistically significant in explaining changes in return to shareholders. The regression model that was established to predict the effect of executive compensation sub-variables on return to shareholders at the deposit money banks is summarised as follows:

\[
RTS = 17.979 + 0.086EB + 0.133RE \tag{1}
\]

Where:
- RTS = Return to shareholders
- EB = Executive bonus
- RE = Recognition

According to the regression equation established, holding all factors (base salary, supplemental benefits, executive bonus and recognition) constant at zero, the return to shareholders at the deposit money banks in Lagos State, Nigeria will be 17.979 which means that without the influence of the predictor variables, the return to shareholders would be 17.979. From the model, an improvement in executive bonus would result in 0.086 times improvement in return to shareholders. The model also shows the effect of positive impact of recognition will lead to 0.133 improvement in return to shareholders at the banks. This reveals further that, attractive recognition programmes to executive staff has the greatest influence on return to shareholders at the deposit money banks (\(B = 0.133; t = 2.720; p = 0.007\)) followed by executive bonus (\(B = 0.086; t = 2.637; p = 0.009\)) which also influences return to shareholders at the deposit money banks. Thus, the findings in general indicate that executive compensation have a positive effect on return to shareholders at the deposit money banks.

**Conceptual Model**

![EXECUTIVE COMPENSATION Diagram](image)

**IV. Discussion of Findings**

The results of the multiple regression analysis indicated there was positive significant effect of executive compensation sub-variables on return to shareholders (\(F_{(4,992)}= 9.248, p<0.000, R^2 = 0.078\)). This means that the combination of executive compensation sub-variables was statistically significant in explaining changes in return to shareholders. The results revealed that executive bonus (\(B = 0.086, p = 0.009\)) and recognition (\(B = 0.133, p = 0.007\)) have positive and significant effect on return to shareholders indicating that executive bonus programmes at these institutions have been a major motivator that drives the executive staff to meet their corporate goals. It is observed that recognition dimension also has significant positive effect on shareholders return.

Conceptually, executive compensation seeks to remunerate executive staff through various strategies so as to sustain organisational growth. Such remuneration could be financial or non-financial. The study by Norida, Olorotimi, Rahman and Norhidayu (2016) revealed the challenges of meeting non-monetary expectations of executive staff and the consequences for banking organisations that fail to give adequate attention to their...
executive employees’ intrinsic values. The more the organisation recognise and appreciates their executive staff, the more commitment would be returned to such organisation. Furthermore, Abdul, Muhammad, Hafiz, Ghazanfar and Muhammad (2014) concluded that it is usually dangerous to the health and growth of the organisation when executive staff efforts are less valued, because it often kills motivation which could be a potent force to drive organisational performance. Similarly, Wilfred, Elijah and Muturi (2014) explained how poor design and administration of recognition programmes poses major challenges to organisational performance by stating that executive teams may choose not to be committed to the organisation objectives through their actions and inactions in discharging their duties. The poor monitoring by executives often leads to major losses to the organisation, especially those in sensitive departments like legal where failure or negligence to vet appropriately, covenants and agreements could ruin the organisation when it comes to adjudication at the courts or those in operations where a single funds transfer could result in big problem for the bank. The direct consequence of this negligence often manifests in declining profitability leading to less return to the shareholders.

Empirical findings on executive compensation, especially those by Tien, Chen and Chuang (2014); Blanco-Mazagatos, Quevedo-Puente and Delgado-García (2016); Onwuka and Onwuchekwa (2018) explained the critical role which attractive base salary, competitive supplemental benefits and generous bonuses play to drive organisational processes to achieve steady and consistent profitability where appropriations would be made to shareholders. The motivation of these executives often ensure that the organisation achieves steady growth in customer acquisition because service sector institutions especially banks relies on large customer base for profitable operations. Essentially, the larger the customer base, the better for them because they will be able to consummate higher business transactions with large customer base, hence, different strategies are always being employed to ensure that they achieve consistent growth in their acquisition efforts. Also, the report by Nagarajau and Pooja (2017) reinforced the view that base salary and supplementary benefits to the executive staff have the capacity to motivate consistent performance from employees. Haripersad and Sookdeo (2018) revealed that DMBs are in fierce competitive race to continuously acquire and grow their customer base because of benefits that always accrue to deposit money banks with large customer base. Such benefits include higher chances to earn interest incomes on loan facilities, fees and commission of transactions and charges on financial advisory services. These banks have special units and departments that speedily attend to issues and challenges on customer acquisitions and ensure that all factors which could cause service failures are addressed satisfactorily or escalated to other units for resolution (Ab-Aziz, Shukoh & Abdullahi, 2014; Abbad & Al-Hawary, 2014; Ali, Kim, Li & Jeon, 2016; Fatma, Khan & Rahman, 2016).

Theoretically, Rashid (2016) emphasised close relationship between agents (executives) and their principals (shareholders) as postulated in Agency theory. However, in certain circumstances and depending on some contractual agreements and relationships, the executives may sometimes demonstrate selfish tendencies to extract as much as possible from the organisation to the disadvantage of their principals and other stakeholders. The study of Ani, Ugwuanta and Imo (2012) explained the positive relationship between shareholders wealth maximisation and customer acquisition. Similarly, the study by Zubair and Irem (2018) confirmed the positive relationship and revealed that bonus programmes should be instituted to attract executive staff with the skill and experience to help in acquisition efforts. Brian, Simone and John (2018) postulated that the success and failures of many organisations are directly attributable to the management know-how of their executive directors who are responsible to institute and execute sound policies that would help their organisations achieve steady and consistent profitability from where shareholders return would be appropriated.

V. Conclusion And Recommendations

The study evaluated the relationship that exists between executive compensation packages and return to shareholders as at deposit money banks and the efforts of executive staff to ensure value creation through steady and consistent appropriations to shareholders for their investing activities. The study employed cross sectional survey research with the use of questionnaires to purposively selected senior and executive staff of the deposit banks. The results of the data analysed through multiple regression revealed that there was positive significant effect of executive compensation on return to shareholders ($F_{(1,392)}$=9.248, $p<0.000$, $R^2 = 0.078$), indicating that the combination of executive compensation sub-variables was statistically significant in explaining changes in return to shareholders. Further, the result also revealed that attractive executive compensation packages was an important strategy to motivate senior and executive staff of deposit banks to achieve corporate goals and objectives. The outcome of this study also revealed that different banks uses different strategies to drive performance among the executive staff. The study recommended that attractive and competitive compensation management should be instituted and sustained at the deposit money banks to ensure steady and consistent growth and development. The compensation management programmes should be reviewed regularly to keep pace with the dynamics of the environment. The study further recommended that the compensation packages
should be formalised and process driven in order to remove as much as possible subjectivities that could easily bring conflicts and discontentment within the organisation management.

References


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