

Agency Compensation and Value of Quoted Consumer Goods Manufacturing Firms: A Multi-Dimensional Study from Nigeria.

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Abstract

This study investigated the relationship between agency compensation and value of quoted consumer goods manufacturing firms in Nigeria. Panel data were sourced from the fact sheets of The Nigeria Stock Exchange from 2009 to 2018. Firm values were proxied by market value and net book value while agency compensation were proxied by executive salaries, executive equity incentives, executive bonus, ownership concentration. Two (multiple) regression models were formulated to ascertain the relationship between the variables; in addition, panel Unit root test was utilised to establish the stationarity of the data, prior to the use of panel cointegration, and granger causality test to test long-run and causal relationships respectively. The panel unit root test proved presence of unit root at first difference and concluded that the variables were integrated in the order of $I(1)$. The study found that executive equity incentives have negative insignificant relationship with market value of the selected firms. It was also observed that the endogenous variables have long-run relationship with the exogenous variables. More so, some causal relationships such as uni-directional flow from net book value to monitoring cost, employee effort to market value. From the findings, the study concluded that there is a significant short-run relationship between the endogenous variables and the exogenous variable. It is therefore recommended that executive salaries of quoted consumer goods manufacturing firms should be pegged constantly in a flexible manner. Board should focus on efficiency measures in setting executive compensation levels as this will affect value of consumer goods manufacturing firms in Nigeria and regulators and policy makers should provide adequate regulation on the determination of remuneration of the directors.

Keywords: Agency Compensation, Value of Quoted Consumer Goods Manufacturing Firms, Executive Salaries, Executive Incentive

Introduction

The opinion that management separation has significant effect on corporate performance could be traced to the fisher separation theorem formulated by Irvin Fisher in 1930. Today, every corporate organization especially the public limited liability companies allow for the separation of ownership from management. This means that owners do not need to be managers and managers do not need to be owners. While the owners invest and provide strategic advice, direction and clear guidelines for implementing plans with the objective of maximizing return on investment, the management has the function of planning, directing, controlling and organizing the corporate resources to achieve the shareholders and stakeholders expectations (Ang, Cole and Lin, 2016). Management is empowered by law such as Companies and Allied Matter Act 1990 to formulate financial policies such as capital structure, investment policies and dividend policy with the objective of maximizing shareholders value. Smith (1943) famously warned against the negligence and profusion of managers handling money other than their own. Apart from external factors that determine market value of quoted firms, internal factors such as management quality, corporate governance and board composition can affect market prices of quoted firms. Chief executive officers provide management services to the organization in return for compensation

Agency compensation includes basic annual salary, bonus, and future contract (DeYoung, Peng, & Yan, 2013). Among these types of compensation, the basic annual salary is a fixed compensation, which is independent of the business performance of the firm, whereas executive bonuses have a significant positive correlation with the business performance of the firm (DeYoung et al., 2013). Chief executive officers forward contracts typically appear in the form of stock awards or grants to stock options that can be redeemed as actual cash rewards after a certain period (Bettis, Bizjak, & Kalpathy, 2015). The substantial increase in chief executive officers and board compensation has been an extensively researched subject and a large amount of previous studies have examined the relation of executive compensation and firm performance (Lilling, 2016; Attaway, 2010; Banker, Darrough, Huang, and Plehn-Dojuwich, 2013). However, the findings and discussions have been contradictory and

inconsistent. However, a key feature of this separation result is that the solution to the production problem depends only on objective information (the project's cash flows and the market rate for borrowing and lending) and can be determined independently of the investor's subjective preferences for consumption. There is information asymmetry according to Fisher's separation theorem (Bettis, Bizjak&Kalpathy, 2015; Kaijage and Elly, 2014;Goeij and Kappert, 2012).

Furthermore, the increasing rate of corporate scandals has queried the role of management in shareholders wealth maximization as contain in corporate finance theories. The collapse of banking institution such as the Oceanic bank, all state trust bank, the recent shake up in Skye bank, the takeover of intercontinental bank and nationalization of Afri bank and bank PHB prove that significant proportion of corporate collapse is as a result of poor corporate governance of the executives. The effect of executive compensation has well been examined in literature, significant proportion of the studies focused on executive compensation and corporate performance or compensation and employee performance (Ogunyemi, Adewole and Akinde, 2019; Oloke, Oni, Babalola, and Ojelabi (2017;Hou, Lee, Stathopoulos, and Tong, 2016). This study examined the effect of executive compensation and value of quoted consumer goods manufacturing firms in Nigeria.

Literature Review

Theoretical Review- Agency Theory

The study is built on agency theory propounded by Jensen and Meckling in 1973. Agency theory is based on the idea that when a company is first established, its owners are usually also its managers. As a company grows, the owners appoint managers to run the company. The owners expect the managers to run the company in the best interests of the owners; therefore a form of agency relationship exists between the owners and the managers. Many firms borrow, and a significant proportion of the long-term capital of a company might come from various sources of debt capital, such as bank loans, lease finance and bond issues (debentures, loan stock and so on). Major lenders also have an interest in how the company is managed, because they want to be sure that the company will be able to repay the debt with interest (Fleming, 2015).

An agent is a person who acts on behalf of another person, the principal, in dealing with other people. For example, a selling agent acts on behalf of a principal, a manufacturer of goods, to sell goods on the manufacturer's behalf. Similarly, a stock broker is an agent who acts on behalf of a client (the principal) to buy or sell shares on the client's behalf. The agent acts on the name of the principal, and commits the principal to agreements and transactions. In company law, the directors act as agents of the company (Ang, Cole and Lin, 2016). The board of directors as a whole, and individual directors, has the authority to bind the company to contractual agreements with other parties. Since most of the powers to act on behalf of the company are given to the board of directors, the directors (and the management of a company) have extensive powers in deciding what the company should do, what its objectives should be, what its business strategies should be, how it should invest and what its targets for performance should be.

As agents of the company, directors have a fiduciary duty to the company. A fiduciary duty is a duty of trust. A director must act on behalf of the company in total good faith, and must not put his personal interests before the interests of the company. If a director is in breach of this fiduciary duty he could be held liable in law, if the company were to take legal action against him. Legal action by a company against a director for breach of fiduciary duty would normally be taken by the rest of the board of directors or, possibly, a majority of the shareholders acting in the name of the company (Ang, Cole and Lin, 2016).

Concepts of Executive Compensation

In modern firms, top executives are normally paid salary plus short-term incentives or bonuses. This combination of fixed salary and variable components like bonuses are often referred to as total cash compensation. Short-term incentives usually are formula-driven and have some performance criteria attached depending on the role of the executive. This is to motivate managers to work hard to achieve good results for the firm's owners. In many cases, top executives are known to be offered ownership stake in the business as a motivation for them.

Jensen and Murphy (1972) suggested that while the relationship between executive compensation and creation of shareholder wealth is statistically significant, it is too weak to provide any assistance as to what constitutes a proper incentive to the chief executive officer. Wallsten³⁰ in his research comes to the conclusion that executive compensation and performance are strongly linked when the firm's market value increases, but not when the market value decreases. When firms do well, top executives receive large raises that are adjusted depending on how well the firm did, but when the firm does badly, the CEO sees little compensation revision, up or down (Frierman and Viswanath, 2019).

Dimensions of Agency Compensation

Fixed Salaries

Fixed salary is the fixed amount of money or compensation paid to an employee on a regular basis in return for work performed for the employer. Salary is normally paid at fixed intervals, usually monthly. Salary is typically determined by comparing market pay rates for people performing similar work/role in similar industries in the same geographical area. Salary is also determined by leveling the pay rates and salary ranges established by an individual employer. Salary is also affected by the number of people available to perform the specific job in the employer's employment locale. Thus, the salary will be affected by market forces in an open economy. Although fixed salaries do not have much relation to management performance, most incentives are based on a fixed salary. Other elements within the compensation contract increase when salary increases. Managers that are risk averse have a relatively larger part of fixed salary as part of their total remuneration (Eric, Brisker, Don, Autore and David, 2014).

The Companies Act lays down the overall limits to managerial remuneration. The Act stipulates that the total managerial remuneration payable by a public company, to its directors including managing director and whole-time director and its manager in respect of any financial year shall not exceed eleven percent of the net profits of that company for that financial year. It further provides that the remuneration payable to any one managing director or whole-time director or manager shall not exceed five percent of the net profits of the company and if there is more than one such director, the remuneration shall not exceed ten percent of the net profits to all such directors and managers taken together (Hou, 2016).

Equity Incentives

Executives of corporations are responsible for corporate strategic operational, managerial, investment, financing and disbursement decisions, which ultimately impact on shareholder value. But, considering that the managers are not the only owners of the firm and their effort in most cases may be opaque in running a company, they may tend to pursue personal interests to benefit themselves and consequently undertake actions potentially not in the best interest of shareholders. Such opportunistic behavior is referred to as moral hazard and gives a rise to an agency conflicts between shareholders and a manager principal and agent conflicts (Berle and Means, 2002).

Executive stock holdings as explained, increases stock holders' confidence in the operation and activities of the firm. This therefore fosters the purchase of the stock of the company thereby boosting its capital base which translates to better liquidity for operation and in that manner drives up discretionary accruals, creates better real activity management and promotes turnover on firms' assets which could have been fallow in the lack of executive stock holding.

Bonuses

Based on the signaling effect as explained, bonuses to top management aids operation by relatively boosting effective and efficient response of those managers towards finding active solution to organizational problems, this incentive as backed by motivational theories promotes in-house activities which translates to better strategic inclination of the firms and is worked on by technical and operational staff. The end result of this is usually an increase in firm's annual discretionary accruals coupled with increasing asset turnover, although real activity management is usually a positive and direct function of the ability of managers to reward staff.

Concepts of Firm Value

Corporate value is defined as how well a company utilizes its primary capital to generate returns and optimize its value. It supports the efficient and effective application of a company's resources to achieve general company goals which include stakeholder's wealth maximization and income maximization. Value creation can also be defined as the attainment of predetermined targets, objectives, and goals within a given timeframe (Pandey, 2015). Corporate control affects company's value because it minimizes expropriation by management, increases effectiveness in investments and the improvement of available cash flows for owners. A good performance indicator should be measurable, applicable and important to the company. Return on asset (ROA) measures the effectiveness of capital employed. It measures how efficient and effective management is in employing company resources to generate corporate value. In this respect, Tobin's Q can be said to be a combination of historical (accounting performance) and futuristic (market value expectation).

Tobin Q is a popular measure of firm value. Tobin's Q was introduced by Tobin as an appropriate measure of performance in 1969. Firm value is calculated as the firm closing price times the number of shares outstanding. Tobin's Q is defined as Firm value of equity plus book value of debt divided by book value of assets. The decision rule for the Tobin's q value is as follows; if the Tobin's q value is between 0 and 1, this means that the firm assets value is higher than the value of the firm stocks, this imply that the firm stock price is undervalued and if the value is higher than 1, this means that the firm assets value is lower than the value of the firm stocks, this implies that the firm stock price is overvalued.

The price at which equity shares are traded in the stock market is known as market price of the shares. The firm value is reflected through the stock market quotations. The market price is a mirror of the company's performance. It also indicates the firm's earnings potential. The firm value of a firm is determined by investment as well as speculative factors. Besides, it is subject to market sentiments and personal decisions (Babalola, 2012). However, firm value provides a close approximation of the true value of a firm. Generally market capitalization is used to measure a firm's total market value. Market capitalization is the product of market price per share multiplied by number of equity shares outstanding.

Measures of Firm Values

Market Value

Market value is based on supply and demand. It is used to refer to a company's market capitalization value. It is calculated by multiplying the number of shares issued by the price of the company's share. A company's share price is determined by daily trading between buyers and sellers on the relevant stock exchange. Market prices are easy to determine for assets as the constituent values, such as stock and futures prices, are readily available. A valuation would have to be prepared using different methods (Negerobo, 2007)

Market value is the value of an asset/security as determined by the forces of demand for and supply of the assets. It is the perceived or observed value of an asset on the market. It is also known as current value. It is in fact the mutually accepted worth (cost or price depending on the individual) of the asset after negotiation.

Net Book Value

In the mid of the 1990s, lots of researchers began to examine the role of book value of equity, using a valuation framework by Ohlson (1995) and Ohlson and Feltham(1995), which expresses share prices under certain conditions as a function of both earnings and book value of equity. Recent empirical work based on Ohlson and Feltham (1995) valuation framework provides evidence for the incremental relevance of book value in equity valuation. They claim that under some fairly reasonable assumptions, equity value is the present value of net financial assets plus present value of all future free cash flow operating activities (Feltham and Ohlson, 1995):

$$EV_0 = NFA_0 + \sum_{t=1}^{\infty} \frac{E(CFO_t)}{(1+r_t)^t} \quad (1)$$

Where

NFA = net financial assets (negative if debts exceeds gross financial assets)
CFO = free cash flow from operating activities

Empirical Review

Ogunyemi, Adewole and Akinde (2019) examined the effects of employees' remunerations on productivity in Nigerian breweries. The study used descriptive research design. The population of this study consists of all staff working at the Nigerian Breweries PLC Ibadan. Sample of one hundred and twenty respondents were selected. A structured questionnaire was used to collect data from the respondents. The descriptive statistics employed include; frequencies and percentage and the relationship between independent and dependent variables were established using Pearson Product Moment Correlation coefficient with the use of (SPSS). The findings were presented using tables and figures. From the findings in the Hypothesis, the $r=0.509^{**}$ was obtained. This is significant as the p-value greater than 0.05. This shows that there was a significant relationship between remuneration packages' and employee performance. The findings also revealed that quick payment of remuneration has great influence on employees' productivity.

Sajuyigbe, Olaoye and Adeyemi (2013) conducted research work on impact of Reward on Employees Performance in a Selected Manufacturing Companies in Ibadan, Oyo State, Nigeria. Human resource is one of the important assets that organization owns. Reward helps management to retain efficient and experienced workforce in an organization. The objective was to examine the impact of reward on employees' performance with special reference to selected manufacturing companies in Ibadan, Oyo State, Nigeria. Structured questionnaire was used to collect data from one hundred (100) participants through purposive sampling method and data were analyzed by multiple regression analysis with the aid of statistical package for social science (SPSS) version 16. Result showed that reward dimensions jointly predict employees' performance, which accounted for 71% variance of performance. Subsequently, recommendations were made to the management of organizations that they should buildup the Commitment among employees by rewards and achieve both individual and Organizational objectives.

Oloke, Oni, Babalola, and Ojelabi (2017) conducted research on Incentive Package, Employee's Productivity and Performance of Real Estate Firms in Nigeria. The level of motivation received by an employee as reflected in the satisfaction with the base pay package and other incentives goes a long way to influencing the employees' attitude to work, loyalty, performance and job satisfaction. Employee's motivation and organization performance has been investigated across different fields and economic sectors. This study takes it further by examining incentive package, employees and organization productivity in real estate firms in Nigeria. Panel survey approach was adopted and three questionnaires administered in each of the one hundred and seventeen (117) estate firms in Ikeja, Victoria Island and Lekki Area of Lagos State. Respondents were two employees and one other in employers'/management capacity. Descriptive tools such as frequency and percentage were used to identify and determine the proportion of firms that make use of incentive package/option while a 5-point Likert scale and ranking were used to determine and rank the options in order of importance among these firms. Panel data regression model was used to determine the strength of relationship between firms' performance/productivity and incentives whilst holding other factors constant. Findings showed amongst others that there is strong positive correlation between incentive and employee productivity, employees are largely dissatisfied with the incentives offered by majority of estate firms and that incentive package is not the most important determinants of performance in real estate firms.

Agba, Mboto, and Agba (2013) attempted to compare the influence of wages and other conditions service on employees performance. To achieve this objective, they elicited information from 300 respondents who were purposively sample from four organizations in some selected geopolitical zones in Nigeria. Data collected were presented in graph, pie chart and bar chart. Findings reveal that, employee job performance are greatly influenced by regular and good wages; followed by conducive work environment, availability of internet facilities, good library, recognition/award, regular promotion, training opportunities, access to medical care and communication flow. They made the following recommendations among others, that managers of formal organizations should properly remunerate workers as well as provide conducive work environment for their employees. They posited that other least motivating factors as identified in their study should not be ignored by managers, since each provide workers with a level of stimulant that propel them into maximum performance in work organization.

DeYoung et al. (2013) found that CEO compensation is significantly related to company characteristics, corporate governance mechanism, and other factors. In private enterprises and foreign investment holding companies, annual executive remuneration has a significant correlation with the annual revenue. (DeYoung et al., 2013). Scholars have found that executive compensation structure is closely related to the performance of corporations (Chakravarty&Grewal, 2016). Some researchers have carried out relevant empirical research on the mutual relationships of executive basic salary, bonuses, benefits, risks, and income. According to Cooper, Gulen, and Rau (2016) the difficulty of distinguishing between the business performance and fixed salary might equate to a greater value in the compensation structure. If the shareholding ratio of CEOs was high, the cash reward would be relatively low (Chakravarty & Grewal, 2016). Individual ownership would replace the salary incentive, and there would be a negative correlation between incentive compensation and executive ownership (Cooper et al., 2016). Increased executive ownership could help coordinate the interests between executives and owners, and potentially reduce the agency costs.

Methodology

The study adopted ex post facto research design to examine the relationship between agency compensation and value of quoted consumer goods manufacturing firms. The study population comprises all the 23 quoted consumer goods manufacturing companies in Nigeria. Out of the 23 firms, a random sampling method base on the availability of data was used to select 22 quoted consumer goods manufacturing firms. Require data were sourced from financial statement and annual reports of the quoted firms. A collection of econometric techniques is used (with the aid of E - Views) to analyze the data. These include panel regression models, co-integration analysis (preceded by unit root test) and granger causality test. Panel data structure allows us to take into account the unobservable and constant heterogeneity, that is, the specific features of each quoted firm.

Model Specification

$$MV = f(ES, EEI, EB, OC) \quad (2)$$

$$NBV = f(ES, EEI, EB, OC) \quad (3)$$

Transforming equation 3.2-3.9 to econometrics form, we have

$$MV = \alpha_0 + \alpha_1 ES + \alpha_2 EEI + \alpha_3 EB + \alpha_4 OC + \mu \quad (4)$$

$$NBV = \alpha_0 + \alpha_1 ES + \alpha_2 EEI + \alpha_3 EB + \alpha_4 OC + \mu \quad (5)$$

Where

MV = Market value of the quoted consumer goods manufacturing firms proxy by end of years equity price

NBV = Net book value of the quoted consumer goods manufacturing firms proxy by log of book value of assets

ES = Executive salaries of the quoted consumer goods manufacturing firms proxy by log of total executive salary

EEI = Executive equity incentives of the quoted consumer goods manufacturing firms proxy by log of executive equity holding

EB = Executive bonuses of the quoted consumer goods manufacturing firms proxy by log of executive bonuses of shares issued
OC = Ownership Concentration of the quoted consumer goods manufacturing firms proxy by log of the 5 largest executive equity investment.

μ = Error Term

$\beta_1 - \beta_4$
 β_0 = Coefficient of Independent Variables to the Dependent Variables
= Regression Intercept

A-Priori Expectations

The a-priori expectations as regards the relationship between the variables are expressed in the table (1) below.

Table 1: Analysis of Variables and A-Priori Expectation

Variable	Measurement	Notation	Expected relationship
Market value	End of the year share trading price	MV	Dependent variable
Net book value	Net Book Value = Total Cost of Asset-depreciation and other financial charges	NBV	Dependent variable
Executive salaries	Log of annual executive salaries	ES	+
Executive equity incentives	log of executive equity holding	EEI	+
Executive bonuses	log of executive bonuses of shares issued	EB	+
Ownership Concentration	Log of the 5 largest executive equity investments.	OC	+

Hausman Test

The Hausman test is used to establish the appropriate choice between random effect regression and fixed effect regression (Brooks, 2014). Since heterogeneity invalidates the cardinal assumption of homogenous deviation of endogenous variables which underpins the application of random effect model, the test is imperative to decide if a variable can be treated as a distinct element with separate structural equation or as an exogenous variable. Croissant & Millio (2019) succinctly noted that Hausman test detects endogenous regressors in a regression model.

Fixed Effects Model

Fixed effects model is a class of statistical models in which the levels (i.e. values) of endogenous variables are assumed to be constant. Nevertheless, the slopes for all endogenous variables remain constant cross-sectional and over time. Thus:

$$y_{it} = \alpha_j + x_{it}^1 \beta + \varepsilon_{it} \quad \varepsilon_{it} \approx HD(0, \sigma^2) \quad (6)$$

Expressing this in a regression framework, we have:

$$y_{it} = \sum_{j=1}^N \alpha_j d_{ij} + x_{ij} \beta + \varepsilon_{it} \quad \varepsilon_{it} \quad (7)$$

Where $d_{ij} = 1$ if $i=j$ and 0 elsewhere.

Random Effects Model

The stochastic term, otherwise referred to as white noise or error term is usually added in regression models to account for endogenous variables excluded in the model. Thus we write the random effects model as:

$$Y_{it} = \alpha + \beta x_{it} + \omega_{it}, \quad \omega_{it} = \epsilon_i + v_{it} \quad (8)$$

Where x_{it} is still a $1 \times k$ vector of explanatory variables, but unlike the fixed effects model, there are no dummy variables to capture the heterogeneity in the cross-sectional dimension.

Panel Unit Root Test

Often times, the simultaneous use of time series data for a collection of entities leads to multiple heterogeneity given that each time series data could possess heterogenous features. This is often referred to as heterogenous panel which by nature have a preponderance of biases that may culminate in misleading results. It is therefore pertinent to scrutinise the data for the existence of unit root and ensure that the data are stationary at a given level. To introduce panel data unit root tests, consider the autoregressive model:

$$y_{it} = \alpha_i + \gamma_i y_{it-1} + \varepsilon_{it} \quad (9)$$

Which we can rewrite as

$$\Delta y_{it} = \alpha_i + \pi_i y_{it-1} + \varepsilon_{it} \quad (10)$$

Where $\pi_i = \gamma_i - 1$. The null hypothesis that all series have a unit root then becomes $H_0 : \pi_i = 0$, for all i . a first choice for the alternative hypothesis is that all series are stationary with the same mean-reversion parameter.

Panel Data Co-integration Tests

Co-integration is used to test long-run relationship between the endogenous and exogenous variables. Pedroni's (1999, 2004) work is very general and accommodates separate intercepts for each group of potentially co-integrating variables and separate deterministic trends. For a set of variables y_{it} and $x_{m,i,t}$, that are individually co-integrated of order one and thought to be co-integrated:

$$y_{i,t} = \alpha_i + \delta_i t + \beta_{1i} x_{1i,t} + \beta_{2i} x_{2i,t} \dots + \beta_{Mi} x_{Mi,t} + u_{i,t} \quad (11)$$

Where $m = 1, M$ are the explanatory variables in potentially co-integrating regression; $t = 1, \dots, T$ and $i = 1, \dots, N$. The residuals from this regression, $\hat{u}_{i,t}$ are these subjected to separate Dickey-Fuller or augmented Dickey-Fuller type regression for each group of variable to determine whether they are I(1).

Results and Discussion of Findings

Agency Compensation and Market Value of Quoted Consumer Goods Manufacturing Firms

Table 2: Panel Unit Roots Tests

Method	Statistic	Prob.**	Cross sections	Obs	Order of int	Remark	Decision
MV							
Levin, Lin & Chu t*	-				1(I)	Stationary	Reject H0
Im, Pesaran and Shin W-stat	7.84310	0.0000	21	126	1(I)	Stationary	Reject H0
ADF - Fisher Chi-square	3.78830	0.0001	21	126	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	94.156				1(I)	Stationary	Reject H0
	9	0.0000	21	126	1(I)	Stationary	Reject H0
	241.54				1(I)	Stationary	Reject H0
	8	0.0000	21	147			
OC							
Levin, Lin & Chu t*	-				1(I)	Stationary	Reject H0
Im, Pesaran and Shin W-stat	6.98404	0.0000	20	120	1(I)	Stationary	Reject H0
ADF - Fisher Chi-square	-				1(I)	Stationary	Reject H0
PP - Fisher Chi-square	3.06706	0.0011	19	114	1(I)	Stationary	Reject H0
	77.195				1(I)	Stationary	Reject H0
	2	0.0002	19	114	1(I)	Stationary	Reject H0
	234.61				1(I)	Stationary	Reject H0
	4	0.0000	19	133			
ES							
Levin, Lin & Chu t*	-				1(I)	Stationary	Reject H0
Im, Pesaran and Shin W-stat	8.55248	0.0000	21	147	1(I)	Stationary	Reject H0
ADF - Fisher Chi-square	-				1(I)	Stationary	Reject H0
PP - Fisher Chi-square	2.85479	0.0022	21	147			

ADF - Fisher Chi-square	78.450				1(I)	Stationary	Reject H0
	3	0.0005	21	147			
PP - Fisher Chi-square	111.29				1(I)	Stationary	Reject H0
	7	0.0000	21	168			
EI							
Levin, Lin & Chu t*	-				1(I)	Stationary	Reject H0
Im, Pesaran and Shin W-stat	19.3882	0.0000	21	126			
	-				1(I)	Stationary	Reject H0
	5.92697	0.0000	21	126			
ADF - Fisher Chi-square	83.496				1(I)	Stationary	Reject H0
	9	0.0001	21	126			
PP - Fisher Chi-square	272.15				1(I)	Stationary	Reject H0
	5	0.0000	21	147			
EB							
Levin, Lin & Chu t*	-				1(I)	Stationary	Reject H0
Im, Pesaran and Shin W-stat	156.902	0.0000	21	126			
	-				1(I)	Stationary	Reject H0
	26.1882	0.0000	21	126			
ADF - Fisher Chi-square	98.577				1(I)	Stationary	Reject H0
	4	0.0000	21	126			
PP - Fisher Chi-square	300.94				1(I)	Stationary	Reject H0
	5	0.0000	21	147			

Source: computed from E-view 9.0

It can be seen from the Table (2) above that the data are not stationary at first difference for 1%, 5% and 10% levels of significance. It is therefore deduced that the series are characterized as I (1) process; consequently, suitable for a use in a test for panel cointegration between agency problem and market value of the consumer goods manufacturing firms.

Table 3: Short Run Regression Results

Variable	Pooled Effect			Fixed effect			Random effect		
	β coefficient	T. stat	p. value	β coefficient	T. stat	p. value	β coefficient	T. stat	p. value
OC	-0.152437	2.666079	0.0083	-0.062710	0.572370	0.5677	-0.115558	1.477783	0.0009
ES	0.137741	1.268662	0.2059	0.403035	1.819202	0.0704	0.227754	1.548063	0.0031
EI	0.152750	1.065243	0.2880	-0.114821	0.540898	0.5892	-0.007796	0.044820	0.9643
EB	0.262874	2.434337	0.0157	-0.169263	-	0.4899	0.167948	1.100179	0.1725

					0.691846				
C	0.013746	0.016873	0.9866	0.710043	0.447549	0.6550	0.272767	0.242398	0.8087
R ²	0.117197			0.365051			0.738507		
AdjR ²	0.100773			0.283228			0.520619		
F-stat	7.135600			4.461461			5.152670		
F- Prob	0.000021			0.000000			0.000042		
D W	0.841389			1.094713			1.988071		
Hausman Test									
Test Summary	Chi-Sq.			Chi-Sq.			Prob.		
	Statistic			d.f					
Cross-section random	7.290111			4			0.1213		
Cross-Section Random Effects Test Comparisons									
Variable	Fixed	Random	Var(Diff.)		Prob.				
OC	-0.062710	0.115558	0.005889		0.4910				
ES	0.403035	0.227754	0.027437		0.2900				
EI	-0.114821	0.007796	0.014808		0.3791				
EB	-0.169263	0.167948	0.036552		0.0778				

Source: Computed from E-view 9.0

Analysis of Results

Given that the Chi-Sq. Probability is greater than 0.05, being 0.1213, the random effect model is adopted. The table also shows comparable differences between fixed and random effect models in the results, as the results in the table show 0.49, 0.29, 0.391 and 0.0778 for ownership concentration, executive salaries, executive equity incentives and executive bonuses respectively, which is significant. This implies that there is a significant difference between random and fixed effect model.

As regards the model summary, the R² in the random effects model is 0.738 implying that agency compensation accounts for approximately 74% variation in market value of quoted consumer goods manufacturing companies in Nigeria. The adjusted R² also shows 0.52 implying that irrespective of the number of endogenous variables, agency compensation would not account for more than 52% variation in market value of the selected companies. The Durbin Watson is 1.983404 as computed from the random effect results at 5% level of significance with four explanatory variables and 220 observations. This is greater than the calculated DW for dL and du which are 0.861 and 1.562 respectively. Besides, given that it revolves around 2, it is permissible; therefore, there is no evidence of serial correlation.

Furthermore, the movement between the endogenous and exogenous variables as seen from the coefficients shows that the constant of the model is 0.272767, implying that if the endogenous variables are held constant or unchanged, the exogenous variable - market value will rise by 0.27 units periodically. The coefficient of the parameters or endogenous variables show that ownership concentration and executive equity incentives have negative relationship with market value, while executive salaries and executive bonuses have positive relationship with market value of quoted consumer goods manufacturing firms in Nigeria. The magnitude is such that, a unit

increase in OC and EEI will result in a 0.115 and 0.007 units fall in market value or vice versa, while on the other hand, a unit rise in ES and EB will lead to a 0.0.227 and 0.167increase in the market value of quoted consumer firms in Nigeria.

The severity of relationship shows that ownership concentration and executive salaries have significant relationship with market value given that their p-values are less than 0.05, being 0.0009 and 0.0031 respectively; while on the other hand, executive equity incentives and executive bonuses are seen to have insignificant relationship with market value of the selected firms as indicated by p-values that are greater than 0.05, which are 0.9643 and 0.1725 respectively. Comprehensively, the probability of the F-statistics is 0.000042, being less than 0.05; therefore agency compensation has a statistically significant relationship with the market value of quoted consumer goods manufacturing firms in Nigeria.

Table 4 : Pedroni Residual Cointegration Test

Series: MV OC ES EEI EB

	<u>Statistic</u>	<u>Prob.</u>	<u>WeightedStatistic</u>	<u>Prob.</u>
Panel v-Statistic	2.049233	0.0202	-1.346821	0.9110
Panel rho-Statistic	3.645175	0.9999	3.355499	0.9996
Panel PP-Statistic	-4.643338	0.0000	-6.583605	0.0000
Panel ADF-Statistic	-0.143616	0.4429	-1.479536	0.0695
Alternative hypothesis: individual AR coefs. (between-dimension)				
	<u>Statistic</u>	<u>Prob.</u>		
Group rho-Statistic	5.519163	0.0000		
Group PP-Statistic	-10.31419	0.0000		
Group ADF-Statistic	-3.376433	0.0004		

Source: Eviews Version 9

The panel co-integration results provide us with evidence of co-integration since most of Pedroni test statistics reject the null hypothesis of no co-integration for the two estimated models. Two out of the four test statistics proved the presence of co-integration while from the group statistics group ADF is not significant which implies that there is no co-integrating effect.

Table 5: Pairwise Granger Causality Tests

<u>Null Hypothesis:</u>	<u>Obs</u>	<u>F-Statistic</u>	<u>Prob.</u>
OC does not Granger Cause MV	176	3.32725	0.0382
MV does not Granger Cause OC		0.47648	0.6218
ES does not Granger Cause MV	176	0.49868	0.6082
MV does not Granger Cause ES		0.05764	0.9440
EEI does not Granger Cause MV	176	0.88750	0.4136
MV does not Granger Cause EEI		0.53915	0.5842
EB does not Granger Cause MV	176	1.64563	0.1959
MV does not Granger Cause EB		0.12708	0.8807

Source: Computed from E-view 9.0

From our granger causality test results show that although agency compensation does not have a causal effect on market value of the quoted consumer goods manufacturing firms in Nigeria except uni-directional causality from ownership concentration to market value of the quoted consumer goods manufacturing firms.

Agency Compensation and Net Book Value of Quoted Consumer Goods Manufacturing Firms

Table 6: Panel Unit Roots Tests

Method	Statistic	Prob.**	Cross sections	Obs	Order of int	Remark	Decision
NBV							
Levin, Lin & Chu t*	-4.08184	0.0000	22	132	1(I)	Stationary	Reject H0
Im, Pesaran and Shin					1(I)	Stationary	Reject H0
W-stat	-9.36278	0.0000	22	132			
ADF - Fisher Chi-square	158.869	0.0000	22	132	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	322.992	0.0000	22	154	1(I)	Stationary	Reject H0
OC							
Levin, Lin & Chu t*	-11.2727	0.0000	21	126	1(I)	Stationary	Reject H0
Im, Pesaran and Shin					1(I)	Stationary	Reject H0
W-stat	-4.08343	0.0000	21	126			
ADF - Fisher Chi-square	95.8498	0.0000	21	126	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	204.781	0.0000	21	147	1(I)	Stationary	Reject H0
ES							
Levin, Lin & Chu t*	-19.3842	0.0000	21	126	1(I)	Stationary	Reject H0
Im, Pesaran and Shin					1(I)	Stationary	Reject H0
W-stat	-5.92121	0.0000	21	126			
ADF - Fisher Chi-square	83.4471	0.0001	21	126	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	272.194	0.0000	21	147	1(I)	Stationary	Reject H0
EEI							
Levin, Lin & Chu t*	-156.902	0.0000	21	126	1(I)	Stationary	Reject H0
Im, Pesaran and Shin					1(I)	Stationary	Reject H0
W-stat	-26.1882	0.0000	21	126			
ADF - Fisher Chi-square	98.5774	0.0000	21	126	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	300.945	0.0000	21	147	1(I)	Stationary	Reject H0
EB							
Levin, Lin & Chu t*	-156.902	0.0000	21	126	1(I)	Stationary	Reject H0

Im, Pesaran and Shin					1(I)	Stationary	Reject H0
W-stat	-26.1882	0.0000	21	126			
ADF - Fisher Chi-square	98.5774	0.0000	21	126	1(I)	Stationary	Reject H0
PP - Fisher Chi-square	300.945	0.0000	21	147	1(I)	Stationary	Reject H0

Source: Computed from E-view 9.0

It can be seen from the Table (6) above that the data are not stationary at first difference for 1%, 5% and 10% levels of significance. It is therefore deduced that the series are characterized as I (1) process; consequently, suitable for a use in a test for panel cointegration between agency problem and market value of the consumer goods manufacturing firms.

Table 7: Short Run Regression Results

Variable	Pooled Effect			Fixed effect			Random effect		
	β coefficient	T. stat	p. value	β coefficient	T. stat	p. value	β coefficient	T. stat	p. value
OC	-0.052023	1.440997	0.1510	0.047680	1.161638	0.2468	-0.051425	1.403777	0.1619
ESS	-0.122928	1.793257	0.0743	-0.058954	0.710299	0.4784	-0.122907	1.765692	0.0789
EI	0.427350	4.722337	0.0000	0.262663	3.302967	0.0011	0.450221	4.788038	0.0000
EB	0.177948	2.610060	0.0097	0.073297	0.799535	0.4250	0.182418	2.620710	0.0094
C	5.747503	11.17336	0.0000	5.759127	9.690535	0.0000	5.639666	10.60194	0.0000
R-squared	0.208510			0.799590			0.824521		
AdjR ²	0.193785			0.773764			0.675583		
F-statistic	14.15991			30.96070			4.587867		
F-Prob	0.000000			0.000000			0.000001		
D W	0.481880			1.860824			1.861375		
Hausman Test									
Test Summary		Chi-Sq. Statistic		Chi-Sq. d.f		Prob.			
Cross-section random		2.599490		4		0.6269			
Cross-Section Random Effects Test Comparisons									
Variable	Fixed	Random	Var(Diff.)	Prob.					

OC	0.047680	0.035205	0.000170	0.3390
ESS	-0.058954	0.063855	0.001007	0.8773
E EI	0.262663	0.273566	0.000374	0.5728
EB	0.073297	0.094205	0.001410	0.5776

Source: Computed from E-view 9.0

Analysis of Results

It is established from the Chi-Sq. Probability, which is greater than 0.05, (being 0.6269), that the random effect model is adopted. The table also shows comparable differences between fixed and random effect models in the results, as the results in the table show 0.34, 0.88, 0.57 and 0.58 for ownership concentration, executive salaries, executive equity incentives and executive bonuses respectively, which is significant. This implies that there is a significant difference between random and fixed effect model.

As regards the model summary, the R^2 in the random effects model is 0.824521 implying that agency compensation accounts for approximately 82% variation in net book value of quoted consumer goods manufacturing firms in Nigeria. The adjusted R^2 also shows 0.676 implying that irrespective of the number of endogenous variables, agency compensation would not account for more than 68% variation in net book value of the selected companies. The Durbin Watson is 1.86 as computed from the random effect results at 5% level of significance with four explanatory variables and 220 observations. This is greater than the calculated DW for dL and du which are 0.861 and 1.562 respectively. Besides, given that it revolves around 2, it is permissible; therefore, there is no evidence of serial correlation.

Furthermore, the movement between the endogenous and exogenous variables as seen from the coefficients shows that the constant of the model is 0.272767, implying that if the endogenous variables are held constant or unchanged, the exogenous variable - market value will rise by 0.27 units periodically. The coefficient of the parameters or endogenous variables show that ownership concentration and executive equity incentives have negative relationship with market value, while executive salaries and executive bonuses have positive relationship with market value of quoted consumer goods manufacturing firms in Nigeria. The magnitude is such that, a unit increase in OC and EEI will result in a 0.115 and 0.007 units fall in market value or vice versa, while on the other hand, a unit rise in ES and EB will lead to a 0.0227 and 0.167 increases in the market value of quoted consumer firms in Nigeria.

The severity of relationship shows that executive equity incentives and executive bonuses have significant relationship with net book value given that their p-values are less than 0.05, being 0.000 and 0.0094 respectively; while on the other hand, ownership concentration and executive salaries are seen to have insignificant relationship with net book value of the selected firms as indicated by p-values that are greater than 0.05, which are 0.16169 and 0.0789 respectively. Comprehensively, the probability of the F-statistics is 0.000001, being less than 0.05, therefore agency compensation has a statistically significant relationship with the net book value of quoted consumer goods manufacturing firms in Nigeria.

Table 8: Pedroni Residual Cointegration Test

Series: NBV OC ESS EEI EB

	Statistic	Prob.	WeightedStatistic	Prob.
Panel v-Statistic	-0.341719	0.6337	-1.825537	0.9660
Panel rho-Statistic	2.381965	0.9914	2.554889	0.9947

Panel PP-Statistic	-10.42482	0.0000	-10.24774	0.0000
Panel ADF-Statistic	-2.452793	0.0071	-2.162887	0.0153
	<u>Statistic</u>	<u>Prob.</u>		
Group rho-Statistic	4.580927	0.0000		
Group PP-Statistic	-13.78425	0.0000		
Group ADF-Statistic	-3.016912	0.0013		

Source: Computed from E-view 9.0

It is also important to note that, the panel co-integration results provide us with evidence of co-integration since most of Pedroni test statistics reject the null hypothesis of no co-integration for the two estimated models. Two out of the four test statistics proved the presence of co-integration while from the group statistics group ADF is not significant which implies that there is no co-integrating effect.

Table 9: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
OC does not Granger Cause NBV	176	0.00397	0.9960
NBV does not Granger Cause OC		0.28943	0.7491
ESS does not Granger Cause NBV	176	0.32904	0.7201
NBV does not Granger Cause ESS		0.13990	0.8695
EEI does not Granger Cause NBV	176	0.10562	0.8998
NBV does not Granger Cause EEI		1.88070	0.1556
EB does not Granger Cause NBV	176	0.08511	0.9185
NBV does not Granger Cause EB		0.35537	0.7014

Source: Computed from E-view 9.0

The granger causality test results in table 9 shows that there is neither bidirectional nor uni-directional causal relationship between any of the variables.

Discussion of Findings

The relationship between agency compensation and market value of quoted consumer goods manufacturing firms was subjected to empirical scrutiny to show that the duo have a significant relationship. The endogenous variables that constitute agency compensation were individually related to market value to reveal that while executive bonuses do not show significant relationship, ownership concentration, executive salaries and executive equity incentives show significant relationship with market value. Specifically, ownership concentration has a negative relationship with market value as also observed by Pinteris (2002) but contrast the findings of Yermack (1996), Yuk-Chow (2005), Young & Kunsu (2019). This implies that the narrower the ownership, the better the market value. This could be due to the ease in decision making and elimination of bureaucratic and administrative bottlenecks that could compromise decision making and taking. Besides, narrow ownership structure would afford owners substantial dividends, thus potentials investors would be interested in harvesting the dividends which have not suffered dilution, which creates excess demand for the firm's shares in comparison with supply, thereby increasing market value. In line with Zou, et al (2015), Ogunyemi, et al (2019), Alves, et al (2016) the study provides empirical evidence of positive and significant relationship between executive salaries and market value. This implies that improved and increased salaries would increase market value of firms. The reason for this is not far-fetched, commensurate salaries would prompt top executives to secure their jobs by

articulating and implementing strategies and policies that would secure the firm's going concern and deliver results that delight the owners. Consequently align shareholders expectations with management's actions. This would make the firm attractive to potential shareholders thus increase market value.

On the other hand, executive equity incentives are negatively and insignificantly related with market value of the selected firms. This implies that share options and equity incentives to CEOs and other top corporate executives would depreciate corporate value. This corroborates Zou, et al (2016), Brisker, et al (2014) and Balafa & Florakis (2014) who observed that CEOs equity would be inimical to corporate performance as having the CEOs wealth concentrated in equity could curtail the ability of accepting risky projects that seem risky. Thus, the CEOs exposure and incongruity in terms of risk appetite could curtail market value. Nevertheless, the relationship between executive bonuses and market value is seen to be positive, but insignificant. Banker, et al (2013), Lin, et al (2013), Brisker & Wang (2017), Shim & Kim (2015), Cooper, et al (2016) and Joubert (2016) have previously made similar findings between the variables. This implies that corporate executives would strive to deliver positive results and better value to firms that value them appropriately and take their welfare as a top priority. It is also observed that there is a long run relationship between agency compensation and market value of quoted consumer goods manufacturing firms in Nigeria. More so, the uni-directional causal relationship that flows from ownership concentration to market value implies ease in establishing the nominated objective of owners which is easily discernable with narrow ownership concentration promotes market value.

Agency compensation is also examined alongside net book value to show that there is a significant relationship between both variables. More so, ownership concentration, executive equity incentives and executive bonuses also have significant relationship with net book value, while executive salaries do not have statistically significant relationship with net book value of quoted consumer goods manufacturing firms in Nigeria. Similar to its relationship with market value, ownership concentration has an inverse relationship with net book value implying that the narrower the ownership structure, the better the net book value. However, in addition to the reasons advanced earlier, narrower ownership who also simplify aggregation and prediction of shareholders interest as regards the direction and nominated objective of the business, thus avail management clarity on such interest as conflicting interests among shareholders could be curtailed. Besides, internal politics and other tendencies among the owners, which could derail management, would be diminished where ownership is highly concentrated. Executive salaries, executive equity incentives and executive bonuses however, have positive relationship with net book value of quoted consumer goods manufacturing companies in Nigeria. This implies that salaries further align management's professional and business interests to that of shareholders when they are remunerated properly and adequately. This also implies that corporate executives are motivated when they are not just perceived and regarded as officers of the organization, but also have ownership stake in the firm. Ownership, conveys sense of belonging to management, thus they would act in the best interest of other owners and strive to act in their best interest which has also align with that of other shareholders by virtue of ownership stake. It is also observed that there is a long run relationship between agency compensation and net book value of quoted consumer goods manufacturing firms in Nigeria.

Conclusion

This study examined the effect of agency compensation on corporate value in Nigeria. The objective was to study how executive compensation relates to value of quoted consumer goods manufacturing firms in Nigeria. From the findings, the study concludes that ownership concentration has negative and significant effect on market value but negative and no significant effect on net book value. That executive salary has positive and significant effect on market value but negative and no significant effect on net book value. That executive equity incentive has negative and significant effect on market value but positive and significant effect on net book value. That executive bonus has negative and no significant effect on market value but positive and significant effect on net book value.

Recommendations

From the findings, the study makes the following recommendations:

1. Executivesalaries of quotedconsumer goods manufacturing firms should be pegged constantly in a flexible manner. This will enable shareholders known the causality relationship between executive salaries and value of the firms.
2. The regulators should make it mandatory for consumer goods manufacturing to clearly show all the remunerations, bonuses and packages in monetary value on the annual reports and accounts.
3. The link between ownership concentration andmarket value is often influenced somewhat by the performance metric used. In the interest of the shareholders, the performance metric adopted should be in conformity with the objective of shareholder wealth maximization.
4. There should also be a consideration of the compensation setting process that depends on a firm’s ownership structure, board of directors, remuneration committee, market for corporate control and the general public.
5. Board should focus on efficiency measures in setting executive compensation levels as these ultimately drives the performance of consumer goods manufacturing Nigeria and regulators and policy makers should provide adequate regulation on the determination of remuneration of the directors of listed consumer good manufacturing in Nigeria.

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