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DIRECTORS' REMUNERATION AND FINANCIAL PERFORMANCE: EVIDENCE FROM THE NIGERIAN HOSPITALITY INDUSTRY

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Abstract
The attention of the general public has been lately drawn to the subject of corporate governance due to its obvious significance in the area of economic and financial wellbeing of organizations and that of the society at large. Following a series of widespread corporate scandals that resulted in the collapse of previously prominent companies the attention of various groups of stakeholders has been drawn towards the significance of corporate governance. One of the specific issues of concern is the remuneration of the directors. Agitations regarding excessive remuneration packages of directors have been added to the ongoing concern about the widening gap between the remuneration of executives and ordinary employees, as well as their large termination payments with perceived lack of justification. Since the beginning of the 21st century, there has been increased public scrutiny of escalating levels of remuneration of directors across the globe. Thus, this study examined the effect of directors' remuneration on corporate financial performance. The study employed ex-post facto research design using panel data for the periods under study (2009-2018). The scope of the study comprised of the three hotels listed in the Nigerian Stock Exchange as at December 2018. Necessary data were obtained from the audited financial reports of the selected companies. The results of the regression analysis revealed the existence of a positive significant relationship between directors' remuneration and corporate financial performance. This study recommends that corporate board members should be well remunerated, this will go a long way in boosting their moral for effective discharge of their duties.

Key words*: Agency theory, Executive compensation, EPS, Firm size, Financial performance.*

JEL Classification Codes: *M40; M41.*

1. INTRODUCTION

Akinyomi and Olutoye (2015) described corporate governance as the approaches through which firms are being managed, a structure through which the interest of the diverse stakeholders are being synchronised, displaying set of interface between a company's management, its board, its shareholders and other stakeholders. Corporate governance is one of the current and contentious areas in business settings. In the past, it was contemplated as an exclusive debate among accounting experts and audit societies, nevertheless, presently it is becoming more central across knowledge disciplines in addition to in real business world (Mohammad, Abdullah & Shukor, 2009).

The attention of the general public has been lately drawn to the subject of corporate governance due to its obvious significance in the area of economic and financial wellbeing of organizations and that of the society at large. Following a series of widespread corporate scandals that resulted in the collapse of previously prominent companies such as Cadbury

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Nigeria Waste Management scandal of 1998, Enron scandal of 2001, WorldCom scandal of 2002, HealthSouth scandal of 2003, Lehman Brothers scandal of 2008, and Satyam scandal of 2009, among others, the attention of various groups of people has been drawn towards the significance of corporate governance. One specific aspect of corporate governance which has lately drawn attention from the general public is the remuneration of the directors.

Agitations regarding excessive remuneration packages of directors have been added to an ongoing concern about the widening gap between the remuneration of executives and ordinary employees, as well as their large termination payments with perceived lack of justification (Theunissen, 2010). During the 21st century, there has been increased public scrutiny of escalating levels of remuneration of directors across the globe (Nicely, 2009).

Executive remuneration represents a severe problem in the global financial world, with numerous investors, shareholders, and the public becoming outspoken about the levels of remuneration of directors (Okasmaa, 2009). Particularly in the spotlight are companies that disclose poor performance, but whose executives still receive excessive remuneration, and dismissed CEOs who received large severance packages (Dommisse, 2011). Up till date, directors' compensation remains a contentious issue (Wray, 2008; Okasmaa, 2009; Bouwmeester, 2011), and has, particularly in the last few years, attracted a lot of public attention (Ozkan, 2011).

Thus, the main objective of this study is to examine the effect of directors' remuneration on the financial performance of Nigerian hospitality industry. The specific objective includes to ascertain the relationship between directors' remuneration and ROA in the Nigerian hospitality industry. In line with the stated objective, the following hypothesis has been formulated in order to be able to ascertain the existence of relationship which exists between directors' remuneration and financial performance:

H_{0i}: There is no significant relationship between directors' remuneration and ROA in the Nigerian hospitality industry.

2. LITERATURE REVIEW

Corporate governance is designed in such a way that business of any particular organization is administered under the direction of the board of directors. The board usually delegates the Chief Executive Officer, who with other senior management manages the day to day activities of the organization. Essentially, the role of the board of directors is to supervise the administration and control of the organization and to monitor senior management's performance.

The remuneration paid to the board of directors represents their rewards which usually includes: salaries, fees, defined contributions and benefits in kind. Erick, Kefah and Nyaoga (2014) noted that these rewards could be in form of financial, non-financial and psychological payments that an organization provides for its board of directors. These rewards are intended to attract new personnel to the organization, stimulate good work performance and maintain commitment to the organization. Direct remuneration is that which is received by the directors periodically (usually monthly) in form of basic salary, overtime allowance, commission, merit pay, leave allowance, bonuses and company profit-sharing. Indirect pay, often called benefits-in-kind, could be in form of health and life insurance cover, retirement and pension plans, company car, health care, health club memberships, mobile phone, subsidized meals and subsidized entertainment (Koala Consulting and Training, 2008).

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Agency theory provides clarifications on the association that exists between business owners (principals) and the management of such businesses (agents). The theory aims at resolving conflict of interests that may arise in agency relationships as a result of divergent goals and attitude towards risk (Guilding, Warnken, Ardill & Fredline, 2005). Therefore, management teams are hired by the business' owners in order to greatly enhance the returns on shareholders' wealth for the company. Contrariwise, in real life situations, this is not always the case. Conflicts may come up between the business management and owners/shareholders, which could lead to declining corporate performance (Guilding et al., 2005).

One of the major factors which could serve as the foundation for this conflict has to do with variation in the interests of both parties. There are four unique causes of conflict of interest between the management and shareholders, these are: a possibility of effort repugnance by the management, management might use its position as an occasion to divert company's resources towards individual benefit, the management and business owners might have dissimilar approaches on long-term relationships, and there might be dissimilar attitudes towards risk from the manager and the owner (Guilding et al., 2005).

The absence of alignment with respect to interests between management and shareholders culminates in agency loss (Donaldson & Davis, 1991). To avoid agency loss, shareholders should ensure that their interests are in alignment with those of the management. Nyberg and Gerhart (2010) highlights some facts geared towards reducing agency problems, these include: increasing degree of managers' monitoring by directors, enforcing disciplinary actions on erring managers, and managers' equity ownership. Donaldson and Davis (1991) recommend the implementation of incentive schemes for managers. In such schemes managers are compensated monetarily for optimizing shareholder interests. The shareholders can accordingly decrease the variation in alignment with the manager by setting suitable incentives for the manager (Hill & Jones, 1992). These incentives could also include the compensation that managers, including the Chief Executive Officer (CEO) receive. Manager and CEO enthusiasm will rise and this could have a positive effect on business performance.

Quite a number of studies have been conducted on the association between directors' remuneration and financial performance. A study was conducted on the relationship that exists between board remuneration and corporate financial performance in Japan (Basu, Hwang, Mitsudome, & Weintrop, 2007). The results of the analysis indicated the existence of a negative relationship between directors' remuneration and financial performance. The study indicated that weak governance structures, which led to greater agency problems in the selected companies was responsible for the negative relationship. The aftermath of the weak governance structures was an excessive remuneration paid to the directors, which ultimately led to reduced financial performance.

In Kenya, a study conducted by Erick *et al*., (2014) examined the relationship between board of directors' remuneration and financial performance of insurance companies. Specifically, the study surveyed functional form connection between the degree of board of directors' remuneration and key performance ratios through the use of regression model. The outcome of the analysis indicated the existence of a non-significant but negative relationship between board of directors' remuneration and financial performance. The finding suggested that key performance ratios were not major considerations when determining board of directors' remuneration among the insurance companies in Kenya.

In the UK, Ozkan (2007) surveyed the connection between directors' remuneration and financial performance utilizing a data set of 390 UK nonfinancial organizations for the period 1999-2005. The results showed the existence of a positive and significant association between board financial remuneration and corporate financial performance, nonetheless the

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association between total board remuneration and performance was positive but not significant. The result indicated further that larger organizations pay their board higher remuneration, which could be interpreted to be a reflection of the demand for higher quality board talent.

In Portugal, Fernandes, (2005) studied the factors affecting managerial remuneration, with a unique stress on the association between directors' remuneration and organization performance of companies listed in the Portuguese Stock Exchange. The results of the study revealed that neither is remuneration related to shareholders' wealth, neither do shareholders have any mechanism to influence it. The results submitted that only limited number of companies have what is actually considered as an independent director that looks after shareholders' interests. The results indicated that company performance was not significantly related to board remuneration in Portugal.

In Malaysia, Lee and Isa (2015) examined the relationship between directors' remuneration and corporate financial performance and corporate governance in the banking sector, using panel data for 21 banks over the period 2003-2011. Multivariate regression analysis was carried out on the data collected for the study. The result indicated the existence of a positive relationship between directors' remuneration and corporate financial performance. The study further revealed the existence of a positive correlation between directors' remuneration and the percentage of independent directors.

Meanwhile, in France, Yamina and Mohamed (2017) surveyed the influence of corporate productivity on managerial remuneration. The study was necessitated due to few studies on managerial remuneration in the context of France. Necessary information was obtained from the annual reports of ninety randomly selected firms quoted on the French stock market index component of the SBF 120 for 2004. The result of the regression analysis indicated the existence of a positive and significant relationship between executive remuneration and corporate performance. In other words, increase in executive remuneration results in increase in corporate financial performance.

In the US, Sigler (2011) carried out a study with respect to the association which exists between CEO's remuneration and financial performance among 280 companies listed on the New York Stock Exchange for a period from 2006 through 2009. The time frame of 2006-2009 for the study was the period after the implementation of the Sarbanes Oxley Act and after the authorization of the corporate governance rules affecting executive pay for New York Stock Exchange companies. The study revealed the existence of a positive and significant relationship between total CEO remuneration and corporate performance measured by return on equity for the period. The result also revealed that company size happens to be the most important element in defining the degree of total CEO remuneration, followed by the tenure of the CEO.

3. METHODOLOGY

The study employs ex-post facto research design using panel data for the periods under study (2009-2018) as it permits for the gathering of past and multi-dimensional data which afford basis for the full establishment of the relationship which exists between directors' remuneration and financial performance of the listed hotels, which represents the Nigerian hospitality industry. The data for the study were obtained from the published annual report of the listed hotels in Nigeria. Cooper and Schindler (2001) maintained that experimental design using secondary data is suitable when one desires to determine whether certain variables produce effects on other variables. Additionally, it provides the most

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powerful support possible for a hypothesis of relationship. Data obtained were subjected to regression analysis. The regression equations are:

$ROA_{it} = \beta_0 + \beta_1 DREM_{itt} + \beta_2 FS_{it} + e_{it}$... (1)

Where: ROA_{it} represents firm performance (dependent) variable which is return on assets for listed hotels at time t. $DREM_{it}$ represents directors' remuneration (independent variable) for the listed hotels at time t. FS_{it} represents the control variable which is firm size at time t. Meanwhile, e_{it}, the error term which account for other possible factors that could influence $DREM_{it}$ that are not captured in the model. A priori expectation: is such that an increase in directors' remuneration will lead to an increase in financial performance.

4. FINDINGS AND DISCUSSIONS

The data analysis result carried out on the data collected is as presented in this section, followed by the discussion of the findings.

Table 1: Regression Result with ROA as a measure of Financial Performance

Independent Variable	Coefficient Estimate	Standard Error	t-Statistics	*P*-Value
Constant	.145	.266	.546	.589
BREM	.124	.042	2.974	.006
Total Assets	-.090	.033	-2.701	.012

R = 0.558; R^2 = 0.6312; F-statistic = 6.111; (p-value = 0.006)

Source: Researcher's Computation (2019)

The result revealed the existence of a high (55.8%) and a positive correlation between directors' remuneration and return on assets in the Nigerian hospitality industry. Furthermore, the probability of a t-test of directors' remuneration is statistically significant at 5% with a *p*-value of 0.006 which is less than the critical value of 0.05. This suggests that there is a statistically significant positive relationship between directors' remuneration and financial performance using returns on assets in the Nigerian hospitality industry.

The outcome of the analysis authenticates the results reported in some of the prior studies (Ozkan, 2007; Sigler, 2011; Lee & Isa, 2015; Yamina & Mohamed, 2017)) in which the existence of a positive and significant relations was established between directors' remuneration and corporate financial performance. The result indicates that increase in directors' remuneration would motivate them to go the extra mile in ensuring that return on shareholders' wealth is maximised, all other things being equal. In other words, remuneration increase serves as a booster to managerial productivity, which ultimately leads to enhanced corporate financial performance. Thus, it becomes necessary to reiterate, that since directors play crucial role, specifically the oversight function in any corporate entity, their financial and non-financial compensation should be motivating enough to boost their morale in performing at their peak. This outcome aligns with the study's original a priori expectation which predicts the existence of a positive connection between the degree of emolument of directors and financial performance in the Nigerian hospitality industry.

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5. CONCLUSION AND RECOMMENDATIONS

The current study endeavour to investigate whether or not directors' remuneration has any association with corporate financial performance. Necessary information was obtained from the published accounts of the three hotels listed in the Nigerian stock exchange. The result of the regression analysis confirms the existence of a positive and significant relationship between directors' remuneration and corporate financial performance in the Nigerian hospitality industry. The result suggests that if directors are well remunerated, it will serve as a motivation to perform at their best, thereby maximizing the return on shareholders' wealth. This study recommends that corporate board members should be well remunerated, this will go a long way in boosting their moral for effective discharge of their duties. It also recommends that besides board remuneration, future studies should consider evaluating the association between other board characteristics and financial performance.

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