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## Article

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Original Research Article

## Corporate Governance Mechanisms and Employees' Compensation

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### Abstract

*The study examined the responsiveness of employees' compensation to board size, board independence, board gender diversity, leverage and institutional ownership in order to establish a perceived relationship. Relevant and related theories that addressed the study from their individual perspective were considered and the study fundamentally hinged on stakeholders' theory. Multiple regression analysis was used to analyse the data. The result revealed and affirmed that there is a positive association between board size, board gender diversity and institutional ownership and employees' compensation. While board independence and leverage have an inverse association with employees' compensation and concluded with a postulated conceptual framework is that governance apparatus had positive nexus employees compensation can influence positively agency problem while board independence and leverage will impact negatively on employee compensation. Corporate governance mechanisms and their associated relationship to employees' compensation were captured and affirmed in the study.*

**Keywords:** compensation, corporate governance, employees, stakeholders, mechanisms

### JEL Classification Codes: M41, M42, M52

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## INTRODUCTION

The diversity and influence of corporate governance on corporate organisations cannot be overemphasised. This phenomenon has been examined in all spheres of the endeavours of the corporate world to measure its influences on corporate profitability, corporate performance, shareholders' wealth, director compensation, capital structures, and earnings management among others. Up till now, sound and functional governance mechanism still endowed with inexhaustible and dormant mechanisms that are still relevant in the corporate world

Corporate governance is the structure of rules, guidelines, practices and processes by which corporate organisations are directed and meticulously organised (Hadeel & Asmaa, 2013). It is crucial in the governance of corporate establishment in order to strike a balance between the interests company's diverse stakeholders, such as shareholders, management, customers, creditors, investors, government, employees and the public.

The phenomenon has the framework of guidelines and structures that board of directors employ to ensure accountability, fairness and transparency in corporate organization with its all stakeholders with a target to facilitate effective, entrepreneurial and prudent management that can provide a successful future of perpetuity of the company (Odartei-Mills, 2015). Again, frequent and increasing cases of corporate collapse, failures and fraudulent activities that characterise the corporate world, based on these occurrences, the professional managers of corporate firms in the recent time stir public interest in corporate governance, (Nyatichi, 2016).

The framework of corporate governance has been examined with director's compensations, according to Hong, Li, and Minor (2016) and Yatim (2010) functional corporate governance has a direct link with

director compensations. Similarly, Odartei-Mills (2015) examined corporate governance structure and shareholders' wealth maximisation with the intention to establish whether a correlation exists between the variables. While employees' stake is yet to be considered with corporate governance and their stake is in compensation.

Employees' compensation is defined as all forms of financial returns and tangible services and benefits employees receive as consideration of efforts deployed to organization services or production (Milkovich & Newman, 2004; Perkins & White, 2011). Compensation idea is an all-encompassing statement of the corporation's reimbursement resources that aligned the intent of decision-makers with the mission, goal and values of the company (Weinberger, 2010).

Employees in a corporate organisation are the lifeblood, engine room and active and proactive agents of drive in the success or failure of any institutions. Hence, the interest of employees in the administration and success of an organisation is crucial. In particular, functional governance mechanism can and must also be factored into the structures of organisation in the area of compensation. Several dimensions of corporate organisation endeavour had been examined by different research scholars in association with governance structures. Hence, the purpose of the study is to enhance and broaden the knowledge of corporate governance mechanisms in association with employees' compensation.

Kharbanda (2012) argued that corporate organization's responsibilities to clients, customers and extended to employees and their welfare is vital to corporate progress, succession planning and sustainable development. This falls with the thinking that corporate responsibility concerning the employees is related to the payment of robust compensations that enhance their

welfares. This also assists the employee career fulfilment and contentment of employee's necessities creates a constructive atmosphere between the corporate body and employees (Tenkorang & Mintaa, 2012). Given the significant and critical position employees occupy in any establishment, hence, the study is motivated to examine the extent to which corporate governance mechanisms predict employees' compensation and also to see the interactive influence of compensation in the corporate world.

Even though several types of research on corporate governance exist. But, to the best of our knowledge, none has considered the relationship between corporate governance mechanisms and employees' compensation. For instance, Al-Qudah, (2012) and Duke II and Kankpang (2011) study the association between company governance and corporate performance, and corporate governance and client contentment. Nevertheless, classical research reveals the importance of employee power in corporate organization engagement (Claydon & Doyle, 1996).

Likewise, employees have been acknowledged as significant stakeholders among all capital resources deployed in achieving the corporate target, the capital resources include men, materials, money and machines but men (employees) possesses unique attributes of being dynamic, active and proactive to coordinate other capital resources to achieve goals congruence of corporate organisation.

Therefore, the broad objective of the study is to investigate the relationship between functional corporate governance mechanisms and employees' compensation. The specific objectives are to: examine the relationship that exist between board size and employees' compensation investigate whether board independence is related to employees' compensation; ascertain the relationship between board gender diversity and employees' compensation; establish the

relation that subsist between leverage and employees' compensation; and determine if there is a relationship between institutional ownership and employees' compensation

Following the introduction, section two deals with the literature review and conceptual framework, section three focuses on methodology, section four focuses on conclusion and recommendation.

## **2.0 LITERATURE REVIEW**

### **Conceptual Framework**

According to Mugenda and Mugenda (2003) is an imagined model identifying concepts under study and their relationship. The conceptual framework in this study is the perceived link between the independent (Corporate Governance structures) and dependent variable (Employees' Compensation)

### **Employees' Compensation**

Employees' compensation or payment refers to the derived benefits that an employee receives in exchange for efforts, skills, innovative and creativity provided to the corporate organization that are aligned in achieving the corporate objective. Employees' compensation is generally one of the largest costs or expenses for any corporate organization. It was affirmed by Gomez-Majia and Balkin (2006) that employees' compensation as an expense often exceeds 80% of the total operating cost of cooperate organisation. The purpose of employee's compensation as expenses is not to measure income exactly received by employees, but the value of the efforts contributes to net productivity along with other factors of production. The fundamental idea is that the value of net output equals the factor incomes that generate it, (matching concept). For this reason, some types of payment received by employees are either included or excluded, because they are regarded as either incidental or unconnected to production or to the value of new output.

Compensation ideology is an all-inclusive statement of affairs for handling corporation's compensation resources. It is a declaration of intent to align compensation with the mission, goals and values of the company. Many companies have a template as a basis on which to articulate their pay policies and guiding principles for developing pay programmes and plans (Weinberger, 2010).

Also, compensation idea elucidates the objective and values superintending compensation strategies; which skills the organisation rewards; whether the company pays at the average of the labour market where the organisation operates or above or below it; and which types of compensations are available (Henneman, 2011).

Corby (2009) emphasised that determining the compensation of employees in an organisation, many variables are considered as determinants of compensation, which include the following: job performance, job tenure, job family, job grading, job skill and external equity. These variables are given serious consideration when issues of employee compensation come to the burner

Studies in this area centred on the determinant of employees' compensation and performance, but the focus of the study is to examine compensation and corporate governance, but these determinants of compensation is fundamental and material to arrive at component of remuneration, Maloa and Rajah (2012) evidenced the view in their study, titled determinants of employee compensation: an exploratory study with the sole objective of determining the factors associated with corporate compensation. Multiple regression was used to examine primary data collected and found out the significance in four of the six variables as a strong determining factor of employees' compensation, namely job performance, job grading, job family and employee's skill. These determinants are

considered and x-rayed in light of the study in order for easy comprehension of compensation philosophy in corporate entities.

### **Role of compensation and motivation to instil corporate governance**

The role of compensation of employees in a corporate entity as motivation is hinged on the fact that employees' efforts, commitment, dedication were adequately rewarded in terms of financial rewards and non-financial rewards. These were their legitimate interest, management does that in order to strike balance among the stakeholders which is the hallmark that permit the functionality of corporate governance. According Khan, Aslam, and Lodhi, (2011) argued through research work on 450 workers of Habib bank limited in Pakistan, with kin interest that compensation management is deployed to motivate and retain human assets in an entity, that this will automatically enhance the effectiveness and of efficiency of organisation which is the primacy of corporate governance. Onyeizugbe and Akpunonu (2011) collaborated the position that compensation is a veritable tool for improving and achieving organizational governance.

### **Corporate objectives of employees' compensation**

Compensation is a managerial tool used by management for a variety of purposes to further the existence of a corporate organisation. The corporate organisation may align its compensation system based on the business needs, goals, and availability of scarce resources. According to Maloa and Rajah (2012) the main objectives of compensation in organisation to: recruit and retain qualified employees, increase or maintain morale/satisfaction reward and encourage peak performance, achieve internal and external equity, reduce turnover to the barest minimum and encourage company loyalty, and modify (through negotiations) practices of unions. These

objectives are inexhaustible in corporate organisation because of a different ideology.

## **2.5 Corporate governance**

Corporate governance is the structure of rules, guidelines, practices and processes by which a corporate organisation are directed and meticulously organised. It essentially involves balancing the interests and stakes of a company's stakeholders, such as shareholders, management, customers, creditors, investors, government, employees and the public. (Hsuet *al.*, 2012).

Corporate governance spells out the roles, right and responsibilities of a corporate board, management and other stakeholders that are involved in the effective and efficient utilization of economic resources of the firm. The phenomenon has to turn out to be an exciting area for experimental investigation amidst scholars and specialists in recent times. Series of description has been provided to simplify the understanding and meaning of corporate governance. Organisation for Economic Co-operation and Development [OECD] (1999) stated that corporate governance involves sharing appropriate duties and privileges amidst different apparatus of corporate firms. The International Finance Commission (IFC) (2010) viewed corporate governance from two perspectives internal and external governance mechanism.

Nedareh and Magdi (2002) examined functional corporate governance as everything about daily routine operation of an organization in a way that guarantees that its stockholders receive reasonable earnings on their investment, while the expectations of other stakeholders are also met. Likewise, corporate governance is defined as the way companies are managed, directed and controlled (Collier, 2005). From the above meanings, we observe corporate governance is like the building block that assists corporate organisations to stand strong as well as the motivation of good employee

behaviour. If a firm has a robust compensation package of compensation for the employee. The organisation that target effective and functional corporate governance as a mean of striking balance amongst stakeholders' legitimate interest in the organisation, the critical success factor is employee welfareism.

The target and achievement of corporate governance are the welfares of all-inclusive stakeholders. Major of proxy had been employed to capture corporate governance mechanism by researchers but, according to Dharmastuti and Wahyudi (2013) suggested that corporate governance proxy into internal and external mechanism, the target of the paper was to use board size, board independence, board gender diversity, (internal mechanism) and leverage and large shareholders/ institutional shareholders (external mechanism).

## **Compensation Governance**

Since, the adoption of International Financial Reporting Standards (IFRS) in 2012 in Nigeria, the content of the financial statement of corporate entities had aligned with global contents. Pre-adoption code of corporate governances that existed was restructured to meet the new terrain of international financial reporting standards.

The Financial Reporting Council of Nigeria (FRCN) is saddled with the responsibility of protecting investors and stakeholders' interest (Omolehinwa, 2014). FRCN released the amended code of corporate governance 2016. It was stated that the compensation committee should be guided by board committees, general principles.

“It must not include any executive officer and must mostly consist of independent directors. It is recommended that the Chairman of the committee is independent and that one of its members to be an employee director.

### **Duties of the compensation committee in the governance of a corporation**

The compensation committee is responsible for proposing to the Board of Directors all the elements determining the compensation and benefits accruing to the company officers and employees. The Board of Directors in its entirety is responsible for making the corresponding decisions. It also issues recommendations concerning the global amount of and methods used for the distribution of the fees awarded to directors.

Furthermore, the committee must be informed of the compensation policy applied to the principal executive managers who are not company officers or employees. To this end, the executive officers attend meetings of the compensation committee.

Financial Reporting Council of Nigeria (FRCN) has recently released new code tagged Nigerian Code of Corporate Governance(2018).The structure of the codeconsists of seven (7) parts and twenty-eight (28) principles, each with practices recommended by the Code for their implementation. The principle number sixteen (16) related to the corporate compensation principle. The highlights of the sixteen (16) principles are shown below:

***“Principle 16: The Board ensures that the Company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.***

### **Recommended Practices of the compensation committee**

Nigerian Code of Corporate Governance (2018) spell out the recommended practices of the compensation committee as follows:

The Board should assume responsibility for the governance of compensation by setting

the direction for how compensation should be addressed to a company-wide basis.The Board should approve policies that articulate and give effect to its direction on fair, responsible and transparent compensation. The compensation policy should be designed to attract, motivate, reward and retain high performing human capital. The Board should periodically confirm that the implementation and execution of the compensation policy achieve its objectives. Compensation for non-executive directors should be fixed by the Board and approved by shareholders in the General Meeting. The compensation of the Managing Director/Chief Executive Officer and Executive Directors should be structured to link rewards to corporate and individual performances and include a significant component that is long-term corporate performance related, such as stock options and bonuses. Mechanisms may be considered to align payment of certain components of the compensation of the Managing Director/Chief Executive Officer and Executive Directors with the achievement of longer-term goals. The Managing Director/Chief Executive Officer and Executive Directors should not be involved in the determination of their compensation.The Company’s Compensation Policy, as well as compensation of all Directors and employees’ Compensation, should be disclosed in the Company’s annual report. Companies should implement a clawback policy to recover the excess or undeserved rewards, such as bonuses, incentives, the share of profits, stock options, or any performance-based reward, from Directors and Employees’ compensation. clawback can be triggered if the accounts or financial performance on which the reward was based is later found to be materially false, misstated, misleading, erroneous, etc. Or in instances of a misdemeanour, fraud, material violation of Company policy or material regulatory infractions.

The Managing Director/Chief Executive Officer and Executive Directors should not receive sitting allowances for attending meetings of the Board or its committees and Director's fees from the Company, its holding company or subsidiaries. Their compensation should, however, encompass recompense for time spent on the Board, its committees, and related work. Non-Executive Directors should not receive performance-based compensation as it may lead to bias in their decision-making and compromise their objectivity (NCCG) (2018:20-23).

Flows from the above code of corporate governance, compensation of the chief executive officers and managing directors and employees are spelt out in the code and the compensation policies should incorporate in such manner that is fair, just and transparent. The compensation policy of the entity was mandated to have a clawback mechanism, non-executive director's compensation must not base on performance, but executive directors and other employees' compensation must be on performance. And that these categories of employees' compensation should be disclosed in the audited annual report

Based on the vital and cruciality of corporate governance in the administration of a corporate organisation, quite a lot of studies of diverse scholars had established relationships that exist between governance mechanisms and subjects of interests but to our best of knowledge employees' compensation has not been investigated with corporate governance. This is knowledge lacuna the study in about fill and this leads us to the concept of employees' compensation and perceived interactive relationship with governance mechanisms.

### **Conceptual framework of corporate governance mechanisms and employees' compensation**

The strategic position and role of employees cannot be overstressed in areas of corporate

performance and actualisation of corporate governance functionality in a corporate entity. Therefore, there were assumptions that there are likelihood exist correlation between corporate governance structures and employees' compensation that can be established empirically that will form a conceptual framework in the realm of corporate entity. The interaction will be in the form of employees' compensation, sensitivity or simulation of corporate governance mechanisms. Thus, are the perceived links:

### **Board Size and Employees' Compensation**

There is a perception that a larger board size is better for company performance because they have a wide range of expertise to help make better decisions, and are for an influential CEO to control.

According to researchers had pointed out that large boards are less effective and are easier for the Chief Executive Officer to lobby and control when a board gets too big, it becomes hard to harmonize issues and process problems. Small boards also diminish the possibility of free control and increase the accountability of individual directors. The practical investigation supports this, and documents that for large U.S. industrial corporations, the market values firms with small boards more highly effective. (Jensen, 1993; Lipton & Lorsch, 1992)

Eisenberg, Sundgren and Wells (1998) discovered a negative association between board size and performance in term of the strategic decision-making process when using a sample of small and mid-size Finnish firms, which suggests that board-size effects can exist even when there is less of ownership and control in these small firms.

There is also evidence that board size, together with other features of a board, is endogenously determined by other



variables, such as firm size and performance, ownership structure, and CEO's preferences and bargaining power (Hermalin & Weisbach 2001). The evidence above has shown that the board size can influence on many corporate apparatuses but those investigations had not considered the employees' compensation to know its impact, thus, this is the focal point of the paper.

### **2.8.2 Board of Independence and Employees' Compensation**

Board composition encompasses a mixture of non-executive directors and executive directors. However, the ratio of non-executive directors to the board size was adopted as a proxy of board independence. Board Independence (BOIDN) is measured as a number of non-executives' directors by dividing by total board size. The use of non-executive directors' proportion to board size to proxy board independence is aligned with the study of (Combs, Ketchen, Perryman, & Donahue, 2007). Executive directors are directors who are employees and have a material interest in the corporation while non-executive directors are not employees and have no material or pecuniary interest in the corporation (Fama & Jensen, 1983a, 1983b; Jensen and Meckling, 1976). The affirmation of studies on board independent is that it is a core of corporate governance would assist to resolve the agency problem and advance the interests of other stakeholders like employees (AmranBin, & Hassan., 2009; Chen & Roberts, 2010).

The board of directors is a significant institution in the functionality and sound governance of contemporary corporations. This board of directors, it functions as the peak of internal decision control systems of organizations, the central corporate governance, control mechanism, these are responsible for the monitoring the activities of managers, and protect the interest of shareholders from where it receives its authority for internal control (Jenson, 1983;

Fama and Jensen 1983a, 1983b). Thus, the determination of employees' compensation is a function of the board of directors. Decision-making process of corporate organization which is residing within the whips and Capris of the board. The composition and leadership structure would account for the bulk of robust decisions they will influence positively interest of stakeholders, employees' compensation inclusive, which other studies had revealed non-executive directors on the board positively affect decisions of the board and there is likelihood for independent board to affect employees' compensation, Therefore, the knowledge lacuna the study intend fill is to establish and predict the assume relationship between board independence and employees' compensation. Congruent with stakeholders' theory.

### **2.8.3 Board Gender Diversity and Employee Compensation**

The proportion of females' directors on the board of directors in corporate entities is captured as the board gender diversity. Some researches, Hampel, (1998) and Nyatichi (2016) have shown they have both positive and negative influences on the decision making the process of corporate organisation. Stakeholder theory predicts the board to balance the interest of others. Hence, representation from diverse groups provides a more balanced board with a likelihood of preventing skewing group to dominate the decision-making process (Hampel, 1998). Again the issue of firm size is crucial, where big or large firms tense of more gender imbalanced while small firm gender biased with no female representation in the board (Wilson 2014).

### **2.8.4 Leverage and Employees' Compensation**

Chemmanur, Cheng and Zhang (2013) examined the forecast of the study carried out by Titman (1984) and Berk, Stanton and Zechner (2010) by investigating the consequence of leverage on labour costs. Debt to equity ratio has a significant direct

impact on equity-based, and CEO's compensation and cash. The incremental total labour expenses correlated with an increase in leverage are large enough to offset the incremental tax benefits of debt. The empirical investigation evidence agreed with the theoretical forecast that labour costs constraint the use of debt financing.

Hadeeland Asmaa (2015) examined the relationship between corporate governance and the use of debt financing. The study revealed that funds and institutional shareholders have an inverse and significant impact on leverage, suggesting that leverage degree decreased with the increased controlling power of funds and institutional stockholders. Again, the holdings of large holders have a direct and significant relationship with financial leverage. Also, the paper presents a number of explanations by viewing that entrenched managers may obtain better access to the debt market and then they can provide finance with extra finance debt this possibly is considering as a result of conservative investment policy.

### **Institutional Stockholder and Employees' Compensation**

The role and influence of institutional block holders is germane in quality governance of the corporate organisation, extant researches have divergent views toward functional and sound governance in business entities. The outcome of some researches reveals that institutional shareholders have influence in the governance, quality system of corporate entities.

The view of Shleifer and Vishny (1997) advanced the opinion that bulk shareholders thus address the agency problem in that they have both a general interest in profit maximization and enough control over the carrying amount of the firm to have their interest respected.

Conversely, some schools of thought are of the opinion that institutional investors are followed by increases in share value and

abnormally high rates of top management turnover, in line with the view that activist shareholders typically target poorly performing and diversified firms for block share purchases, and thereby assert disciplinary effect on target companies' plans in takeover bid through acquisitions and mergers (Holderness & Sheehan, 1985; Barclay & Holderness, 1991). Therefore, institutional investors' role in quality governance mechanism has a tendency of activist that can advocate for better quality life of the employees' welfare, which also tends to add credibility to the soundness of governance in firms.

Employees' compensation is one of the strategic plans of the top management of corporate firms. the determinants of compensation are comprised of quantitative and qualitative determinants. The former is beyond the scope of the study while the latter is the focus of the study. The interaction of corporate governance with employees' compensation will eventually produce qualitative information needed to enhance the quantitative information in the course of employees' compensation determination by the management.

### **Reviews of Relevant Theories**

This section provides a platform to look at the theoretical framework that underpins corporate governance and employees' compensation. This research investigates a perceived relationship between the multi-faceted concept of governance and compensation, there is the need for a broad framework of theories that has the capacity to explain and predict this phenomenon and that will permit generalization to the most compensation situation. The theories that will anchor the research includes principal-agent theory, human capital theory and equity theory.

#### **2.9.1 The Agency Theory of Employees' Compensation**

The corporate governance practice is based on agency perception, which is divorcement

between ownership and management. The theory of agency holds that as a result of the dichotomy of interest between management control and ownership as a consequence of the incorporation status of a business entity. Agency theory assumes a contractual relationship between principal and agent. Employees' compensation is a corporate cost that is associated with agency cost, this cost must be adequate and robust that it might serve as a motivation to return employees' productivity may be more or create additional value for the corporation, so that the employees' desire may not be driven by self-serving motive behaviour rather serving the interest of shareholders better and improve firm value in return that will enhance functionality and sound governance mechanism.

Theory of the agency is in support of separation of the role because it will create checks and balances in the system, and lead to better corporate performance (Creswell, 2009).

### **2.9.2 The Stakeholders' Theory and Employees' Compensation**

This theory is an extension of agency theory. This is because it widens the responsibility of corporate boards to include the interest of another individual or group other than shareholders. This theory sees the firm at the centre of a set of the mutual relationship between individual and groups called stakeholders. Stakeholders, according to Freeman (1984) are individuals or groups that affect or are affected by the attainment of organizational objectives while Demaki (1994) conceptualized stakeholders as individuals or groups that are burdened or benefitted by the firm operations. The multiplicity of the principal's interest gives rise to a conflict of interest (agency problem) therefore instead of seeing the interest of shareholders as the only that needs protecting and maximization, the theory advocates striking balance between the competing interests. The interest of other interest groups such as employee

compensation, customers' satisfaction, government among others who have a commensurate vital stake in organizational governance.

### **2.9.3 The Human Capital Theory and Employees' Compensation**

The theory holds that the longevity of employees is better excelling in choosing careers as a result of added value acquired from job-related knowledge and experiences gathered. Also, educational background and work experiences serve as a signal to corporate entities about employees' knowledge and skill altitudes. Therefore, the employment market compensates individual for attaining more human capital capacity with access to enhanced employments higher compensations and greater incentives to stay in the employment. In return, workers with a longer period of service definitely will enjoy much more incentives that will enhance future value. (Ng & Feldman 2010). Where such employee compensation could cater to psychological needs, this in return enhances governances of such organization

According to Hijazi and Bharitti (2007) revealed that the amount of investment in human capital or endowment that employee possesses bring about an enhancement in his/ her productivity and also enhances corporate governance of the entity. Another optimistic influence of the theory of compensation is that the executive with a greater quantity and quality of human capital is better and competent to perform a job as a consequence of paying more. Hence, human capital theory is a critical success theory to better employees' compensation through the mechanism of governance and board decision process.

Concisely, skills, innovative and creative of any employees to corporate firms is a function of education acquired, on job acquired training and development courses, tenures and experiences, these ingredients

would strategically empower and position employees to perform

### **2.9.4 The Equity Theory and Employees' Compensation**

Gomez-Mejia et al. (2010) echoed that theory of equity has the prime function in any issue that revolves around compensation and payment theory. The theory holds that an individual incentive is affected in what way employee perceives the rate at which its contribution, that is work performance to the production in relation to referent others. Accordingly, the corporate entity must ensure to provide rewards that are corresponding to the employee contribution.

Again the theory assumed that the employee makes a judgement about the fairness and justice of the compensation and payment on the basis of comparison. An employee in the same job function, role and task and with similarity in all circumstances, pay evaluation system determined by issues such as merit or appraisal (White & Druker, 2009). Therefore, a theoretical framework that underpins corporate governance and employee compensation are rooted in stakeholders, human capital and equity theories.

In summary, the four theories reviewed serve as a background for the study. Each theory addresses compensation from a different point of view and a clear understanding of compensation can thus be obtained by taking all these perceptions into deliberation when carrying out studies on employees' compensation, but specifically the study was anchored on stakeholders' theory as a result that the theory advocates that other stakeholder who has a legitimate interest in the corporate organizations

should not be subsumed rather receive equal treatment

## **3.0 METHODOLOGY**

### **3.1 Research approach and design**

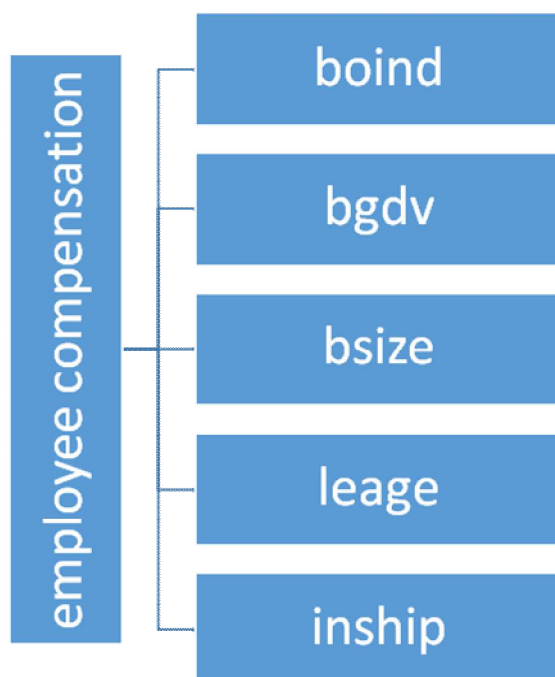
The research approach employed in this study is a deductive approach where theories on governance and employees' compensation have been formulated and with the intention of gathering data to affirm or disaffirm the theory by data analysed. Therefore, the approach incorporated in the research is a deductive approach as mentioned above which finally metamorphosed to ex-post facto quantitative research design, this type of the research design underpins any investigation that is intending to use secondary data or existing data.

### **The population and sample of the study**

The population of this study is the 176 companies listed on the Nigerian Stock Exchange as of 31 December 2017. Purposive sampling technique was adopted to opt for industrial sectors of the market, which is made up of sixteen companies as the sample size. This choice was made because the industrial sector housed more employees than other sectors

### **3.4 Analytical framework and model specification**

The concept that motivated the study is corporate governance and employees' compensation and is anchored on above stated in the stakeholders' theory and literature review, there is a functional association between board independence, board gender diversity, chief executive officer ownership leverage, institutional ownership and employees' compensation. Schematically, this is the relationship depicted thus:



Source: researcher's compilation (2018)

Flows from the schematic representation,

*Employees' compensation = f (board size, board independence, board gender diversity, leverage and institutional ownership).....*

### 3.5 Model Specification

Regression analysis model  $Y = f(X) + \mu$  .....(1)

The research employed a regression model to regress the independent variables against the dependent variable. In the model, all independent variables will be regressed on the dependent variable to obtain the main set of objectives and hypotheses of this study.

$$Lgemcmpit = \alpha_0 + \alpha_1 bsize_t + \alpha_2 boind_{t-1} + \alpha_3 bgdiv_{t-1} + \alpha_4 leage_{t-1} + \alpha_5 nship_{t-1} + \alpha_6 fsize_t + \mu \dots \dots \dots (2)$$

Where:

legemcamp = Log of Employees' Compensation,

Bsize = Board Size

Boind= Board Independence,

bgdiv= Board Gender Diversity,

leage= Leverage,

inship= institutional ownership,

Control variables

fsize= firm size

$\mu$ = is the error term of the model and

$\alpha_0$  is the slope intercept,  $\alpha_1 - \alpha_5$  are coefficients of the equation

### 3.7 Sources of data for the Study

The nature of this study is quantitative in nature that is akin to find out the perceived nexus between corporate governance mechanism and employees' compensation of corporate entities that are listed in the Nigerian stock exchange market. This approach provides an opportunity of examining the connection of the topic in order to have a deeper understanding of the phenomenon. Secondary data will be considered because of the quantitative nature of research and couple with the established fact that the appropriate research design is ex post facto which is based on a secondary source of data.

The data are extracted from the annual financial report of the industrials sector of the Nigerian stock exchange market that span between 2012 to 2017.

#### 4.0 DATA ANALYSIS AND RESULTS

The study of the industrial sector of Nigerian stock exchange with 80 observations are presented

##### Descriptive Statistics

Table 1 DESCRIPTIVE STATISTICS

STATS	emcomp	Bsize	boind	bgdiv	leage	inship
mean	3306327	8.425	0.6495	.09075	52.23187	54.825
min	4408	5	.38	0	7.34	11
max	4.57E+07	19	1	.43	111.57	95
sd	8368598	2.876245	.1400895	.1106571	20.99986	22.2163

Source: Researcher's compilation, (2018)

Table 1 presents the descriptive statistics of the study. The mean employee compensation is ₦3,306,327.00 while the minimum and maximum employee compensation are ₦4,408.000 and ₦45,700,000.000 respectively. The board size has an average of 8 directors and minimum of 5 and maximum of 19 directors. Means that industrial sector has 5 memberships as smallest board size and 19 memberships as biggest board size with the average of 8 members. The sector has 65% board independence on the average and minimum of 38% board independence. Board gender diversity on the average 9%, hence, it was conspicuously nil as a minimum in industrial sector with maximum of 43% three females. Debts to equity ratio of the sector for period under review was 52.23% on average, while 7.34% as lowest and 111.57% as extreme.

The institutional ownership has average of 54million ownership of shares in the industrial sector with 11 million and 95 million shares minimum and maximum respectively.

##### Summaries of regression diagnostics test.

The normality test through Jarque-Bera revealed the variables used in the study is normally distributed. The result of Multi collinearity of the study through variance inflation factor test shown that the independent variables were not highly correlated. Ramsey reset test also revealed that the model of the study has no omitted variables, that is, it is free from misspecification of the model. Moreover, heteroscedasticity test revealed the constant variance is zero or the model is free from the presence of unequal variance.

Table 6 Regression Result

Variables		
Employees' Compensation (Dependent variable)		
	Coefficients	Significance
Contant	2.800464	0.000*
boind	- 0.54537	0.271
Bgdiv	5.312631	0.000*
Bsize	0.230816	0.000*
Leage	- 0.00636	0.050*
Inship	0.025759	0.000*
Control variable		
Fboard	-0.409534	0.004*
R <sup>2</sup>	0.6425	
Adjusted R <sup>2</sup>	0.6131	

	F value	21.87	
	p value	0.0000*	
	VIF	2.92 < 10 BM	
	Ramsey RESET	1.71	0.0656
	heteroscedasticity	10.28	0.1134
	Number of observations	80	
<b>Note: * is at 5% level of significance</b>			

Sources: researcher's compilation (2018)

The regression result of the models stated in the above section were summarized in Tables 6 below for dependent variable of EMCOMP. EMCOMP dependent variable Table 6 revealed that the value of the F ratios suggests that the model was statistically significant and robust fit to predict the employees' compensation with level of significance of 5% and the p value ( $p > 0.000$ ). With ( $R^2$ , 0.6425;  $p > 0.000$ ) in model, this means that all the explanatory variables of model could only offer about 66% explanation of the variation in the dependent variable (EMCOMP). But, the conservative explanation offered by adjusted  $R^2$  0.6131, that is after adjusted for degree of freedom, the explanatory variables accounted still for 61% variation in dependent variables.

The result of individual variables in models of the study in the Table 5, indicated that among the explanatory variables, Board Independence (BOIND) ( $\beta = -0.54537$ ;  $p < 0.271$ ) and Leverage (LEAGE) ( $\beta = -0.00636$ ;  $p < 0.050$ ) had inverse and statistically insignificant influence on employees' compensation. On the other hand, Board Gender Diversity (BGDIV) ( $\beta = 5.3126$ ;  $p > 0.000$ ), Board Size (BSIZE) ( $\beta = 0.231$ ;  $p > 0.000$ ) and Institutional Shareholdings (INSHIP) ( $\beta = 0.0258$ ;  $p > 0.000$ ) had direct association and statistically significant impact interaction with employees' compensation.

Summarily, board gender diversity, board size and institutional ownership had a positive relationship with employees' compensation and board independence and

leverage had a negative association with employees' compensation

### 5.0 Summary

It has been equivocal agreed from the genesis of the study that governance mechanisms have been deployed to explain and predict facets of corporate entities to establish an association that does exist in the relationship except the gap of the employees' compensation that is lacking to the best of our knowledge. This informed the primary objective of investigating corporate governance mechanisms and employees' compensation. The holistic and conceptual idea is that employees' interest in corporate entities must also be predicted by corporate governance as part of stakeholders.

Theories that are relevant and related were reviewed. The individual theories addressed the study from their different insights. Agency theory perceived employees as agent while firm as the principal and predict divorcement of control and ownership. Stakeholder theory assumed that in the management of corporate economic resources and other resource, the interests of all that has stakes in the organisation must be considered and strike balance amidst them. Human capital theory assumed that the skill acquired, the education acquired, on the job experiences acquired strategically position employees to perform better and earns corresponding compensation, which lead us to equity theory, equity theory assumed that compensation should the functions of the employees' contribution to productivity must be the basis of

compensation and market competition, but in all, the study hinges on stakeholders' theory

### 5.1 Conclusion

The inexhaustible of potency of corporate governance has been empirically validated in this study. This revealed that the corporate governance mechanisms have the ability to explain and predict employees' compensation. The relationship established would further enhanced the corporate entities in decision making process as relate to determination of compensation.

### 5.2 Recommendations

The findings of this study have some unique implications, firstly, descriptive statistics revealed female inclusion in board composition is nil, hence, we recommend that board gender diversity as one important intent in governance structure, minimum requirement should be coded or legalized for corporate organization like legal requirement of number of audit committee members. Secondly, this suggested the stakeholders' theory, Equity theory and human capital theory should clearly contain the argument that the existence of board gender diversity, board size and institutional ownership stimulate sound and functional corporate governance.

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