Aligning Executive Compensation to Risk-taking and Performance: An Assessment of CBN 2014 Corporate Governance Code

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Abstract

Regulators in some countries have restricted executive compensation or improve their corporate governance code to forestall the reoccurrence of the global financial crises. The paper is set to assess the impact of the CBN 2014 corporate governance code on executive compensation paid by banks and ascertain whether the the Code has achieve it objective of aligning executive compensation to performance and risk-taking. Thirteen listed DMBs were were studied during the period 2009 to 2018 comparing the period before (2009 - 2013) with the period after (2014 – 2018) the CBN 2014 Corporate Governance Code using regression analysis and Wald Test of Equality between coefficients. The study found that CEO Pay was not significantly aligned to profitability and risk-taking before and after the New Code. The study also found that the relationship between executive compensation and performance and executive compensation and risk-taking before and after the New Code is not significant. Therefore, there is the need for CBN to introduce new regulations on the structure of executive compensation, which will include risk, short-term and long-term performance elements in line with global best practice.

Keywords: *CEO Pay, regulating executive compensation, Executive Compensation, Code of corporate governance, risk-taking, performance, CBN*

1. Introduction

Board of directors, as part of their key challenging responsibilities, are mandated to have the right system for remunerating executives, choosing the key performance indicators, setting targets, thresholds, and maximums, and ensuring fair judgments about management's performance are made (Argüden, 2013; Obodo, 2014). These responsibilities form the major components of corporate governance codes. However, corporate governance's weaknesses have been linked to the global financial and economic crisis triggered by excessive risk-taking (Cerasi, Deininger, Gambacorta, & Oliviero, 2020; Gontarek & Belghitar, 2018). It has been argued that regulators' weak corporate governance codes gave executives leeway to manipulate the system to increase their remuneration through excessive risk-taking (Marques et al., 2014). Over the years, compensation structures became an incentive for excessive risk-taking as they tend to reward short-term profit while neglecting long-term risks (FSB, 2019). (IMF 2014) also posited that regulators failed to prevent excess risk-taking due to the lapses in their regulatory framework. To correct this anomaly, they called for reforms that will realign incentives and promote bank prudential behaviour.

Researchers have called on regulators to consider restricting executive compensation (Bebchuk & Spamann, 2010; Core & Guay, 2010), while others see such attempt as inconsistent with the reality of the situation (Kleymenova & Tuna, 2018; Murphy & Jensen, 2018; Sepe & Whitehead, 2015). Those who called for regulations have argued that bank executives were paid bonuses that cannot be justified by performance (Murphy, 2013; Wall, 2019). To correct this and forestall the Global financial crisis (2008) reoccurrence, regulators have made significant changes to regulations on executive compensation. Some countries restrict executive compensation while others improve their corporate governance code (FSB, 2019). These include restrictions placed on compensation and perks by the Troubled Asset

Relief Program (TARP), the Dodd-Frank requirement for disclosure and shareholders votes on executive compensation, as well as guidance on deferred compensation and aligning compensation with performance and risk (Berger, Imbierowicz, & Rauch, 2016) In Nigeria, the scenario as captured by Ajayi, Apanpa, and Alile (2012) implied most the compensation schemes are arbitrary, usually not factored by a threshold, target, and superior in designing their appropriate pay levels. They further argued that even in situations the board complied with the design principles, setting performance objectives and measuring such against results are still left in the hands of the management. Banks are reported to be characterised by big bonuses even when bank executives miss targets, with only a few banks adopting performance-based pay. Ezeani and Williams (2017) asserted that most Nigerian companies have no performance appraisals for executive compensation purposes. According to Proshare (2019), CEO pays of listed banks cannot be easily linked to their sizes, earnings, or profitability. They argued that remuneration paid to CEOs of listed banks in 2018 appeared not to be related to a particular parameter across the banks. Some banks' CEO pay seemed to be linked to gross earnings, profitability, or size.

The removal of five CEOs of banks in 2009 following examination by Central Bank of Nigeria (CBN) with the collaboration of Nigerian Deposit Insurance Corporation (NDIC) examination which found, amongst others, poor corporate governance practices in the institutions (CBN, 2014b). Although, these CEOs were heavily compensated while they hold sway, calling to question the effectiveness of corporate governance. The CBN Code of Corporate Governance for Banks and Discount Houses 2014 (New Code) introduced in 2014 is believed to be an improvement on the earlier codes and will tackle some of the problems leading to the removal of banks CEOs in 2009 and well as aligning compensation to performance and risk-taking.

Several corporate governance studies have been conducted in Nigeria; some early studies include (Ahunwan, 2002; Oyejide & Soyibo, 2001; Yakasai, 2001). Other notable studies include; (Adegbite, 2015; Ogbechie & Koufopoulos, 2014; Sanda, Mikailu, & Garba, 2010). Some other studies have looked at corporate governance from an industry perspective (Kama & Chuku, 2009; Olayiwola, 2010 – banking; Fadun, 2013- insurance. Others have linked with firm performance (Sanda et al., 2010), with financial statement credibility (Dabor & Adeyemi, 2009), with earnings management (Uadiale, 2012), with reported earnings quality (Fodio, Ibikunle, & Oba, 2013). However, there is a dearth of literature examining the design and executive compensation structure component of Nigeria's corporate governance code. To the best of our knowledge, the only study that has examined the design and structure of the executive compensation element of corporate governance code is Yusuf (2015). However, the study only attempts at a critique of the new CBN code. This study is set to achieve two broad objectives: To assess the new Code's impact on executive compensation paid by banks and to ascertain whether the new Code has made banks' executive compensation more aligned to risk-taking and performance. This will indicate to what extent the new Code has achieved its objective of aligning pay to performance, discouraging excessive risk-taking, and ensuring excessive compensation is not paid.

2. Literature Review

2.1 Code of Corporate Governance in Nigerian Banking Industry

In Nigeria, Corporate governance is rooted in the Companies and Allied Matters Act (CAMA) 2020 with supplementary provisions in the Bank and Other Financial Institutions Act (BOFIA) 1991 specifically for banks and other financial institutions. Other regulation includes the Investment and Securities Act 1999 and the Securities and Exchange Commission (SEC) Act 1988. CAC and SEC's collaborative effort gave birth to the first corporate governance code in Nigeria, Code of Best Practices for quoted companies in Nigeria 2003. Compliance with the Code was voluntary, although quoted companies must state reasons for non-compliance while unquoted companies were encouraged to comply.

To address the corporate governance in Nigerian financial institutions, the Bankers Committee introduced the Code of Corporate Governance for Banks and other Financial Institutions in Nigeria to cater to the financial sector's peculiarities (CBN, 2003). One of the significant drawbacks of the 2003 code is that like the CAC/SEC code adopting its provisions was voluntary. Following the conclusion of the consolidation exercise and the need to restore the public confidence in the industry, CBN, in March 2006, released the Code of Corporate Governance for Banks Post Consolidation. Compliance with the Code is mandatory and enforceable by the CBN inspectors (Ogbechie & Koufopoulos, 2014).

During the implementation of the 2006 Code, there were observed weakness in the corporate governance mechanism and the failure of the board members of financial institutions in carrying out their statutory and fiduciary responsibilities, which negatively impacted the financial condition of the institutions and threatened their going concern status (CBN, 2014b)**.** The CBN revised the Code and introduced the New Code to align with 'contemporary developments and international best practices' and 'expected to enhance corporate governance practices for banks in Nigeria' (CBN, 2014a) .

2.2 Executive Compensation Regulations

In the aftermath of the Global financial crisis of 2008, the finance ministers of G20 countries created the Financial Stability Board (FSB), the Board included all G-20 countries, Spain, and the European Commission. The Board published the Principles for Sound Compensation Practices and Implementation Standards in 2009, which served as the basis for banking sector compensation regulation globally (Fraser & Earle, 2011). These Principles and Implementation Standards were incorporated into Basel Accords (Pillar 2) by the Basel Committee on Banking Supervision (BCBS). BCBS also issued a Compensation Principles and Standards Assessment Methodology, a non-prescriptive guideline for financial institutions aimed at ensuring that compensation policies are adjusted (Fraser & Earle, 2011). Subsequently, regulators in the financial services sector in several countries designed and implemented new regulations according to these Principles and Standards.

In the US, executive compensation regulations for banks were enacted through the Troubled Assets Relief Program (TARP) under the American Recovery and Reinvestment Act 2009, Joint Regulatory Guidance on Incentive Compensation 2009, and Dodd-Frank Act Section 956: Interagency Rule on Incentive-Based Compensation. These regulations provided strict limits on incentive compensation, required mandatory clawbacks, aligning risk to incentive compensation, requiring deferrals for executive incentives, and mandated banks to establish policies and procedures governing incentives (Rodda, 2014). In the EU, it is covered in the Capital Requirements Directive IV (CRD IV), a legislative package of prudential rules for banks, building societies, and investment firms. The legislation provides a cap ratio of variable to fixed compensation, bonus-malus and clawback, deferment of executive bonus and requirement for a complete and detailed disclosure of remuneration practices for large and complex firms (Marques et al., 2014).

In major emerging economies referred to as the BRICS, comprising Brazil, Russia, India, China and South Africa, executive compensation regulation in banks have been reviewed in line with the FSB and Basel principles. While some of the countries have strengthened their corporate governance code (Russia and South Africa) others enacted new legislation or policies to regulate executive compensation (Brazil, India and China). These regulations provided for aligning risk to executive compensation, a cap on variable to fixed pay ratio, deferred payment, clawbacks, the existence of remuneration committees and the incorporation of long term incentives in the variable component of executive compensation (Migliora & Pereira, 2012; Pathak, 2012; PwC Russia, 2014)
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In Nigeria, the New Code was an improvement on the 2006 Code and aimed at eliminating perceived ambiguities and strengthening banks corporate governance practices as well as aligning the Code to current realities and global best practice (CBN, 2014a). The New Code made new provisions that require disclosures not required by the previous codes by both SEC and CBN. According to CBN (2014b), executive compensation should align with the long term interests of the bank and its shareholders; should be sufficient to attract, retain and motivate executive officers and should be balanced against the bank's interest in not paying excessive

compensation. It went further to state that where compensation is linked to performance, it should be done in a way as it will prevent excessive risk-taking. In ensuring disclosure to shareholders, the Code requires remuneration policy put in place by the Board of Directors should be disclosed to the shareholders in the annual report and share options are tied to performance and subject to the approval of the shareholders at Annual General Meetings. The New Code became effective 2014 financial year as banks are expected to reflect these changes in the disclosure as well as alignment of their executive compensation.

Institute of International Finance and Oliver Wyman, (2013) stated that compensation regulation should ensure compensation policies and practices are independent and adequately monitored, linked to the financial condition and prospects of the firm. Others include ensuring that the ability of an institution to strengthen its capital base is not limited; take into account the full range of current and potential risks, increased use of long-term incentives, guaranteed bonuses should be limited while public disclosure and the transparency of compensation are enhanced. The above-stated objectives are in line with the international best practice of corporate governance of remunerating fairly and responsibly. It also underscores the fact that every executive compensation regulation should aim to achieve these objectives. The New Code states that executive compensation should be sufficient enough to attract, retain and motivate executive officers while ensuring the bank is not paying excessive compensation. It also recommended that compensation should be such to prevent excessive risk-taking and should be linked to performance (CBN, 2014b)**.**

2.3 Empirical Review

Executive compensation regulation across the world can be viewed from two separate perspectives, the regulator's direct capping mostly practised in the continental and state-affected models and the market-based regulative measures more common in the Anglo-Saxon model (Zou, 2019). While the regulator's direct capping place restrictions on executive pay, the market-based regulative measures allows shareholders induced regulations like 'Say-on-pay'. Irrespective of the approach taken by regulators, it is aimed at achieving the objective of reducing excessive risk induced by executive compensation. However, Baucus and Baucus, (1997) and Reichert, Lockett, and Rao, (1996) have argued that regulations in the business environment even when sanctions are imposed for non-compliance, some managers still violate them, especially when the cost of violation and the probability of being caught are less than the benefit accruable. Conflict of requirements and pressure from certain stakeholders group or groups may lead some organisation to unintentional violations (Godfrey, Merrill, & Hansen, 2009).

Researchers have argued that executive compensations are too high; that there is the absence of pay-for-performance in the design structure of compensation plans. This is evident from the facts that executives receive a substantial amount as pay even in years when earnings and stock returns are poor (Core & Guay, 2010). According to Yu, Yang, and Kakabadse (2011) traditional cash and equity-based compensations are being discouraged by stakeholders as they tend to encourage bank executives to take excessive risks which had led to risk management failure of some banks during the global financial crisis. That executive compensation in the form of hybrid bank securities tends to align the interests of stakeholders with those of the executive as well as discourage aggressive risk-taking. Thus, regulators have been called to place more emphasis on the structure of compensation towards discouraging excessive risk-taking rather than placing restrictions on compensation structures (Bebchuk & Spamann, 2010). Compensation systems in banks are believed to be the major elements of a bank's governance and risk management, which impacts on the bank's performance and risk-taking (Barnes, De-Toytot, Sprinzen, & Chan, 2010).

Studies have examined the impact of executive compensation regulations on bank outcomes including risks and performance. For instance, Zhang (2016) examined the impact of adopting clawback provisions on risk-taking following the introduction of the Sarbanes-Oxley Act of 2002 and found that the adoption of clawback provisions significantly reduced risk. Carrothers (2019) examined the impact of public scrutiny following the introduction of restrictions in executive pay after TARP in the US and found that compensation restrictions impacts on wages temporarily while public scrutiny temporarily impacts on wages but has a lasting impact on perks. In another study in the US following the requirement for public firms in the US to publish the ratio of CEO pay to that of median employee's compensation, Chang, Dambra, Schonberger, and Suk (2019) found that disclosure of pay ratio negatively influenced total compensation as well as pay-for-performance sensitivity. In a cross country study consisting of 36 countries, Cerasi et al.(2020) found that regulating bankers' pay significantly influenced the structure of banks' CEO pay. Bae, Gong, and Tong (2017) however, cautioned that the limiting of CEO pay may lead to unintended consequences. They found that restricted CEO pay led to a drop in the performance of firms in China. In the same vein, Kleymenova and Tuna (2016) contended that while regulating executive compensation may achieve the desired objectives it may as well come with some unintended costs. In a comparative study of the UK, Australia and Nigeria Ezeani and Williams (2017b) found that there is a strong oversight over directors pay and performance in Australia than the UK and Nigeria which have a non-interventionist approach to regulating executive compensation. Most of the previous studies have been limited to accessing the impact of the introduction of a particular regulation or policy on executive compensation. There is a dearth of literature examining how this regulation has made compensation more aligned to performance and risk-taking.

Relying on the optimum contracting theory, it is believed that pay incentives and corporate governance structures can be used as tools to make the managers act in the interests of shareholders (Marques et al., 2014). Performance-based compensation packages have been found to generally make the manager more sensitive to changes in shareholders' value and should align managers' incentives with those of shareholders (Marques et al., 2014).

The FSB (2009) in line with the theory of moral hazard recommends that for regulators to ensure bank safety, prudent risk-taking, effective supervisory oversight and stakeholder engagement, compensation schemes after the global financial crises should curb bankers' appetite for risk-taking. This is to ensure that compensation schemes align the manager's interest with the economic interests of their companies.

3. Data and Methods

The study focuses on listed deposit money banks, with 15 on the Nigerian Stock Exchange as of 31st December 2018 one of which is a foreign listing (ETI – the Holding company for Ecobank). ETI was excluded as it does not publish full information on its annual reports as it relates to its Nigerian subsidiary, Ecobank. In the same vein, Skye Bank and Jaiz Bank Plc were dropped due to significant missing data. Thus, our adjusted population consists of 14 DMBs and the census of the adjusted population was used as our sample. The period of the study is five years before the New Code (2009 – 2013) and five years into the implementation of the new Code (2014 – 2018); implementation of the New Code commenced in 2014. Data were hand collected from the annual reports and accounts of the banks under study.

3.1 Model Specification

The study used a panel regression model to ascertain the extent of the relationship between the independent and dependent variable. The model specifies;

$$CEOP_{preit} = \beta_0 + PERF_{preit}\beta_1 + ORISK_{preit}\beta_2 + LNTA_{pre\,it}\beta_3 + CEOTenure_{pre\,it}\beta_3 + \varepsilon_{it} \text{ - - } (1)$$

$$CEOP_{postit} = \beta_0 + PERF_{postit}\beta_1 + ORISK_{postit}\beta_2 + LNTA_{post\,it}\beta_3 + CEOTenure_{post\,it}\beta_3 + \varepsilon_{it} \text{ - - } (2)$$

Where

CEOP	= Total CEO Pay
PROF	= Performance
ORISK	= Risk-Taking
LNTA	= Size
CEOTenure	= CEO Tenure

Model (1) is used to test the relationship between CEO pay and performance as well as risk-taking before the implementation of the NewCode. On the other hand, Model (2) is used to ascertain the relationship between CEOPay and performance as well as risk-taking after the New Code. Test of structural change was used to examine the significant relationship between performance and risk-taking with executive compensation before the New Code and after the New Code. This will explain if risk-taking and performance are more aligned to executive compensation after the New Code than before the New Code.

Chief Executive Officer (CEOs') pay was used to proxy executive compensation in the banking industry, as it is believed to be a representative of a bank's executive compensation. Also, CEO pay is not influenced by the number of executive directors as would total executive compensation paid to executive directors.

Table 1: Variable Description

Variable Name & Acronym	Variable Measurement	Source(s)
Dependent Variable		
CEO Pay (CEOP)	Total compensation paid to chief executive officers during the financial year.	Ngwenya, 2016; Sheikh, Shah, & Akbar, 2017; Cerasi et al., 2020
Independent Variables		
Performance (PROF)	Proxy by return on assets and measured as profit before tax divided by Total Assets	Ngwenya, 2016; Cerasi et al., 2020
Risk-taking (ORISK)	Proxy by total risk-weighted assets measured as the ratio of total risk-weighted-assets to total assets.	BCBS, 2010; DeVita & Luo, 2018; Luu, 2015; Zhong, 2017; Zhou, Kara, & Molyneux, 2017
Control Variable		
Size (LNTA)	Proxy by the natural logarithm of total assets	Jang, Liao, Lin, & Liu, 2018
CEOTENURE(CEOTenure)	Proxy by the number of years the CEO has served in that position	(Fernandes, Farinha, Martins, & Mateus, 2017)

Source: Authors' compilation (2021)

4. Data Anaysis and Discussion of findings

The study presents the descriptive statistics for the period of the study (2009– 2018) in Table I. The correlation matrix is presented in table II while the results of the regression in Table III. To determine which of the period has a compensation structure more aligned to profitability and risk-taking using Wald Test of Difference in Effect of *PROF* and *ORISK* is presented in Table VI.

Table 2: Descriptive Statistics - Pooled

Variables	Obs	Mean	Std. Dev.	Min	Max
CEOPAY	114	0.086597	0.599904	0.004	0.384
PROF	130	0.012313	0.032823	-0.1752	0.070123
ORISK	130	0.663764	0.136468	0.3162	1.1294
TA	130	1481.029	1149.660	110.98	5242.37
CEOTENURE	124	4.096774	3.064137	1	19

Source: Authors' computation (2021)

Table 2 showed that the average CEO PAY within the period 2009 to 2018 was N86.6 million, with the lowest being N4 million and the highest being N384 million. The highest return on asset (prof) recorded during the period was about 7% with an average of 1.2% and as low as -17%. Risk-taking had an average of 66% with a minimum of about 31.6% and a maximum of 113%. Size (TA) had an average of N1,481 billion and ranged between N110.98 billion to N5242.37 billion. Profitability showed the highest variability from the mean, this can be explained by the differences in profitability across banks and over the period. recorded the lowest variability indicating executive compensation are comparable among the banks. Variation in RISK as recorded by its standard deviation showed similar results to ROA, indicating that banks' risk-taking are varied.

Table 3: Descriptive Statistics – Before and After the New Code

Variables	Before					After				
	Obs	Mean	Std. Dev	Min	Max	Obs	Mean	Std. Dev	Min	Max
CEOPAY	60	0.06570	0.05339	0.004	0.265	54	0.10981	0.05859	0.024	0.384
PROF	65	0.00584	0.04051	-0.1751	0.0639	65	0.01879	0.02110	-0.09098	0.07012
ORISK	65	0.67260	0.14109	0.3763	1.1294	65	0.65293	0.13203	0.3162	0.94
TA	65	1049.28	738.956	110.98	3246.58	65	1912.78	1318.86	156.51	5242.37
CEOTENURE	64	4.01563	3.56567	1	19	60	4.18333	2.44597	1	10

Source: Authors' computation (2021)

From table 3, the period before the New Code, the CEO PAY paid was about N65.7 million per annum compared to N109.8 million per annum paid in the period after the New Code. This showed that on average, banks CEOs have enjoyed an increase in pay after the New Code. This can be linked to increased profitability, which showed that profitability increased on average from 0.5% to 1.9% in the period before and after the New Code. However, risk-taking experienced a decline slight decline from 67% to 65% in the period before as compared to the period after the New Code. On the other hand, the size of the banks increased on average from N1.05 trillion to N1.3 trillion while CEO tenure showed an insignificant increase on average from 4.01 years to 4.18.

Furthermore, the period before the New Code experienced higher risk-taking than the period after the New Code with risk-taking ranging between 67% and 113% as compared to the period after with between 65% and 94%. This indicates that there has been a considerable reduction in risk-taking in the period after the New Code. Similarly, profitability experienced a boost after the New Code with PROF ranging between -9% to 7% as compared to -17% to 6% in the period before the New Code.

In the same vein, CEO PAY increased in the period after the New Code ranging between N24 million per annum to as high as N384 million per annum as compared to N4 million per annum to N265 million per annum. A similar trend was also seen in the size of the banks which showed a considerable increase in the size of banks during the period after when compared to the period before. On the other hand, CEOTENURE during the period after peaked at 10 years as compared to 19 years during the period before, this may be as a result of the CBN regulation on the tenure of executive directors which was limited to 10 years.

Table 4: Correlation Matrix – Pooled

	CEOPAY	PROF	ORISK	CEOTENUR	LNTA
CEOPAY	1.0000				
PROF	0.4041***	1.0000			
ORISK	-0.0986	-0.0328	1.0000		
CEOTENURE	-0.0218	0.1335	-0.0225	1.0000	
LNTA	0.3557***	0.4735***	0.0059	0.0401	1.0000

Source: Authors' computation (2021)
***significant at 1%

The correlation matrix in table 4, showed the relationships between the variables in the study. The results showed that only profitability and Size are significantly correlated with CEO pay. On the relationship between independent variables, only profitability and size are significantly correlated. The correlation suggests the absence of multicollinearity as none of the independent variables are highly correlated.

Table 5: Regression Results

Variable	Pooled	Before	After
PROF	0.1927173	0.2063844	2.593693***
ORISK	-0.004561	-0.021061	-0.0500515
CEOTENURE	-0.001309	-0.002627***	0.0063417**
LNTA	0.0237084***	0.016319**	0.0053222
R-SQUARED	0.4035	0.4077	0.4938
WALD CHI2	67.15***	44.57***	59.90***
OBS	108	59	49

Source: Stata Output
***, ** significant at 1% and 5% respectively

The result of the regression indicates the models are fitted. The models are fitted at Panel Corrected Standard Errors (PCSE) to correct for the presence of group-wise heteroskedasticity as well as control for omitted variables (Williams, 2019). Profitability has a positive and insignificant relationship with CEO pay in the pooled result. A similar result was obtained in the period before the New Code with profitability recording a slightly higher relationship with CEO pay than the whole period. On the other hand, after the New Code profitability was found to have a positive and significant relationship with CEO pay. This indicates that profitability is more linked to CEO pay after the New Code than before it.

On the other hand, risk-taking has a negative but insignificant impact on CEO pay across the three models. The period before the New Code recorded the highest effect on CEO pay. This result is rather strange as the study expects that risk-taking should have a positive influence even where it is not significant. The plausible explanation for this is that CEO pay is most likely arbitrarily fixed, in line with the argument of (Ajayi et al., 2012). It could also mean that the banks measure risk-taking from another perspective not from overall risk-taking as measured in this study. Another reason could be that CEO pay comprises a large amount of equity-based compensation (Core & Guay, 2010). In the same vein, this could also mean that more bonuses than salaries were paid, as high risk will negatively affect the salaries of executives and their continued employment (Acrey, McCumber, & Nguyen, 2011).

Wald Test of Difference in Effect

To test for the impact of the New Code in aligning performance and risk-taking with CEO pay, the Wald Test of Equality between sets of coefficients in two linear regressions was run. The results are shown in Table VI.

Table 6: Test of Equality between Coefficients

Variables	
PROF	0
ORISK	0
Chi2 (2)	2.47
Prob > chi2	0.2911

Source: Authors' computation (2021)

Table 6 showed the differences between the coefficients before and after the New Code. Profitability before and after the New Code showed that the difference in the extent of influence on CEO Pay is not significant. This implies there is no significant difference in the extent of the influence of profitability on CEO Pay before and after the introduction of the New Code. Thus, the New Code does not have a significant impact on aligning profitability with executive compensation. In the same vein, the difference in the extent of the influence of risk on executive compensation is also not significant. This indicates that the introduction of the New Code has not significantly changed the extent of the influence of risk on executive compensation and thus, the New Code have failed to align risk with executive compensation. This corroborates the findings of FSB (2019) that whilst changes in the structure of compensation have been made towards reducing inappropriate risk-taking more still needs to be done especially to ascertain that such changes are effective.

5. Conclusion and Recommendations

The CBN code of corporate governance, which deals with the executive compensation of banks in Nigeria has partly met the global best practice in the design of executive compensation regulations. It limited its regulations to disclosures and have left the regulation of structure of pay which has been the main issue necessitating the call for the regulations on executive compensation, especially in financial institutions. This has put the effectiveness of the CBN code of corporate governance to question, as the test of whether companies have effective corporate governance has, rightly or wrongly, become increasingly related to judgments about remuneration issues (OECD, 2009). Evidence has shown that the new Code of corporate governance has failed to not only align executive compensation to the profitability of banks but also failed to align executive compensation to risk-taking. The study, therefore, recommends that the CBN should align its executive compensation regulation to global best practice as banks in Nigeria now have global stakeholders. New regulations on the structure of pay and limits as well as incorporating risk and performance-based compensation should be mandated.

The study recommends that the CBN should properly articulate the four broad corporate governance areas of risk, governance, remuneration and alignment of incentive structures, board independence, qualifications, composition, and shareholder engagement. The CBN should also mandate all remuneration committees of a bank to seek the services of consultants when determining executive pay structures and such design and components should include risk, short and long term performance elements that should be adequately disclosed.

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