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EXECUTIVE COMPENSATION, EMPLOYEE TRUST & FINANCIAL PERFORMANCE OF SELECTED GPTW-CERTIFIED COMPANIES IN NIGERIA

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ABSTRACT

A significant shift in workplace culture across different jurisdictions, as well as in the employer-employee relationship, has brought the subject of employee trust in management as a determinant of firm performance under the searchlight of researchers. While extensive work had earlier been done, and research are still ongoing on the significance of executive compensation in improving a firm's financial performance, an attempt to combine the effects of executive compensation and employee trust to highlight the influence of leader-employee dynamics is unprecedented in literature. Therefore, the aim of this study is to investigate the relationship between executive compensation and employee trust in management on the financial performance of selected GPTW-Certified companies in Nigeria. Cross-sectional data were extracted from both the audited financial statements of the selected firms and the database of the GPTW Institute. The analysis revealed an inverse relationship between executive compensation and financial performance of firms, indicating that higher executive compensation does not necessarily translate to improved financial performance while a positive association between employee trust and financial performance was also found, indicating that when employees trust their managers, their productivity increases and the firm's financial performance improves.

KEYWORDS: - Executive Remuneration, Employee Trust, Work Place Culture, Financial Performance.

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1.0 INTRODUCTION

Compensation packages payable to corporate executives are thought to be determined by the corporate financial performance. Thus, as corporate earnings increase, executive compensations are enhanced through performance-based benefits. Moreover, arguments in favour of increased remuneration to directors' point to the efficacy of the provisions of agency theory to harmonize the interests of both the owners and the managers and reduce the agency problem. On the other hand, the productivity of employees is also essential to organizational performance.

The proponents of the argument that shifted the focus away from governance mechanisms (of which executive compensation is a component) and structure in relation to financial performance and financial reporting quality, have emerged[1]. Their work concentrated on examining the influence of employees' trust in management on both earnings and earnings management, and they identified the relevance of trust, and bemoaned how employee trust has been sparsely reviewed especially within the context of corporate reporting. Studies of this nature is more relevant today because the COVID-19 pandemic has dramatically transformed many contemporary workplaces, influencing their adoption of virtual workplace culture and leaving the business world with a blend of virtual and physical work environment[2], similar instances of which are also being experienced in Nigeria's business organizations. This colossal shift in the nature of work and leader-employee relationship further underlines the necessity of employee trust in determining a number of firm performance indices of which financial performance is not an exception.

Furthermore, one of the sub-themes of recent research results aptly conveys the perspectives of these early proponents[3]. It reported that communication behavior is a trust enabler which, if ingrained in a team, allows employees to share information with the trust that the leadership has the capacity to listen to, empathize with, and accept the employee without the latter feeling insecure. As a result, the clarity and accuracy of information becomes enhanced.

There is no precedence of the empirical evidence that synthesized the effects of executive compensation and employee trust on the financial performance of any type of organization in Nigeria. Therefore, this study is a significant step in that direction. Moreover, the unit of analysis of most business and academic research in Nigeria have primarily concentrated on quoted and unquoted companies in the country and no attempt has been made to conduct investigation on companies certified by *Great Place to Work*® (GPTW), which is the global authority on workplace culture, employee experience, and leadership behaviors required for market-leading revenue, employee retention and innovation, as a unit of analysis.

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To fill these voids in literature, this study investigates the relationship between executive compensation, employee trust in management, and financial performance of selected GPTW-certified companies in Nigeria.

1.2 Objectives of the Study

The specific objectives of the study are, to:

(i) Examine the effect of executive compensation on the return on assets of selected GPTW certified companies in Nigeria;

(ii) Evaluate the effect of employee trust on the return on assets of selected GPTW-certified companies in Nigeria.

(iii) Investigate the effect of firm size on the return on assets of selected GPTW-certified companies in Nigeria.

1.3 Research Questions

The study is guided by the following research questions:

(i) What relationship exists between executive compensation and return on assets of selected GPTW-certified companies in Nigeria?

(ii) In what way does employee trust affect the return on assets of selected GPTW-certified companies in Nigeria?

(iii) How does firm size influence the return on assets of selected GPTW-certified companies in Nigeria?

2.0 LITERATURE REVIEW

2.1 Financial Performance

The success of a business is a function of its financial performance, its profitability and assets. It is expressed using various metrics some of which include a firm's earnings per share (EPS), gross profit margin, net profit margin, return on assets (or return on investments), return on equity, etc. Financial performance has an impact on a firm's health and its going concern and is essentially the objective of professional business managers regardless of the nature of business. Therefore, a firm with an increased financial performance is a reflection of managerial competence and the efficient utilization of resources which eventually contributes to the health of a nation's economy[4].

2.2 Executive Compensation

The totality of the monetary and non-monetary reward granted to the top-level management (including the chief executive officer, chairman, chief financial officer, etc.) who provide the strategic direction, risk-return decisions and allied work in order to achieve the organizational objective of wealth maximization is referred to as executive compensation[5]. This encompasses

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all such forms of rewards that include salaries, performance-related bonuses, stock and other perquisites.

Executive compensation differs from salaries payable to company employees because a substantial component of it are often tied to corporate financial performance[6]andit is further expressed that, while in theory, compensations due to corporate executives by way of incentives may enhance their performance, the reality suggests otherwise for the positive association between these two variables. As it is reported that results from studies that have embarked on investigating the relationship between executive compensation and organizational performances have shown insignificant relationship, it is recommended that future studies should consider other moderating factors between the aforementioned relationship in order to arrive at a detailed understanding of the complex relationship between executive compensation and organizational performance[7]. Based on this recommendation, this study considers the moderating effect of employee trust in organizational performance.

2.3 Employee Trust in Management

Trust is an essential trait required in leadership but it is also reciprocal and its reciprocity is demonstrated when the leadership first establishes trust with the employees before the leadership can then expect that the employees will trust them in return. And because employee trust in management is essential for setting the tone for positive employee behavior in any working environment, it is important for management to be aware that this fundamental element is vital in the sense that the management's trust in employee communicates confidence in the employee, helping the employee to face the challenges and embrace the motivation of taking ownership for their jobs and taking responsibility for their roles. Such employees, who are empowered by the confidence reposed in them by the management, will then reciprocate a higher level of trust in management. This argument of reciprocity is consistent with the results in literature where employees are found to trust the management if they are confident that the management are well intentioned towards them.

Recognizing that employee trust in both coworkers and management significantly influences psychological safety and job satisfaction (both of which are essential for the professional fulfillment of individual employee, team success, and overall firm performance) the study on the mediating effect of trust on psychological safety and job satisfaction[8] deployed statistical techniques such as regression analysis, analysis of variance (ANOVA), F-Test, two-tailed T-Test, R-Squared Statistic, and mediation analysis and conducted an evaluation of the relationships among these variables, differences in job satisfaction based on trust and psychological safety levels, and trust's mediating role. The findings of the study indicated that trust partially mediates the relationship between psychological safety and job satisfaction, while

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having a significant influence on both variables. The study's descriptive (univariate) and correlation (bivariate) analyses confirmed strong positive relationships among employee trust, psychological safety, and job satisfaction. These factors are known to be essential for fostering a positive and productive workplace. In a nutshell, interpersonal trust between employees and management influences the dedication and commitment of employees and is fundamental towards firm performance. Consequently, the existence of trust in management removes many impediments to employee performance[9].

2.4 Theoretical Framework

Agency theory provides a framework for understanding relationships where one party, the principal(s), engages another party, the agent, to perform services on their behalf, which involves delegating some decision-making authority. In the context of a firm, the principal is typically the owner or shareholder, and the agent is the manager.[10]

The major focus of agency theory is the determination of the contract that most efficiently governs the relationship between agent and the principal. Thus, the theory is known to advocate that an optimal contract is arrived at when the executive compensation is contingent on firm performance as this is deemed to align the interests of both the principal (i.e. shareholders/owners) and the agent (i.e. the managers). However, the appropriate proxy for the operationalization of firm performance remains a subject of contention. This contention is basically between deploying market-based proxies (e.g. market to book value, Tobin Q, share price, etc.) and accounting-based proxies (e.g. return on assets, earnings per share) for a firm's financial performance.[11]

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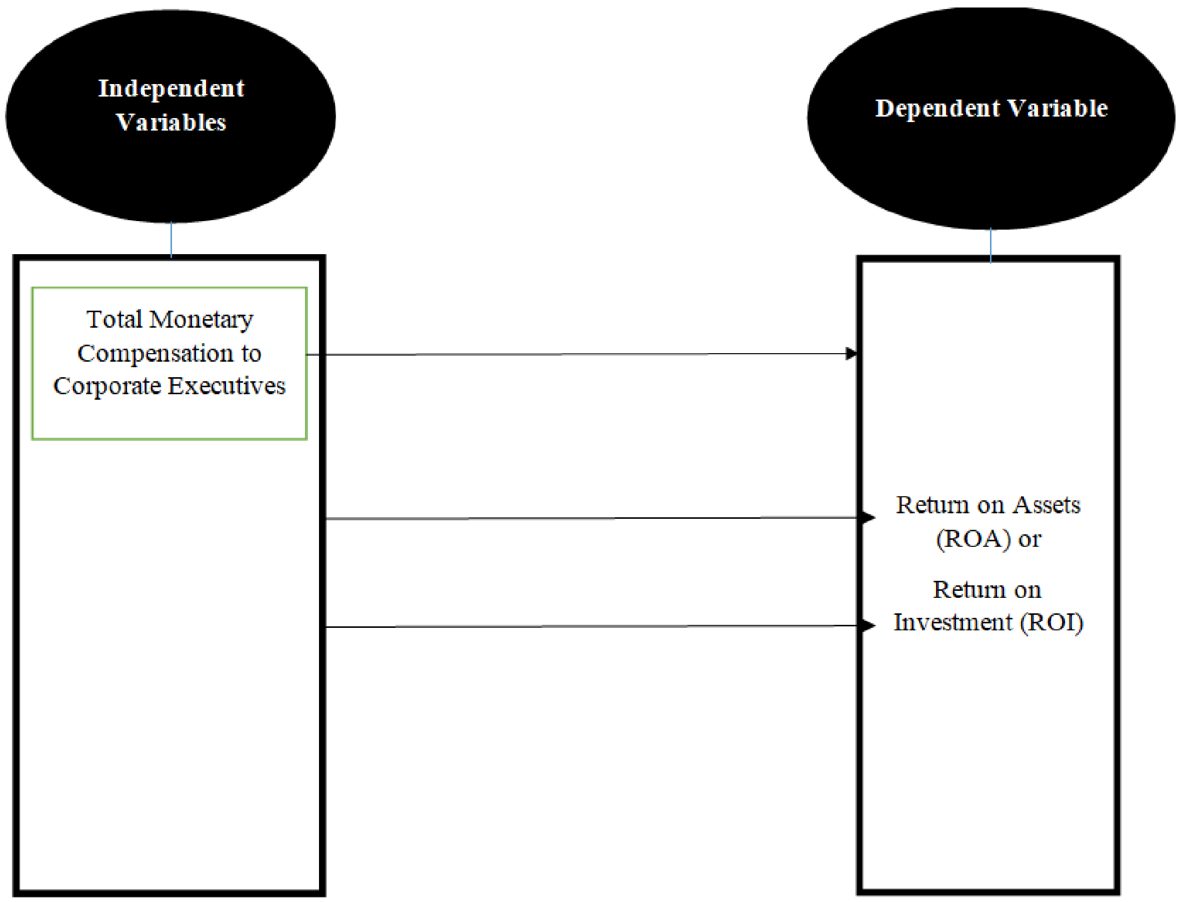

Figure 1 - Conceptual Framework of Executive Compensation, Employee Trust & Financial Performance

3.0 METHODOLOGY

3.1 Research Design

A cross sectional design of the relevant data of the sampled companies is adopted for the study, specifically with a data point of year 2023. This cross-sectional design enables an analysis of all the sampled companies at a specific point in time, and under the same macro-economic environment. Even though the sampled companies operate in diverse industries, the commonalities of the macroeconomic variables which define their respective operating business environment have implications on these distinct industries.

3.2 Population & Sample

The study's population comprises of twenty (20) companies, rated as the best work places in Nigeria in 2023. These companies, classified as large, medium and small companies, based on their respective staff strength; span such industries as Financial Services &Insurance,

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Telecommunication, Information Technology, Hospitality, Transportation, Package &Freight, Professional Services, Manufacturing &Production. In all, these companies have a combined staff strength of 17,197 employees and the companies are, **Large**: Wema Bank, Sterling Bank, DHL Express, Credit Direct, and First Bank; **Medium**: Hilton Hotel, FBNQuest Merchant Bank, Teleperformance Nigeria, GZ Industies, and UAC Foods; **Small**: SC Johnson & Son, FBN Holdings, Cybervergent, Norrenberger, FBNQuest Trustees; FBNQuest Asset Management, FBN Insurance Brokers, LandweyFBNQuest Capital, DHL Global Forwarding.

From the above study population, six (6) companies are randomly selected as sample across financial services & insurance, professional services, manufacturing & production, and based on the readiness and availability of their year 2023 annual report & accounts from where relevant financial data are extracted. Firms whose financial statements for the year 2023 are not readily available are therefore excluded from the study's sample size.

3.3 Data Source

The data for the study are collected from two (2) distinct sources: (i) the audited financial statements of the sampled companies; and (ii) the database of the Great Place to Work (GPTW) Institute

3.4 Variable Selection

The study estimates the following cross-sectional model to examine the effect of the relationship between executive compensation, employee trust, and financial performance of the selected GPTW-certified companies in Nigeria:

$$ROA = \beta 0 + \beta 1\mathrm{EC} + \beta 2\mathrm{ET} + \beta 3\mathrm{NE} + \mu$$

Where ***ROA*** is a proxy for firm financial performance and is derived after dividing the net income by total assets; ***EC*** is the total monetary compensation/emolument (consisting of fixed pay and variable pay) paid to firms' executives; ***ET*** is the aggregate score of employee trust in their management as surveyed and reported in the database of GPTW Institute for the year 2023; while ***NE*** is the number of employees in the company during the year under review.

3.5 Data Analysis

The empirical part of this study consists principally of both descriptive statistics and multiple regression analysis and helps examine the effects of executive compensation and employee trust on the financial performance of GPTW-certified companies. For emphasis, the study conducts non-parametric tests due to its small sample size and because the assumptions about the distribution of data, notably normality, do not necessarily need to be made in non-parametric

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procedures. Its capacity to deal with small number of data and its tendency to permit the violation of the assumptions of normal distribution make non-parametric procedures suitable for the analysis of the type, nature and size of the data collected for this study. Therefore, the reported effect estimates of our non-parametric procedure are the average rates of change for each of the explanatory variable and not the global linear coefficients

4.0 RESULTS & DISCUSSION

4.1 Descriptive Statistics

Table 1: Univariate Statistics

S/N	Name of Company	Return on Assets	Directors' Remuneration (N/$)	No. of Employees	Employee Trust
1	Sterling Bank	0.08	119,000,000	3,416	96%
2	Wema Bank	0.005	452,075,000	3,980	97%
3	First Bank	0.05	1,035,000,000	6,756	86%
4	FBNQuest Merchant	0.02	515,954,000	144	83%
5	Teleperformance	0.05	2,625,000*	261	83%
6	UAC Foods	0.16	372,594,000	391	90%

Table 1 above presents a descriptive data for the study's sample. The largest firm, classified by the number of employees is First Bank with 6,756 employees while the smallest firm in the sample frame is FBNQuest Merchant with a mere 144 staff in its employment in 2023. However, Wema Bank, also classified among large companies, and with 3,980 employees, recorded the highest aggregate score of 97% in terms of employee trust, indicating that 97% of the 3,980 employees that worked in Wema Bank in 2023 say it is a great place to work in comparison with 57% at a typical company. Specifically, 99% of the employees working at Wema Bank in 2023 say the management of the bank has a clear view of where the bank is going and how to get there; 99% say the management of the bank is competent at running the business, while 98% say when you join the bank, you are made to feel welcome.

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4.2 Inferential Statistics

Table 2: Inferential Statistics Table

	Mean	Effect
Director_Rem	282894	297723.6
No_of_Empl~s	2081.762	2190.891
Employee_T~t	.1409187	.1483058

```
Local-linear regression                    Number of obs    =          5
Kernel   : epanechnikov                    E(Kernel obs)    =          5
Bandwidth: cross validation                R-squared        =     0.9979
```

ROA	Estimate
Mean	
ROA	.0627939
Effect	
Director_Rem	-1.01e-07
No_of_Employees	-.0000819
Employee_Trust	2.188948

Table 2 above reports the results of the local-linear regression of the relationship between executive compensation, employee trust and financial performance of GPTW-certified companies in Nigeria in 2023.

The model reports an R^2 of 0.9979 (99.79%)' using *epanechnikov kernel* to weigh the data points, indicating the extent to which the financial performance of GPTW-certified companies is accounted for by the explanatory variables of executive compensation, employee trust and number of employees in the respective companies. This implies that the explanatory variables of the model help explained 99.79% of the changes or variations in firm financial performance, indicting a very good fit.

While the mean/average predicted value for the outcome variable of financial performance depicted by ROA is 0.0627939, the effect estimates in the local-linear regression are the averages of derivatives, representing the average rates of variation for each explanatory variable, relative to how they influence changes in the outcome variable (ROA).

4.3 Effect of Executive Compensation on Financial Performance

The effect estimates of the directors' remuneration, depicting the independent variable of executive compensation, are -1.01e-07. This indicates an inverse relationship between executive compensation and financial performance, implying that a higher executive compensation does

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not necessarily translates to higher financial performance. However, the effect of such relationship is found to be weak, as the effect estimate is very close to zero.

4.4 Effect of Employee Trust on Financial Performance

The effect estimate of employee trust resulted in 2.188948. Thus, there is a positive association between employee trust and financial performance. This result validates the findings which reported that when employees trust their managers, their performance and output become improved and in effect, organizational performance, a subset of which is financial performance, increases[12]. Apart from the positive association, the reported effect estimate value of 2.188948 is also relatively large. Thus, employee trust has a substantial positive association with return on assets.

However, the negligible effect of number of employees (-0.0000819) is an indication that regardless of firm size (denoted by the number of employees in each company, as expressed by the GPTW model), when employees trust their managers, whether in large, medium or small companies, the financial performance of the company improves.

5.0 CONCLUSION

This paper is the earliest to consider the combined effects of executive compensation and employee trust on the financial performance of GPTW-Certified companies in Nigeria. While the study finds a weak relationship between executive compensation and financial performance, its findings of the positive association between employee trust and financial performance is consistent with the results of many works on behavioral sciences and recently, accounting. While the units of analysis of this study are the GPTW-certified companies, which span different industries, both quoted and unquoted companies, the results may provide direction for future studies to investigate applicability to other uncertified companies.

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