Managerial Compensation and Firm Performance in Cameroon Microfinance Institutions

Dr. Nkiendem Felix¹, Pr. Douanla Jean Christian², Dr. Essomme Innocent³, Nchitu Polycarpe Asah⁴, Gahmuti Roland N.⁵

¹Department of Marketing and Organisation, University of Dschang
²Department of Marketing Organisation, University of Dschang
³Department of Marketing and Organisation, University of Dschang
⁴Department of Management and Marketing, University of Yde II Soa, BP. 4441 Yaounde
⁵Engineering in Applied Mathematics in Social Sciences, University of Yde II Soa

Abstract: The rise in managerial pay over the past decades has sparked an intense debate about the nature of pay setting process. Many theoretical and empirical findings have portrayed direct and opposing relations between managerial compensation and firm performance within enterprises in general and financial institutions in particular. Here, managerial compensation retained as endogenous variable is captured using base salary and bonuses while firm performance as exogenous variable is measured using return on equity (ROE) and firm size while board size, is captured through ownership and tenure served as control variables. We used questionnaires administered to managers of the respective institutions alongside with their pay slips and report of financial statement. STATA 12.0 was used to carry out our statistical test and regression analysis. Our sample survey consisted of 10 microfinance establishmentsin Cameroon for the period of 2007-2012. The results obtained depicted a negative significant relationship between pay and ROE regarding micro-finance establishments. Firm size on its part portrayed a positive influence on managers’ compensation in micro-finance establishments. We recommend that decision-making in microfinance establishments should be driving incentives to cap managerial compensation with firm performance.

Keywords: Managerial Compensation, Performance, ROE and Firm Size.

1. Introduction

The separation of ownership and control in modern firms created the agency problem. When managing a firm, managers are dominated by personal interest to the neglect of the firm’s interest or shareholders. This is because shareholders do not have complete information set as the managers and cannot observe perfectly managers actions. The latter are better informed than the owners about the potentials of the company (Berle and Means, 1932). The shareholders must provide managers with incentive to take actions that are in the best interest of the shareholders’. Thus, compensation plans should be designed in a way that aligns the interests of self-interested managers with those of the shareholders. Such compensation plans would have incentive schemes that make compensation a function of firm performance. Adam Smith (1776), was among the first to propose a formal theory of compensation and he characterized pay in terms of the net advantage resulting from an exchange of multiple returns which, when added and subtracted, determine what the worker receives. For over the years, compensation has been narrowly defined as the pecuniary returns an organization offers its employees. Few emerging theories are returning to a broader view, defining compensation as a bundle of valued returns offered in exchange for a contribution (Bloom, 1995).

Tremendous studies examining the link between managerial compensation and firm performance have been carried out with conflicting results. Ozkan (2007), Tosi et al. (2000), Finkelstein and Boyd (1998), Gibbons and Murphy (1990), Zhou (2000), Belliveau et al. (1996), Barber et al. (2006), and Jensen and Murphy (1990), all report a significant positive correlation between pay and firm performance. Contrarily Brick et al. (2005), Langsam et al. (1997) rather found a strong negative correlation between them. On the other hand, Fernandes (2006), Michaud and Gai (2009), results portray no link between pay and performance; Usman(2010), finds that performance does not affect the level of compensation (neither cash nor total), hence, no relationship between the compensation of managers and firm performance. These contradictory findings and the scanty empirical literature on this topic in the Cameroonian context is a call for concern.

2. Review of Literature

Managerial compensation has been widely and deeply studied in the United States, Europe, Asia, Australia, and Africa. The evidence on the extent to which managerial pay reflects firm performance shows mixed results. Evidence for other European countries and Australia is more mixed with some studies showing a positive link and other no link between executive pay and firm performance. However, in some countries such as Netherland and Portugal; recent studies do not find any link between pay and performance at all. By contrast, the majority of studies on Asian countries find a positive relationship between pay and performance; though applicable only to specific sectors and companies.

Concerning literature on managerial compensation in the United States, we could spot Jensen and Meckling (1976) who studied the theory of the firm: “Managerial Behaviour,
Agency Cost\(^1\) and Ownership Structure\(^2\). They found that there is always an agency cost involved whenever there is a separation of ownership and control. Jensen and Murphy (1990) also studied the impact of lagged performance on cash compensation, measuring performance by change in shareholder wealth. Their results indicated that past performance has a positive and significant effect on current compensation. Evidence from Joskow and Rose (1994) shows that past performance influences not only cash compensation, but also total compensation.

According to them performance does not affect only cash compensation but total compensation. Gibbons and Murphy, (1990) finds a positive relation between cash compensation and firm performance, which is measured through shareholders wealth. A study by Barber et al (2006) based on examining the correlation that exists between company performance and executive compensation in American restaurant industry shows a positive relation between executive remuneration and share price for larger restaurant companies. They came up with the results that the relationship between remuneration and gross revenue was stronger for smaller companies. Further analyses from the relation of managerial compensation and firm performance in the United State can as well be seen in the works of other authors such as Sloan (1992), who studied the relationship between accounting earning and top executive compensation; Murphy (1999) who research on executive compensation; Lee et al (2008) who examines executive pay dispersion, corporate Governance and firm performance.

In Europe, works have been carried out in this domain, in Britain for example, Thompson and Wright (2007) found that there is a weak relationship between compensation and performance; but Ozkan (2007) works based on investigation on executive compensation and firm performance in the United Kingdom concluded that there is a positive and significant relationship between executive pay and firm performance. Also, Stathopoulos et al (2005), found that there is a link between higher performing companies and executive remuneration, and that the link between poorer performing companies and executive remuneration is somewhat week. Eicholtz et al (2008), on their part studied UK property companies and found that company size is the most important variable and that executive shareholdings provide a stronger link between compensation and performance. A study in France by Miguel Baptista (2010), based on executive Compensation and Firm performance showed that only return on earnings has a significant effect on total compensation. He also found that there is no major relation between performance variables and cash compensation. Neither past performance nor relative performance has significant influence on compensation, and the only firm characteristic that influences compensation is firm size. Concerning the executive characteristics, age and tenure have a positive and significant influence on compensation.

\(^1\)We define agency costs as the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent, and the residual loss.

In Asia as concerns literature on this topic, a study by Adithiyangkul et al (2010), using a sample from the Chinese companies found that executive compensation in China is positively associated with current and future firm performance, which provides additional evidence about the productive role of non-cash compensation. Shen and Lin (2009), report that executive turnover is negatively affected by firm profitability thus pronouncing on a negative relation between compensation and firm performance. Kato et al (2005), identified a significant and positive relationship between Korean executive compensation and performance. Cheng and Firth (2006), studies based on board composition in Hong Kong data found that the executive pay and performance relationship is stronger in firms with a higher proportion of independent non-executive directors and higher stockholdings by directors. In addition Buck, lieu and Skvororad (2008), found that executive compensation is positively affected by share and accounting performance measures, using a sample of 601 Chinese listed firms from 2000 to 2003, Cheng and Firth (2006), found that executive pay is positively related to accounting performance but not stock returns. Shen and Lin (2009) identified that when profitability is below the industry median, executive turnover is associated with subsequent performance improvement in firms not controlled by the state.

In Africa as concerns studies in this domain, we could spot out the works of Scholtzet al. (2012), on “Executive Remuneration and Company Performance in South Africa’s Companies”, pronounced on a strong positive relationship between executive remuneration and some company performant variables such as turnover, share price and total asset. We also have the works of Aduda (2011) who examines “The Relationship between Executive Compensation and Firms Performance in the KenyanBanking Sector”, the findings suggest that accounting measures of performances are not key considerations in determining executive compensation among the large commercial banks but the size of the firm. Tarsus et al (2014) assess the effect of executive compensation on the financial performance of insurance companies in Kenya. The results show that there is a non-significant relationship between executive compensation and firm financial performance.

Notwithstanding, in Cameroon the relation between managerial compensation and firm performance has somewhat been largely overlooked, thus empirical and theoretical findings are a call for concern. However, the surging plight between managerial remuneration and firm performance should be painstakingly and scrupulously examined given that financial institutions constitute the life cable of an economy. Thus, establishing empirical findings in this topic will constitute an enhancement to the attainment of the Cameroon 2035 vision.

In this light, we have the following question: what is the impact of firm performance on managerial compensation? In other words, how does Return on Equity and firm size determine the level of compensation to managers in microfinance institutions?

Volume 7 Issue 7, July 2018

www.ijsr.net

Licensed Under Creative Commons Attribution CC BY

Paper ID: ART20183374
DOI: 10.21275/ART20183374
1204
This interrogation pushes us to formulate the following hypotheses:
H1: There is a positive relationship between firm size and managerial compensation
H2: There is a positive relationship between returns on equity and managers bonuses
H3: There is a positive relationship between returns on equity and managers base salary

3. Research Methodology

Data collection instrument
The data was principally collected through open and close questionnaire alongside the financial statement and the pay slip of managers to ensure reliability. The data was collected from 10 microfinance institutions spread across the country between 2007 and 2012. STATA 12.0 software was used in the analysis.

Endogenous variable: Managerial Compensation
Base Salary: Any fixed remuneration received during the year was included. Director’s fees, cash remuneration and any form of guaranteed compensation were also included
Bonus: All bonuses less than twelve months were categorized as ‘short term.

Exogenous Variables: Firm Performance
We use return on equity and firm size as a measure of firm performance

a) Return on Equity
We measure this variable using the following relation:

\[
ROE = \frac{Net\ Income}{Shareholder’s\ Equity}
\]

b) Firm Size
This variable is one of the most important in determining managerial pay. It is determined through: criteria like number of workers, total customer’s deposits, financial criteria like Turnover, Value Added, production, Profit, etc. qualitative criteria such as sector of activity, the quality of the manager (owner or employer) and stock exchange capitalization. Following previous studies, this variable has been used and is calculated by multiplying the price of a share at the end of the year with the number of outstanding standing shares at the end of the year. In this work we retained total customer’s deposits which could easily be obtained from financial statement report.

Control Variables
We use control variables because they are constant or unchanged but independently strongly influence the explain variable. They include board size, ownership and managerial tenure

a) Board Size
Board size was measured considering the number of persons who sit in the board meeting to take critical decisions that affect the firm.

b) Managerial Ownership
This variable was measured as the sum of ownership in terms of shares possess by the managers

c) Tenure
Tenure is the number of years during which the manager serve in the company. The more time the manager has served as manager in the company, the more power he would have to influence the design and determination of his compensation package. Further, long tenure also ensures stronger relationships with board members. Thus, tenure may explain the level of executive compensation.

Presentation of the Model
To empirically ascertain the impact of firm performance on the remuneration of managers, a multivariate linear regression model has been predicted. A Multiple regression model is a statistical tool that allows you to examine how multiple independent variables are related to a dependent variable.

\[
Comp(Bonus + Salary) = \beta_0 + \beta_1 ROE_{i,t} + \beta_2 B.S_{i,t} + \beta_3 O.S_{i,t} + \beta_4 T e_{i,t} + \epsilon_{i,t} - - - - - - - (1)
\]

\[
Comp(Bonus + Salary) = \beta_0 + \beta_1 F.S_{i,t} + \beta_2 B.S_{i,t} + \beta_3 O.S_{i,t} + \beta_4 T e_{i,t} + \epsilon_{i,t} - - - - - - - (2)
\]

Where in the equation (1 & 2):
i Implies any firm of the sample
\( t \) Implies the year
\( Comp \) Implies the average compensation of the manager of a given firm \( i \)
\( ROE \) Implies the average Return on equity of Firm \( i \)
\( F.S \) Implies the average Firm Size for firm \( i \)
\( B.S \) Refers to the size of the board of a given firm \( i \), at a given date \( t \)
\( O.S \) Refers to the Ownership structure of the manager of a given firm \( i \), at a given date \( t \)
\( T e \) Implies errors terms
And \( i = 1 \ldots 10 \) and \( t = 2007 \ldots 2012 \) in case of microfinance institutions
4. Analysis, Presentation and Interpretation of Results

Table 1: Descriptive Statistics for the Dependent and independent Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>Mean</th>
<th>Std.Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comp</td>
<td>60</td>
<td>14.86269</td>
<td>0.3801133</td>
<td>14.21442</td>
<td>16.71206</td>
</tr>
<tr>
<td>ROE</td>
<td>60</td>
<td>0.5819117</td>
<td>0.2256647</td>
<td>0.1122</td>
<td>0.8754</td>
</tr>
<tr>
<td>Firm Size</td>
<td>60</td>
<td>17.91307</td>
<td>1.219877</td>
<td>15.31874</td>
<td>20.40409</td>
</tr>
<tr>
<td>Board_size</td>
<td>60</td>
<td>6.7</td>
<td>1.565518</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>ownership</td>
<td>60</td>
<td>0.2</td>
<td>0.4033756</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Tenure</td>
<td>60</td>
<td>5.2</td>
<td>2.192437</td>
<td>1</td>
<td>10</td>
</tr>
</tbody>
</table>

The statistic findings depicts that from 2007 to 2012 managers of micro-finance establishments constituting our sample had an average compensation of log return rate by 14.86 percent with 0.38 percent of mean deviation, 14.21 percent minimum and 16.71 percent maximum compensation of log return rates. This entails that managers were receiving 2 841 947.174 FCFA as average annual compensation tended to vary by 0.38 percent as longer time incentives were being considered and a maximum remuneration stood at 16.71 percent log return rate which is equivalent to 18 074 271 FCFA. The findings equally showed an average natural log firm size of 17.91 percent with a minimum and maximum of 15.32 and 20.4 percent respectively. This supposes that between 2007 and 2012, the 10 micro-finance had an average annual size of 60 008 693.42 FCFA and a maximum of 723 781 420 FCFA. The average return on equity of these micro-finance establishment had been 58 percent having a mean dispersion of 22 percent and a maximum return on equity of 87 percent implying that shareholders had an average annual investment trend of 58 percent and a maximum annual profitability trend of 87 percent. The statistic findings also depicted averages of 6 to 7 membership in board size with a minimum of 4 and a maximum 9 members. This entails that with respect to our sample survey, those that could monitor the daily operations of these micro-finance establishments ranged from 4 to 9 members with an average of 6 to 7 members. In addition, the findings showed 0 minimum and 1 maximum of ownership, and indicate an average of 5.2 tenure with a minimum of 1 and a maximum of 10.

Trend Analysis of Some Variables
The graph below shows the evolution of total compensation in our model between the period of 2007 and 2012:

The above graph shows that between 2007 and 2012 there is a steady increase in total average remuneration. Nevertheless, this graph depicts that during the period of observation, total remuneration has been in progressive increase.

Correlation Analysis
The Ordinary Least Squares (OLS) multivariate regression is used to see whether there is a significant relationship...
between managerial compensation and firm performance on one hand retaining ROE while considering firm size on the other hand. Here, we verify the relations between independence and dependence variables.

Table 2: Correlation Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>logComp</th>
<th>logFirm Size</th>
<th>ROE</th>
<th>Board Size</th>
<th>Ownership</th>
<th>Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>logComp</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>logFirm Size</td>
<td>0.4474</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>-0.0124</td>
<td>0.3075</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Size</td>
<td>0.2491</td>
<td>0.5181</td>
<td>0.4730</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>0.0107</td>
<td>-0.1375</td>
<td>0.0966</td>
<td>-0.1375</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>Tenure</td>
<td>0.3817</td>
<td>0.6435</td>
<td>0.3147</td>
<td>0.2993</td>
<td>0.2990</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Table 2 presents correlations existing between managerial compensation and firm performance within 10 micro-finance establishments from 2007-2012. Our findings indicates a positive correlation of 45 percent between managerial compensation and firm size implying that increase in firm size is accompanied by incremental compensation of managers. The findings depicts a negative correlation of 1.24 percent between managerial remuneration and return on equity indicating that managerial compensation is not positively influenced by return on equity. The findings indicated a positive correlation of 25 percent supposing that board size can positively impact managerial compensation. In addition, there is a positive correlation of 1.1 percent between ownership and managerial compensation. This implies that ownership is somewhat incentive to managerial compensation. Also, this correlation depicted a positive correlation of 38 percent between managerial remuneration and tenure of managers in the establishments.

Econometric Results

In order to test our two hypotheses, we have decided to come up with two models. The first model (Model 1) shows us the impact of firm performance on managerial compensation, while the second model (model 2) shows us the impact of firm size on manager’s compensation. The other variables were used as controlled variables.

Model 1: Regression Results

On the basis of transversal data, we carry out a multiple regression on the following model:

\[ \text{Comp(Bonus + Salary)} = \beta_0 + \beta_1ROE_{i,t} + \beta_2B.S_{i,t} + \beta_3O.S_{i,t} + \beta_4T_i + \epsilon_{i,t} \]  

Table 3: Regression results of model 1

| Explanatory Variables | Coefficient | t-tests | p>|t| |
|-----------------------|-------------|---------|-------|
| ROE                   | -0.532**    | -2.23   | 0.030 |
| Board Size            | 0.068*      | 2.06    | 0.044 |
| Ownership             | -0.185*     | -1.53   | 0.132 |
| Tenure                | 0.079***    | 3.41    | 0.001 |
| Constant              | 14.34***    | 70.66   | 0.000 |
| R^2                   | 0.245       |         |       |
| Fisher-Snedecor       | 4.8         |         |       |

(Standard errors in parentheses)

*** Significant at 1%, ** Significant at 5%, * Significant at 10%, Number of observation: 60

Similar to the aforementioned model one, model two was set up to scientifically verify the impact of firm size as our main exogenous variable capturing performance on managerial compensation with ownership, board size and tenure as controls. The regression results indicated 22.55 percent coefficient of determination entailing less significant effect of firm performance on managerial compensation in the 10 micro-finance establishments that constitute our sample. Nevertheless, the model is globally stable at the threshold of 5 percent given that the regression results showed 4 percent calculated value of Fisher-Snedecor better off than the tabulated value which approximately stands at 2.64 percent. The results show a positive coefficient of 10.49 percent log return rate, 1.84 percent t-test at 10 percent

Note: The asterisks indicate the significance of variables

This Model is set up to empirically establish the relation that exists between managerial compensation and firm performance using return on equity as key independent variable. We used basic salary and bonus to capture managerial compensation which serves as our dependent variable and retained return on equity as our key independent variable derived by using net income and dividing it by total shareholders’ equity while controlling with board size, ownership and tenure. The results portrayed coefficient of determination (R^2) of 24.6 percent depicting lower significance between managers’ remuneration and firm performance. However, the model is globally stable for the regression results depicted 4.48 percent critical value of Fisher-Snedecor at the threshold of 5 percent against 2.64 percent approximated value of tabulated Fisher-Snedecor implying there are causal relations between managerial remuneration and firm performance. The regression results showed a negative coefficient of 53 percent, negative 2.23 percent student test at 5 percent significance. This indicates that from 2007-2012, the performance of firms with respect to return on equity had a negative impact on the managerial compensation. That is, increase in the performance of firms had a significant fall in the remuneration of managers by 53 percent.

Model 2 Regression Results

On the basis of individual data for each micro-finance and for each year, we carry out a multiple regression using the following model:

\[ \text{Comp(Bonus + Salary)} = \beta_0 + \beta_1F.S_{i,t} + \beta_2B.S_{i,t} + \beta_3O.S_{i,t} + \beta_4T_i + \epsilon_{i,t} \]  

Table 4: Regression results of model 2

| Explanatory Variables | Coefficient | t-tests | p>|t| |
|-----------------------|-------------|---------|-------|
| Firm Size             | 0.10489*    | 1.84    | 0.071 |
| Board Size            | 0.00158     | 0.04    | 0.965 |
| Ownership             | -0.10028    | -0.86   | 0.396 |
| Tenure                | 0.0337      | 1.21    | 0.232 |
| Constant              | 12.82***    | 15.37   | 0.000 |
| R^2                   | 0.2255      |         |       |
| Fisher-Snedecor       | 4.00        |         |       |

(Standard errors in parentheses)

*** Significant at 1%, ** Significant at 5%, * Significant at 10%, Number of observation: 60

Note: The asterisks indicate the significance of variables

3 Transversal because we have different individuals observations for different years 2007 to 2012
significance. This implies that within the 10 micro-finance establishments from 2007-2012, increase in the size of firm could have an annual incremental improvement of 10.49 percent log return rate.

5. Discussion of Results

Following the regression results of model 1, this result is in line with the work of Usman Tariq (2010) who carried out findings on CEO Compensation: Relationship with Performance and Influence of Board of Directors. He concluded that there is a statically insignificant and negative relationship between CEO pay and performance of the company. The results are as well in conformity with the works of Tarus et al (2014) who sought to assess the relationship between executive compensation and financial performance of insurance companies in Kenya. He found a negative non-significant relationship between executive compensation and financial performance. These results contradict the agency theory indicating inverse relation between ROE and compensation. The manager might be highly paid in order to retain, attract or build long term relationships with the organization (Duffhues and Kabir, 2008). Equally, managers may as well have high bargaining strength pushing employers to establish their wage rates beyond the common standard level regarding the labour code.

As regard to board size as a control variable, the results depicted a coefficient of 6.8 percent, 2.06 percent t-test at 5 percent significance. This implies that incremental membership in board size of firms would lead to 6.8 percent increase in managerial compensation. Also, with respect to ownership the regressions indicated a negative coefficient of 18 percent, 1.53 percent t-tests at 10 percent significance. This implies that from our sample survey, ownership had a negative impact of 18 percent on managerial compensation. Equally, model 1 showed a positive coefficient of 7.9 percent, 3.41 percent t-test at 1 percent significance. This entails that longevity of managers in firms incrementally improves managerial compensation by 7.9 percent. Finally, model 1 indicated a coefficient of 14.34 capturing all the omitted variables with positive influence on managerial compensation.

As regard the regression results of model 2, this result is in congruence with the results of Ann Lau and Ed Vos (2004). They latter carried out a systematic examination of the relationship between CEO compensation, and firm size and corporate performance for New Zealand companies. They found out that CEO pay rises with firm size. This result is as well in line with the works of Joskow and Rose (1994), Cosh, (1975), Kaplan (1994) and Xianming Zhou (1999) who also came out with similar results. Our results support the international findings that there is a positive relation between manager’s compensation and firm size as stated in Hypothesis 2. This result is explained by Smith and Watts (1992), who gives the rationale that more complex firm with greater growth opportunities, requires higher quality managers who demand higher wages.

As regard to the control variables, the regression results indicted a non-significant positive coefficient of 15.8 percent with 0.04 student test with respect to board size of the 10 micro-finance establishment. This implies that board size influence managerial compensation by an insignificant percentage of 15.8 with our sample. In addition, the results showed an insignificant negative coefficient of 10 percent with negative 0.86 percent t-test with respect to ownership. As concerns the tenure of managers in the 10 micro-finance, the regression results portrayed an insignificant positive coefficient of 3.37 percent with 1.21 percent t-test. These results contradicts those obtained in model 1 when return on equity was retained as key independent variable. This implies that the consideration of firm size as key independent variable from our sample eclipsed the significance of the control variables. Finally, the regression results depicts a positive coefficient of 12.8 percent, 15.37 percent t-test and significant at 1 percent as regard to omitted variables.

6. Implication of Results

The empirical evidence of this work indicates that an increase in firm performance does not enhance compensation of managers entailing that the shareholder’s money is not properly or is inadequately spent which might be harmful to shareholders and other actors in the society. This implies that the fact that the company is making profit does not necessary means that they will take good care of their employees. Therefore the environmental context in which firms in the microfinance industry operate can as well have an impact on the efficiency of the incentive system, thus indicating that the settings in which firm operates potentially can influence the effect of managerial pay. Regarding firm size, our statistic findings indicated a positive correlation between managerial compensation and firm size implying that increase in firm size is accompanied by incremental compensation of managers which is compatible with the saying that managerial compensation has a significant role in mitigating the agency problem by granting reasons for managers to perform their tasks to the maximisation of owner’s wealth, and that the remuneration should reflect and suit firm’s performance.

7. Recommendation

Our results give rise to a good number of policy recommendations. Given the fact that the microfinance sector is considered as a very delicate sector characterised with high degree of information asymmetry, much has to be done in order to assure better functioning. Following the positive impact of firm size on managers’ remuneration, asymmetry of information with damaging effect on savings or customers’ deposits should be put at bay by publicly making information involving the financial situation of micro-finance establishments available for customers. Attaining this course will have incremental likelihood on customers’ deposits with positive consequence on managerial compensation.

Financial institutions should incorporate their compensation structure with the use of incentive plans that can motivate the manager to take actions that will increase shareholders’ wealth. These plans link managerial compensation to performance with little monitoring reducing agency.
problem. They attract and retain managers with confidence to avert future financial risk and abilities to maximize shareholders’ wealth. Furthermore, in order to maintain the social order and prepare for future market liberalization, apart from strengthening management abilities, more attention should be given to capital structure and capital management as well as adopting risk-based management practices. Moreover, care should be undertaken on the influence of broad board size, complexity of firm size and power on managerial pay. The concept of complexity influences compensation contracts despite strong theoretical ground and compensation consultants’ inclusion of complexity in job evaluation work.

Besides, our findings depicted a negative impact of ROE on managerial compensation in terms of micro-finance establishments. Though increment in managerial compensation is being guided by labour code involving time lag, many shareholders exploit the lacunas to enrich themselves at the mercy of mangers. However, the profitability of an enterprise is largely dependent on managerial capacities and zeal; thus capping managerial remuneration to ROE will be a driving incentive to indefatigable efforts on the part of managers with subsequent positive bearings on shareholders. This negative correlation could be probably be accounted for by the internal policy alongside the prudential ratios strictly governing this sector of activity.

8. Conclusion

The objective of this work was to examine the impact of firm performance captured using ROE and firm size (measured using total customer’s deposits) on managerial compensation in 10 microfinance institutions. From all evidence, this work enabled us to meet up with the domain of traditional expectation of research in managerial compensation and firm performance. Irrespective of the fact that certain results obtained in the current studies does completely inscribe in works previously carried out in this domain.

9. Areas for Further Studies

Future research could explore the link between firm performance and managerial compensation, which adds incentive components such as share options and long-term incentive. A follow-up study can be done to explore and find empirical evidence to show whether the link has become stronger after the introduction. Taking into account a longer period and a larger sample may reveal some new discoveries.

References


[38] Usman Tariq (2010). “CEO Compensation: Relationship with Performance and Influence Of Board of Directors”.