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# EXECUTIVE COMPENSATION AND INCENTIVES AND CORPORATE PERFORMANCE OF LISTED INSURANCE COMPANIES IN NIGERIA

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**Abstract**

This study investigated the impact of executive compensation and incentive mechanisms on the financial performance of listed insurance companies in Nigeria over the period 2015–2024. Anchored on the agency theory, the research explored how executive pay structures influence profitability and value creation in the insurance sector. The study employed panel data from 15 listed insurance firms, with 150 firm-year observations analyzed using the Panel Least Squares (PLS) regression model under the random effects specification, as confirmed by the Hausman test results. Findings reveal that both total executive compensation and incentive-based pay exert positive but statistically insignificant effects on financial performance, measured by Return on Assets (ROA) and Return on Equity (ROE). This indicates that while executive rewards may contribute marginally to improved managerial performance, their current structure does not strongly drive profitability. The study concludes that executive compensation frameworks in Nigeria's insurance industry lack sufficient performance sensitivity. It therefore recommends a shift toward performance-linked remuneration systems, enhanced governance oversight, and stricter regulatory policies by the National Insurance Commission (NAICOM) to

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promote accountability and value-driven compensation practices
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## INTRODUCTION

### Background to the Study

According to the agency theory, executives as agents may pursue personal interests at the expense of shareholders, but performance-based compensation mechanisms such as bonuses, profit-sharing, and stock options can align managerial actions with corporate goals [1]. The effectiveness of these mechanisms often determines whether compensation serves as a motivator for enhanced productivity or as a source of excessive managerial power and rent extraction [2].

Globally, the relationship between executive pay and firm performance has been a subject of scholarly and regulatory debate [3]. For instance, the 2008 global financial crisis reignited concerns about excessive risk-taking linked to short-term incentive pay and inadequate performance monitoring [4]. In advanced economies such as the United States and the United Kingdom, compensation reforms have sought to introduce stricter disclosure requirements and make provisions to ensure accountability and sustainability [5]. Nevertheless, empirical evidence remains mixed, with some studies reporting a positive relationship between executive pay and corporate performance, while others find no significant or even negative associations, suggesting that context-specific factors and governance quality play important moderating roles [6].

In developing economies, the dynamics of executive compensation are often shaped by weaker corporate governance frameworks, ownership concentration, and limited transparency [7]. For example, in many African markets, boards of directors may lack sufficient independence to ensure that compensation policies are performance-driven rather than loyalty-based. Similarly, the prevalence of family-owned or state-influenced firms may distort the link between pay and performance outcomes [8]. In Nigeria, corporate governance reforms over the past two decades have introduced new standards intended to improve accountability and strengthen managerial oversight in quoted companies. Regulatory bodies such as the Securities and Exchange Commission (SEC) and the National Insurance Commission (NAICOM) have established codes of corporate governance that emphasize remuneration transparency, board oversight, and performance-linked incentives [9]. For instance, NAICOM's Corporate Governance Guidelines encourage insurance firms to ensure that executive compensation aligns with long-term shareholder interests and risk management objectives.

As a capital-intensive and service-driven industry, the insurance sector in Nigeria offers an appropriate context for studying the influence of executive compensation on corporate performance as its profitability and solvency depend heavily on the quality of strategic decisions made by top executives. For example, managerial choices concerning risk underwriting, investment allocation, and product diversification directly affect operational efficiency and financial outcomes [10]. In such an environment, well-designed incentive structures could motivate executives to act prudently and efficiently. On the other hand, poorly structured pay arrangements may encourage excessive risk-taking or complacency.

### Statement of the Problem

The fundamental expectation of executive compensation is that it should serve as an instrument for motivating managers to enhance corporate value and improve firm performance [11]. However, in many developing economies, including Nigeria, the linkage between executive pay and firm outcomes remains unclear and often questionable [12]. Theoretically, compensation and incentive systems should align managerial efforts with shareholders' wealth maximization objectives, but in practice, disparities between remuneration levels and actual performance persist [13]. For instance, executives of underperforming firms



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have frequently continued to receive substantial remuneration packages, raising concerns about pay fairness, accountability, and the overall effectiveness of governance mechanisms [14].

In Nigeria's insurance sector, these concerns have become particularly pronounced due to the industry's structural and governance challenges. The sector is characterized by relatively low profitability, weak capital adequacy, and recurrent issues of operational inefficiency. Despite various reforms introduced by the National Insurance Commission (NAICOM) to strengthen board accountability and align compensation with long-term value creation, many insurance firms continue to record modest performance. Empirical studies in Nigeria and other emerging markets have produced inconsistent findings regarding the relationship between executive compensation and firm performance. A number of studies have examined this relationship in the banking and manufacturing sectors, focusing on variables such as pay structures, board incentives, and firm profitability [15]. However, there is an absence of similar studies in insurance industry. The insurance industry differs from other sectors in terms of regulatory oversight, capital requirements, and revenue generation patterns, all of which could influence how executive compensation mechanisms affect performance outcomes [16]. Consequently, empirical conclusions derived from other industries may not accurately reflect the compensation–performance dynamics within insurance firms. This study therefore aims to address the identified empirical by focusing specifically on listed insurance companies in Nigeria.

**Aim and Objectives**

The primary aim of this study is to examine the impact of executive compensation and incentives on the financial performance of listed insurance companies in Nigeria. The study seeks to determine whether compensation structures and performance-based incentives effectively enhance firm profitability and value creation in the insurance sector. The specific objectives are to:

i. Evaluate the effect of executive remuneration on the return on assets of listed insurance companies in Nigeria

ii. Evaluate the effect of executive remuneration on the return on equity of listed insurance companies in Nigeria

iii. Evaluate the effect of incentive-based pay on the return on assets of listed insurance companies in Nigeria

iv. Evaluate the effect of incentive-based pay on the return on equity of listed insurance companies in Nigeria

**Concepts – Executive Compensation and Incentives**

Executive compensation refers to the total package of financial and non-financial rewards provided to top-level management in exchange for their services and decision-making responsibilities. It is an important element of corporate governance that is designed to attract, motivate, and retain competent executives whose performance directly affects a firm's strategic direction and financial outcomes [17]. In modern corporations, the structure of executive pay normally reflects the principle of agency theory [18]. This emphasizes the need to align the interests of executives (agents) with those of shareholders (principals) to minimize agency conflicts and ensure value creation [19].

The main components of executive compensation include salaries, bonuses, stock options, and allowances. Base salary is the fixed portion of remuneration that compensates executives for their skills, experience, and leadership responsibilities as well as provides income stability and reflects the firm's internal pay policy and industry standards [20]. However, when salary constitutes a large proportion of total pay, it may weaken the motivational link between compensation and performance, as it is not contingent on results [21]. Bonuses, on the other hand, are variable pay elements tied to short-term performance indicators such



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as profit growth, cost efficiency, or achievement of strategic targets [23]. For instance, annual performance bonuses are normally granted when a firm exceeds predetermined financial or operational benchmarks which create a direct link between managerial effort and firm success.

Stock options and other equity-based incentives represent long-term compensation mechanisms that are aimed at promoting ownership behaviour among executives. Stock options encourage managers to make decisions that increase the firm's market value over time. This aligns their interests with those of shareholders (Akewushola, & Saka, 2018; Aggarwal, 2007). In advanced economies, stock options have been instrumental in promoting managerial accountability and long-term orientation (Aggarwal, 2007). However in emerging economies like Nigeria, the adoption of stock options is limited due to concentrated ownership structures and less developed capital markets (Wang, et al., 2021;, Ugbodaga, & Ibrahim, 2021). Allowances and benefits, such as housing, transportation, medical, and pension contributions, also form a significant part of executive pay. These components shape the overall compensation strategy that influence executive behaviour, risk-taking, and by extension - firm performance.

Incentive mechanisms can be financial (such as performance bonuses and profit-sharing) or non-financial (such as promotions, recognition, or career development opportunities). in line with the agency theory, the underlying premise is that executives respond to incentives that align personal utility with organizational success (Aggarwal, 2007; Conyon, 2006). Financial incentives are the most direct and measurable mechanisms for motivating performance. They normally include performance-based pay, profit-sharing, and long-term incentive plans. In the context of Nigeria's insurance sector, performance-based incentives can be particularly effective given the industry's dependence on managerial judgment in risk underwriting, claims management, and investment decisions. However, if poorly designed, such incentives may promote excessive risk-taking or short-termism, potentially undermining long-term stability (Zhou, et al., 2021; Edmans, & Gabaix, 2016).

**Theoretical Framework: Agency Theory**

The Agency Theory was propounded by Jensen and Meckling (1976). It explains the relationship between principals (shareholders) and agents (executives or managers) who are delegated to manage the affairs of a firm on behalf of the owners. The theory assumes that both parties are rational and self-interested, which may result in conflicts of interest when managers pursue personal benefits at the expense of shareholders' wealth (Elsayed, & Elbardan, 2018; Bendickson, Muldoon, Liguori, & Davis, 2016). This divergence in objectives creates what is known as the agency problem, leading to potential inefficiencies, information asymmetry, and moral hazard within corporate organizations (Payne, & Petrenko, 2019). According to the theory, the key to minimizing these conflicts lies in the design of appropriate monitoring mechanisms and incentive contracts that align the interests of managers with those of shareholders (Edmans, & Gabaix, 2016).

The theory thus provides a framework for understanding how well-designed incentive contracts can serve as an internal governance mechanism which substitutes for external monitoring deficiencies. Executive compensation and performance-based incentives are viewed as tools for mitigating agency conflicts by linking managerial rewards to measurable performance outcomes (Wang, et al., 2021). Thus, structuring compensation around firm profitability, market value, or other performance metrics can help firms ensure that executives are motivated to act in ways that enhance shareholder value rather than pursuing personal gain (Bendickson, et al., 2016). The agency theory perspective is relevant to the present study. This is because the theory emphasizes the importance of creating a performance-driven compensation system that balances managerial autonomy with accountability (Payne, & Petrenko, 2019; Bendickson, et al., 2016).

**Empirical Review**

The relationship between executive compensation, incentive mechanisms, and corporate performance has been widely investigated across industries and countries, producing mixed results. Globally, numerous



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studies have explored the performance implications of executive compensation systems. For instance, Wang et al. (2021) examined 121 listed energy companies between 2010 and 2019 and found a significant positive relationship between executive compensation and firm performance, affirming the Agency Theory proposition that linking managerial rewards to performance aligns executive and shareholder interests. The study also revealed that cash-based incentives were more effective than equity-based incentives, suggesting that short-term monetary rewards are drivers of managerial motivation in capital-intensive sectors like energy. Similarly, Ferry, He, and Yang (2023), in their study of tourism companies in Thailand, discovered that short-term executive compensation enhances firm performance, while long-term compensation reduces the likelihood of unfavorable outcomes. They also observed that the pay gap between executives and employees follows an inverted U-shaped relationship with firm performance moderate gaps stimulate motivation, but excessive disparities harm organizational cohesion.

On the other hand, Ali, Hussain, and Waheed (2021), using a 15-year dataset of 860 Chinese non-financial firms, found a positive and significant association between firm profitability and executive pay. However, their results also highlighted governance challenges ownership concentration and CEO duality were associated with higher pay but not necessarily better performance, implying managerial entrenchment. The study demonstrated that, despite alignment mechanisms, weak board independence could undermine performance sensitivity in compensation contracts. Similarly, Bhuyan, Butchey, Haar, and Talukdar (2022) analyzed CEO pay policies in the global insurance industry before and after the 2008 financial crisis using the generalized method of moments (GMM). They reported a post-crisis shift from bonuses to stock and option awards, reflecting efforts to promote long-term alignment between CEOs and shareholders. Their findings suggest that firm performance and CEO experience jointly determine compensation structure, confirming that external shocks often reshape incentive design in highly regulated sectors such as insurance.

Within Nigeria and similar developing contexts, the empirical evidence remains mixed and context-specific. For example, Komolafe (2024) examined 13 quoted commercial banks between 2013 and 2022 and found that executive salary significantly improves return on equity (ROE), while equity holdings had positive but insignificant effects, and bonuses showed negative but insignificant effects on performance. The findings underscore that fixed pay components appear more influential than performance-based incentives, possibly due to weak enforcement of performance-linked contracts. Similarly, Omotola (2023) assessed director, CEO, and chairman compensation across listed Nigerian banks from 2012 to 2016 and found that CEO compensation positively and significantly affects performance, whereas chairman and director compensations exert negative influences. The study suggests that leadership roles with direct managerial involvement have stronger performance implications than those with oversight functions, emphasizing the need for differentiated pay strategies.

Further broadening the Nigerian context, Mohammed, Ibrahim, and Maitala (2023) investigated 63 listed non-financial firms using a correlational research design and GMM estimation. Their findings showed that salary emoluments, bonuses, and stock-based compensation negatively affected ROE, while executive pensions had a positive effect. This suggests that short-term and equity incentives may not yield intended results in firms where governance and market discipline are weak. The authors attributed these results to structural inefficiencies and the lack of effective performance monitoring mechanisms within Nigerian corporations. On the other hand, Ugbodaga and Ibrahim (2021), focusing on four listed manufacturing firms between 2009 and 2019, found that base pay, bonuses, and stock-based payments all had significant positive effects on corporate earnings. Their findings support the notion that well-calibrated compensation packages enhance both short-term profitability and long-term success, confirming that executive motivation responds positively to competitive and transparent reward systems.

Akewushola and Saka (2018), studying six diversified Nigerian firms, found that profitability, firm size, and return on investment significantly determine executive compensation, with profitability showing the greatest influence. This reinforces the reciprocal nature of pay–performance relationships, implying that profitable firms can afford higher executive pay, which may, in turn, stimulate further performance



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improvements. However, Omoregie and Kelikume (2017), investigating 12 commercial banks from 2005 to 2014, reported inconsistent findings: while executive compensation responded positively to customer deposits and equity-asset ratio, it had a negative relationship with return on equity. They concluded that executive compensation in Nigerian banks is not consistently aligned with performance outcomes, highlighting weaknesses in governance oversight and incentive design.

## METHODOLOGY

This study adopts an ex post facto research design, which is particularly appropriate when the phenomena of interest have already occurred and the researcher merely seeks to observe their existing relationships retrospectively. According to Kim and Singhal (1993), an ex post facto design allows the researcher to explore cause-and-effect relationships among variables without manipulation or experimental control. The design therefore fits the present study, as both executive compensation and financial performance indicators are historical and recorded within corporate financial statements.

The population of the study comprises all insurance companies listed on the Nigerian Exchange Group (NGX) as at 2024. To enhance the validity and generalizability of findings, the study intends to include all listed insurance companies within the period under review. However, in practice, the final sample will be determined by the availability and completeness of data disclosed in annual financial reports. Firms with incomplete or missing data for any of the variables within the study period will be excluded. Consequently, a judgmental or convenience sampling technique is adopted, as it ensures that only firms with adequate and verifiable financial disclosures are included in the dataset. This approach follows similar empirical precedents within Nigerian corporate studies where data limitations are common.

The study relies entirely on secondary data drawn from the audited annual financial statements of the selected firms, together with information from the NGX Factbook and published industry reports. The data cover a ten-year period from 2015 to 2024, a time frame chosen to capture sufficient observations and variations in executive pay structures and firm performance across multiple economic cycles. The variables of interest—executive compensation, incentive pay, return on assets, return on equity, and firm size—are all extracted from publicly available reports, ensuring accuracy and comparability across firms.

Given that the study is based on secondary, time-bound information, the method of data collection is essentially a documentary or historical survey of company records. Data are collated manually from each firm's audited financial statements and cross-verified with NGX publications. For consistency, all financial figures are converted to ratios and log forms to eliminate the effect of firm size and inflation. This is to ensure comparability over time and across companies.

Data analysis is carried out using the Panel Least Squares (PLS) estimation technique within the framework of multiple regression analysis. The panel data structure—combining both time-series and cross-sectional observations—enables the study to control for unobserved firm-specific heterogeneity and detect variations in firm behavior over time. The choice of the PLS technique is informed by its robustness in handling datasets with relatively small cross-sections and moderate time spans, which is typical of studies involving listed firms in developing markets.

The empirical model is specified following the general multiple regression form:

$$y=a+b_1x_1+b_2x_2+...b_nx_n+\mu_t$$

Where y represents the dependent variable (corporate performance), a is the constant term, $x_1$, $x_2$,...,$x_n$ are the independent variables, b1, $b_2$,...,$b_n$ are the regression coefficients, and $\mu_t$ represents the error term. Drawing on the works of Cheng and Warfield (2005) and Yusuf and Abubakar (2017), the model assumes that executive compensation and incentive pay are determinants of firm performance. The functional form of the model can thus be expressed as:



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Corporate Performance = (Executive Compensation, Incentives, Firm Size)

Where corporate performance is measured by ROA and ROE; executive compensation and incentives are captured through fixed remuneration (EXRM) and incentive-based pay (INCP), while firm size (SIZE) is represented by the logarithm of total assets. Accordingly, two regression equations are estimated as follows:

$$ROA=a+\beta_1 EXRM+\beta_2 INCP+\beta_3 SIZE+\mu_t$$

$$ROE= a+\beta_1 EXRM+\beta_2 INCP+\beta_3 SIZE+\mu_t$$

Prior to estimation, all variables are subjected to diagnostic testing to ensure the robustness of the model. Specifically, the data will be examined for stationarity using the Augmented Dickey-Fuller (ADF) test to avoid the problem of non-stationary time series that could result in spurious regression outcomes, as noted by Osuala (2015).

**Table 1: Variable Measurement**

| Variable | Symbol | Measurement | Expected Relationship |
|---|---|---|---|
| Return on Assets | ROA | Profit After Tax / Total Assets | Dependent variable |
| Return on Equity | ROE | Profit After Tax / Shareholders' Equity | Dependent variable |
| Executive Remuneration | EXRM | Log of Total Annual Executive Fixed Remuneration | + |
| Incentive-based Pay | INCP | log of Incentive-based and bonuses | + |
| Firm Size | SIZE | Log of Total Assets | + |

**DATA AND RESULTS**

Table 2 presents the descriptive statistics of the variables used in the study, based on 150 firm-year observations covering fifteen (15) listed insurance companies in Nigeria for a period of ten (10) years from 2015 to 2024. The mean values of ROA (0.0739) and ROE (0.1153) indicate that, on average, the sampled firms generated moderate profitability relative to their assets and equity, respectively. The standard deviations of 0.0864 for ROA and 0.1324 for ROE suggest noticeable variation in performance levels across firms.

**Table 2: Descriptive Statistics**

| Variables | Mean | Maximum | Minimum | Std. Dev. | Observations |
|---|---|---|---|---|---|
| ROA | 0.0739 | 0.5515 | 0.0003 | 0.0864 | 150 |
| ROE | 0.1153 | 0.7623 | 0.0010 | 0.1324 | 150 |
| EXRM | 4.3617 | 5.9164 | 3.0737 | 0.7497 | 150 |
| INCP | 4.5064 | 5.6546 | 1.3010 | 0.6622 | 150 |



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| | | | | | |
|---|---|---|---|---|---|
| SIZE | 7.3162 | 11.5524 | 5.9701 | 1.1059 | 150 |

For the explanatory variables, the mean executive remuneration (EXRM) of 4.3617 and incentive pay (INCP) of 4.5064 imply that the firms maintain relatively balanced pay structures between fixed and incentive components. The respective standard deviations (0.7497 and 0.6622) reveal moderate dispersion, suggesting that executive pay policies vary across firms but remain within a reasonable range. Firm size (SIZE) has a mean of 7.3162 and a standard deviation of 1.1059, indicating a moderately heterogeneous sample where larger and smaller firms coexist within the industry.

**Table 3: Correlated Random Effects - Hausman Test for ROA model**

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 1.820681 | 3 | 0.6104 |

The Hausman test result in Table 3 shows a Chi-square statistic of 1.8207 with a probability value of 0.6104, which is greater than the 0.05 significance level. This indicates that the random effects model is appropriate for the ROA model, as there is no significant difference between fixed and random effects estimates.

**Table 4: Summary PLS Regression Result (Random Effects) for ROA model**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.0908 | 0.1609 | -0.5644 | 0.5734 |
| EXRM | 0.0036 | 0.0216 | 0.1657 | 0.8686 |
| INCP | 0.0244 | 0.0190 | 1.2882 | 0.1999 |
| SIZE | 0.0053 | 0.0161 | 0.3301 | 0.7419 |
| R-squared: 0.2315; F-statistic: 3.6404; Prob. (F-stat): 0.0000; Durbin-Watson stat: 1.986 | | | | |

Following the Hausman test result presented in Table 3, which yielded a p-value of 0.6104, the random effects model was deemed appropriate for estimating the ROA model. Therefor, regression result for the ROA model presented in Table 4 indicates that executive remuneration (EXRM), incentive pay (INCP), and firm size (SIZE) jointly explain about 23.15% of the variation in return on assets (ROA), as reflected by the R-squared value. The F-statistic of 3.6404 with a probability value of 0.0000 suggests that the model is statistically significant overall, meaning that the independent variables collectively have a meaningful relationship with firm performance. However, individually, none of the explanatory variables exhibit a statistically significant effect on ROA at the 5% level. Executive remuneration (EXRM) has a positive but weak effect ($\beta = 0.0036$, $p = 0.8686$), while incentive pay (INCP) also shows a positive but statistically insignificant impact ($\beta = 0.0244$, $p = 0.1999$). Firm size (SIZE) contributes positively ($\beta = 0.0053$, $p = 0.7419$) but is also not significant. The Durbin-Watson statistic of 1.986 indicates that the model is free from autocorrelation, suggesting that the regression estimates are reliable.

**Table 5: Correlated Random Effects - Hausman Test for ROE model**

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 1.041712 | 3 | 0.7912 |

The Hausman test result in Table 5 shows a Chi-square probability value of 0.7912, which is greater than the 0.05 significance level. This indicates that the random effects model is more appropriate than the fixed effects model for the ROE equation, as there is no significant difference between their estimators.



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**Table6: Summary PLS Regression Result (Random Effects) for ROE model**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.0351 | 0.2519 | -0.1395 | 0.8893 |
| EXRM | 0.0330 | 0.0337 | 0.9784 | 0.3296 |
| INCP | 0.0356 | 0.0297 | 1.1996 | 0.2324 |
| SIZE | -0.0211 | 0.0253 | -0.8332 | 0.4062 |
| R-squared: 0.2902; F-statistic: 3.1749; Prob. (F-stat): 0.0001; Durbin-Watson stat: 1.7052 | | | | |

Based on the Hausman test result in Table 5, which indicates a p-value of 0.7912, the random effects model was considered suitable for the ROE model estimation. The regression output presented in Table 6 reveals that executive remuneration (EXRM), incentive pay (INCP), and firm size (SIZE) jointly explain approximately 29.02% of the variation in return on equity (ROE), as shown by the R-squared value. The F-statistic of 3.1749 with a probability value of 0.0001 suggests that the overall model is statistically significant, implying that the independent variables collectively influence corporate performance among Nigerian insurance companies. However, the individual coefficients are not statistically significant at the 5% level. Executive remuneration ($\beta = 0.0330$, $p = 0.3296$) and incentive pay ($\beta = 0.0356$, $p = 0.2324$) both exhibit positive but insignificant effects on ROE, indicating that increases in executive pay and incentives are not strong predictors of equity-based performance. Firm size ($\beta = -0.0211$, $p = 0.4062$) shows a negative but insignificant relationship with ROE. The Durbin-Watson statistic of 1.7052 suggests that the model is free from serious autocorrelation problems. Overall, the random effects results indicate that executive compensation and incentives have a weak and statistically insignificant influence on return on equity in the Nigerian insurance industry.

## DISCUSSION OF FINDINGS

Using both return on assets (ROA) and return on equity (ROE) as performance indicators, the regression results from the random effects models revealed that executive remuneration (EXRM) and incentive-based pay (INCP) have positive but statistically insignificant effects on the financial performance of insurance companies. This implies that, although higher compensation and incentives are associated with improved profitability, the relationship is weak and not statistically meaningful within the period under review.

These findings align partially with those reported by Komolafe (2024), who observed that executive salaries had a positive and significant effect on return on equity in Nigerian commercial banks, but bonuses had an insignificant and negative relationship. The divergence in significance may be attributed to the structural and regulatory differences between the banking and insurance industries. The banking sector, being more competitive and performance-driven, often ties compensation more directly to profitability targets, whereas the insurance industry may emphasize stability and long-term policyholder value over short-term gains. Similarly, Omotola (2023) found that CEO compensation had a significant positive impact on bank performance, while director and chairman compensations were either insignificant or negative, further supporting the idea that the influence of pay structures on performance varies depending on the executive position and industry.

The positive but insignificant association between incentive-based pay and ROA/ROE in this study also corroborates the results of Mohammed, Ibrahim, and Maitala (2023), who reported that while executive pensions positively affected return on equity, other components such as salary emoluments and stock-based compensation had negative or insignificant effects among listed non-financial firms in Nigeria. This suggests that the nature of incentives whether short-term or long-term may produce differing effects on firm outcomes.

Again, the findings are consistent with Bhuyan, Butchey, Haar, and Talukdar (2022), who found that after the 2008 financial crisis, the structure of CEO compensation in the insurance industry shifted from heavy



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reliance on cash bonuses to stock and option-based incentives. Their study revealed that while compensation structure changes were driven by risk management and regulatory compliance, the effect on short-term firm performance remained limited. This is similar to the Nigerian insurance context in which compensation structures are influenced more by regulatory guidelines and board discretion than by market-driven performance metrics.

Conversely, the findings of this study contrast with Ugbodaga and Ibrahim (2021), who reported that base pay, executive bonuses, and stock-based payments had significant positive effects on corporate earnings of listed manufacturing firms in Nigeria. The difference may be explained by the different operational characteristics of the manufacturing sector in which performance outcomes are more directly influenced by managerial cost control, and production output, all of which can respond more quickly to incentive mechanisms.

In the broader international context, this study's results align with Ferry, He, and Yang (2023), who found that in Thailand's tourism industry, short-term executive compensation enhanced firm performance, but long-term compensation reduced the likelihood of poor corporate outcomes. The positive but insignificant coefficients observed in this study may therefore reflect a similar dynamic in Nigeria's insurance sector.

The observed weak effect of executive pay on performance also supports aspects of agency theory, which underpins this study. Agency theory posits that compensation mechanisms are designed to align the interests of managers (agents) with those of shareholders (principals). However, when compensation is not adequately tied to measurable performance indicators, the alignment weakens, leading to agency inefficiency. In this case, the insignificant relationship between pay and performance suggests that the compensation packages of insurance executives may not be sufficiently performance-sensitive to drive optimal outcomes. This finding aligns with Ali, Hussain, and Waheed (2021), who found that CEO duality and board ineffectiveness in Chinese firms weakened the link between executive remuneration and firm performance, suggesting that governance quality mediates the pay–performance relationship.

## CONCLUSION AND RECOMMENDATIONS

This study examined the impact of executive compensation and incentives on the financial performance of listed insurance companies in Nigeria between 2015 and 2024, using return on assets (ROA) and return on equity (ROE) as performance indicators. The findings revealed that both executive remuneration and incentive-based pay exerted positive but statistically insignificant effects on firm performance. This suggests that although compensation and incentives may motivate executives to some extent, they are not yet strong enough to produce measurable improvements in profitability within the Nigerian insurance sector.

These findings align with prior studies such as those by Komolafe (2024), Mohammed et al. (2023), and Omoregie and Kelikume (2017), which reported weak or inconsistent relationships between executive pay and firm performance in various sectors of the Nigerian economy. This reinforces the notion that the pay–performance linkage in many Nigerian industries remains underdeveloped, often due to compensation structures that are not fully tied to key performance metrics or long-term value creation.

In light of these findings, this study recommends that insurance companies should adopt more transparent, performance-linked compensation policies that explicitly tie executive pay to measurable indicators such as profitability, underwriting efficiency, and return on investment. Performance-based incentives—such as profit-sharing schemes, equity options, and long-term stock grants—should be incorporated into executive contracts to promote alignment between managerial decisions and shareholder interests, as postulated by agency theory.

Additionally, corporate boards and remuneration committees should strengthen governance mechanisms to ensure that executive rewards reflect actual value creation rather than tenure or position. Regulators such as



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the National Insurance Commission (NAICOM) should also establish clear guidelines on executive pay disclosure and ensure that compensation frameworks promote accountability and efficiency.

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