



Directors' Remuneration Disclosure Transparency in Nigeria and the Influence of Block Share Ownership

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ABSTRACT

This paper examines directors' remuneration disclosure transparency in an emerging economy (Nigeria). We specifically examine how the block share ownership influences the level of transparency in the disclosure of directors' remuneration in a sample of companies listed on the Nigerian Stock Exchange in 2012. Using ordinary least squares and binary logistic regressions to examine the relationship, we find that block share ownership is associated with lower transparent disclosure of directors' remuneration. The result shows a positive relationship between audit quality and transparent disclosure of directors' remuneration. The study finds that the transparency score is less than 40%. On the whole, we provide evidence that managers in Nigerian Listed Companies are inclined not to make voluntary disclosure of their remuneration to the public. This paper has implication for policy makers and regulatory authorities in Nigeria on the need to embark on remuneration disclosures reforms so as to make directors' remuneration disclosure mandatory for Nigerian Listed Companies to make it comparable with accepted global good practice. This study contributes to the remuneration disclosure transparency literature by providing support for the expropriation hypothesis in the behaviour of block shareholders from an emerging economy whose market is very much different from those of developed economies.

Keywords: Block share ownership, directors' remuneration, disclosure, Nigeria, transparency.

JEL Codes: G3, G38, J33, M52.

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1.0 INTRODUCTION

The last decade of the 20th century witnessed the formal publication of corporate governance codes by different countries beginning in the U.K. in 1992 with the Cadbury's Report. This was the outcome of the corporate failures in the U.K. that were attributed to poor corporate governance of those companies in addition to controversial pays received by directors (Cadbury Committee, 1992). The early 2000s witnessed high level corporate scandals that cut across many countries that eventually led to the collapse

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of several of those companies. The glaring findings were that the CEOs and certain other officers of the companies were feeding fat on their collapsing companies through their perceived excessive remuneration. There was general discontent that the CEOs have extracted private benefits of excessive remuneration from those companies. The general perceptions are that company boards are not doing proper monitoring of the executives, the CEO remuneration is on the upside, and is not related to company performance (Kaplan, 2012).

It was aftermath of these scandals and crisis that public clamour for increased disclosure of details of directors' remuneration in the annual reports increased especially from the shareholder activists as there was increased demand to know how company managers are paid. Council (2014: 31) states "remuneration is a key focus for investors." As such directors' remuneration remains one of the most discussed topics in the corporate governance literature by academics, press, and among shareholder activists that have increased since the recent global financial crisis (Barontini & Bozzi, 2011; Correa & Lel, 2014; Cremers & Grinstein, 2014; Ferrarini, Moloney, & Vespro, 2003). This in turn has led to different legislative and regulatory enactments on directors' remuneration disclosure by some developed economies like the U.S. and the U. K. in order to ensure transparency and accountability. Andjelkovic, Boyle, and McNoe (2002) argue that non-disclosure of directors' remuneration by companies could lead to weak association between pay and performance as shareholders will be unable to scrutinize directors' remuneration and exert pressure on the board where they find executive pay to be excessive and not performance related.

Extensive literature already exists on directors' remuneration as to how it is determined even though opinions and empirical results are diverse as to whether the CEOs deserve their pay or they are extracting private rent from those companies (Bebchuk & Fried, 2003; Core, Guay, & Larcker, 2003; Core, Guay, & Thomas, 2005; Cremers & Grinstein, 2014; Kaplan, 2012; Shin, 2013). Prior to this time there have been different regulatory efforts at ensuring transparent disclosure of directors' remuneration by the companies to the various stakeholders through appropriate disclosure in the annual reports or proxy statements. As efforts are being put into it, it does not seem to be yielding the desired results as the CEOs pay continues on the upside. Recently, regulators' attention has increased tremendously to the extent of disclosure that is required in the annual reports for directors' remuneration to ensure a higher level of transparency. Kaplan (2012) confirms this increased attention, but finds that increased regulations on directors' remuneration such as Dodd-Frank's Act 2010 in the U.S. did not sway the shareholders against CEO pay in 2011 as majority of them supported the executive pay policies adopted by their companies.

Nigeria is one of the fastest growing economies in the world with an underdeveloped capital market and weak corporate governance mechanism (Okike, 2007; ROSC, 2008, 2011). The apparent weakness in the corporate governance system provides a fertile ground for managerial excesses that may not make for transparent voluntary disclosure of directors' remuneration in the annual reports. The country's first corporate governance code was published in 2003 with a revised version in 2011 that recommends the disclosure of a company's remuneration policy and total compensation paid to directors. The code suggests that the remuneration of the Chief Executive Officer (CEO) and executive directors should comprise long-term related components such as bonuses and stock options which should be disclosed in the annual reports. The extent of compliance with this requirement by Nigerian Listed Companies (NLCs) is yet to be empirically investigated. Given that the board of directors may be ineffective in constraining the managers from exhibiting self-serving behaviour because of the weakness of the corporate governance system, block shareholders may also likely exhibit expropriation behaviour to extract private benefits of control. The objective of this paper is to examine the influence of block share ownership on the level of transparent disclosure of directors' remuneration in the annual report and make a case for the need for transparent disclosure of detailed directors' remuneration by NLCs. This study contributes to the remuneration disclosure transparency literature by providing support for the expropriation hypothesis in the behaviour of block shareholders from an emerging economy whose market is very much different from those of developed economies.

Using a sample of companies listed on the Nigerian Stock Exchange, consistent with the argument that block shareholders align with managerial interests to expropriate minority shareholders we present evidence where the proportion of shares held by block shareholders is negatively associated with extent of transparent disclosure of directors' remuneration. The result however indicates that audit quality is positively associated with the level of transparency in the disclosure of directors' remuneration. We also document an insignificant relationship between disclosures of the highest paid director and block share ownership. The findings indicate that companies do not provide detailed components of total directors' remuneration in their annual reports. Furthermore, none of the companies in our sample provided directors' remuneration disclosure on an individual basis; some also failed to disclose the amount paid to the highest paid director. The rest of the paper is structured as follows. Section 2 provides the benefits of providing transparent disclosure of directors' remuneration in the annual reports. Section 3 discusses the international perspective on directors' remuneration disclosure. Directors' remuneration disclosure in Nigeria is presented in section 4 and section 5 presents the review of relevant literature on the relationship between transparent disclosure of directors' remuneration and block share ownership. Section 6 provides the data and model specification. The empirical results are contained in section 7 while section 8 presents conclusion and recommendations on how Nigeria can ensure transparency in disclosure of directors' remuneration by the listed companies.

2.0 BENEFITS OF TRANSPARENT DISCLOSURE OF DIRECTORS' REMUNERATION

Excessive directors' remuneration has gradually become one of the major agency problems that was hardly envisaged by the agency theorists as it was regarded as a means of mitigating the agency conflicts (Bebchuk & Fried, 2003; Ferrarini et al., 2003; Jensen & Murphy, 1990). The professional managers run large complex companies because of the diffused nature of its share ownership. From the agency theory perspective, this separation of ownership and control results in information asymmetry between the managers and shareholders that can only be bridged through appropriate disclosure of information (Healy & Palepu, 2001). Information disclosure is therefore seen as a means of reducing the agency conflicts through reduction in information asymmetry between the shareholders (principals) and managers (agents). In support of this argument, Muslu (2010) suggests that voluntary disclosure of directors' remuneration would constrain the executives from exhibiting opportunistic behaviour.

As contentious as directors' remuneration issue is several companies view it as confidential matter that should not get to the public domain (Ehikioya, 2009). For example, in the U.S. company executives endeavour to understate the option grants component of their total remuneration (Yermack, 1998). It is this lack of transparency that has made regulatory authorities to demand mandatory disclosure of directors' remuneration by listed companies. It is deemed appropriate to let shareholders know what the executives take home as rewards for their efforts at enhancing the worth of the company that invariably translates to enhanced shareholders wealth. Numerous benefits will accrue to all stakeholders when there is transparent disclosure of directors' remuneration by companies. Ferrarini et al. (2003) identified the attendant benefits of disclosure of directors' remuneration to include the following; resolution of the procedural and structural problems associated with directors' remuneration, it will enable shareholders to evaluate whether the directors have acted in protecting their interest or otherwise, institutional shareholders will be incentivized to do more executive monitoring as this disclosure enhances their reputation, directors' remuneration that is transparently disclosed will save the board from undue pressure and bolsters their reputation.

In addition, a company that makes transparent disclosure of directors' remuneration will be able to concentrate on the business of managing the company and attracts the confidence of investors on the board and the management. When there is a national regulatory policy document on directors' remuneration, it sends a strong signal to the international business community that the country is ready for serious business. This may in turn make foreign investors to beam their investment searchlight on the country. The shareholders feel a sense of fulfilment that they have made wise investment decisions as they become convinced that executives actually deserve their pay. Kaplan (2012) provides empirical

support for this when he documents that shareholders gave approval for their companies' directors' remuneration policies in 2011.

3.0 INTERNATIONAL PERSPECTIVE ON DIRECTORS' REMUNERATION DISCLOSURE

The contention on directors' remuneration disclosure is to show whether the directors truly deserve their pay or otherwise in the light of discoveries that the companies over which they presided were almost insolvent. Accordingly, twelve countries have now enacted laws that require shareholders to have a say on directors' remuneration issues (Correa & LeI, 2014). The principal drivers of this law are the U.S. and the U.K. who both have strong investor protection rights and enforcement and compliance mechanism in operation. The demand for transparent disclosure of directors' remuneration is not recent as the U.S. Securities and Exchange Commission (SEC) has been responsible for ensuring transparent disclosure of directors' remuneration in the annual proxy statements by listed companies in the U.S. by promulgating rules that are mandatory for them to comply with since 1938 (U.S. Securities and Exchange Commission, 2006).

After much agitation from the U.S. Congress and shareholder activists, the SEC in 1992 published a new disclosure rule on directors' remuneration requiring all companies listed on a national stock exchange to make appropriate disclosure of directors' remuneration in its annual proxy statements (Vafeas & Afxentiou, 1998), (see Straka (1993) for a comprehensive review of the 1992 Disclosure of Executive Compensation under SEC in the U.S.). Straka (1993) states increasing use of long-term incentives plan, shareholder activism and negative perception of executive compensation by the public as factors that led to the amendment on directors' remuneration disclosure rules in 1992 by SEC. Vafeas & Afxentiou (1998) in their assessment of the impact of the new rules on directors' remuneration disclosure conclude that it has stirred the compensation committee to action just as executive compensation became related to company performance compared to the pre-rule period. In spite of what seems to be accomplished goal from the academic front of the new rules stakeholders continued to demand more transparency in directors' remuneration matters as the CEO pay continued on the upward trend.

In 2006 the SEC adopted an amendment to the directors' remuneration disclosure rules by making additional disclosure requirements. By 2010 the Dodd-Frank Act 2010 was enacted that demands shareholders should have a say on the pay received by the executives. Correa & LeI (2014) examine the effect of say on pay laws on executive compensation in 39 countries and conclude that it has helped in reducing excessive CEO compensation, and has led to increased pay-performance sensitivity. As at the time of writing this paper, the 2015 suggested amendment is under consideration in the U.S. This is the extent that the U.S. has taken the issue of directors' remuneration disclosure for the benefit of the shareholders and concerned public in pursuit of transparency and accountability. In spite of all the positive effects attributed to the rules as amended the journey to amendments has not yet ended as it still continues.

The 2006 disclosure rules require listed companies to make the following disclosures in their proxy statements: options disclosure, compensation discussion and analysis, and compensation tables. The contents of the summary compensation table are name and principal position, year, salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value and nonqualified deferred compensation earnings, all other compensation, and total remuneration. This information is to be provided for the last three completed fiscal years for the following people: all directors, Chief Executive Officer (CEO), Chief Financial Officer (CFO), and three other most highly paid officers of the company. In addition, the company is also required to provide Compensation Discussion and Analysis to make investors have deep insight into the executive compensation policies of the company.

In the U.K., Cadbury's Report 1992 recommends the disclosure of the total emoluments of the directors, chairman, and the highest paid director in the annual report. The components of the total emoluments such as salary, bonuses, stock options, and pension contributions are to be disclosed and explanations provided on the modality for measuring performance. Greenbury's Report 1995 was a major attempt in

the U.K. to make demand for detailed disclosure of directors' remuneration in the annual reports to ensure transparency and accountability so as assuage the complaints from the public and shareholders regarding the excessive remuneration received by company managers that are perceived not to be performance related. It specifically required the detailed disclosure of the components of the individual director's remuneration such as basic salary, annual bonuses, benefits in kind, long term incentive schemes such as share options and description of pensions. Efforts have not ceased as another remuneration disclosure requirement was enacted by the Parliament in 2013. The directors' remuneration report must contain the remuneration details for each director during the financial year that includes the total amount of salaries and fees, all taxable benefits, performance related bonuses, pensions related benefits and total of all components of compensation. This is required to be presented in a tabular form. The U.K. has integrated its directors' remuneration disclosure requirements into the Companies Act and the Listing Requirements of the London Stock Exchange. Furthermore, the U.K. requires companies to publish Directors' Remuneration Report for every financial year of the company just like the audited annual reports and must be sent to every shareholder of the company 21 days before the Annual General Meeting (AGM).

4.0 DIRECTORS' REMUNERATION DISCLOSURE IN NIGERIA

The Nigeria corporate environment is characterised by low investor protection rights, weak compliance and enforcement mechanisms that have rendered the corporate governance system ineffective (Okike, 2007; ROOSC, 2008, 2011). In an attempt to formally structure the corporate governance practice in NLCs in the light of happenings in the global business community the Corporate Governance Code for Public Companies in Nigeria (CG Code) 2003 was published that specifically recommended the disclosure of the directors' emoluments together with that of the chairman and the highest paid director in the annual report. It is however disappointing that no explanation was required for non compliance and the companies were not required to provide their remuneration policies to the shareholders. The CG Code 2003 left the duty of reporting non compliant companies to the press. The Nigerian press is not yet very much active in reporting directors' remuneration disclosure matters like their U.S. counterpart. Core, Guay, and Larcker (2008) provides evidence regarding this when they examined more than 11,000 press articles between 1994 and 2002 that discussed CEO compensation in the U.S. to ascertain their influence on executive compensation. This cannot be said about Nigeria, and explains the level of awareness the press has brought to the public as regards directors' remuneration issues among NLCs. Prior to the publication of CG Code 2003 NLCs were not willing to make such disclosure as it was considered confidential information (Ehikioya, 2009). It is from this perspective that Adegbite (2012) argued for a legal corporate governance regulatory framework in Nigeria in the short run given the corporate corruption that is deep in the country's corporate governance system.

5.0 BLOCK SHAREHOLDERS AND TRANSPARENT DISCLOSURE OF DIRECTORS' REMUNERATION

Agency theorists argue that the separation of ownership from management will inevitably create agency conflicts between the shareholders and the managers especially when the shareholders are widely dispersed (Fama & Jensen, 1983; Jensen & Meckling, 1976). The alignment and expropriation hypotheses are the two competing hypotheses as to the role of the block shareholders in companies. According to the alignment hypothesis Becker, Cronqvist, and Fahlenbrach (2011), share ownership concentration allows the block shareholders to do proper monitoring of the managers at ensuring that they work for the enhancement of overall shareholders wealth. Their presence in companies therefore is anticipated will constrain the managers from opportunistic behaviour in form of excessive remuneration and lower disclosure of information in the annual report. Therefore, the conjecture of this hypothesis is a positive relationship between transparent disclosure of directors' remuneration and block share ownership. In contrast, the expropriation hypothesis (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Renders & Gaeremynck, 2012; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008) argue that the presence of block shareholders would create what is addressed as the principal-principal agency problem where the block

shareholders would be more prone to extract private benefits of control. Under this hypothesis, block shareholders will use their control rights and influence to their private advantage. This hypothesis predicts a negative relationship between transparent disclosure of information on directors' remuneration and block share ownership. This is because they have access to the management and their information needs. To support this hypothesis Guthrie and Sokolowsky (2010) examine how block shareholders will behave when they have the opportunity of extracting private benefits of control. They provide empirical evidence that in the presence of block shareholders earnings are managed upward around seasoned equity offerings.

Previous studies that have investigated the effectiveness of block shareholders at ensuring transparent disclosure of information by companies have reported incongruous results (Barako, Hancock, & Izan, 2006; Haniffa & Cooke, 2002; Samaha, Dahawy, Hussainey, & Stapleton, 2012). Samaha et al. (2012) examine the extent of corporate governance disclosure and the influence of corporate governance attributes with a sample of 100 companies listed on the Egyptian Stock Exchange. Using both the ordinary least squares and the binary logistic regressions their result support the expropriation hypothesis as they find a statistically significant negative relationship between block shareholders and voluntary disclosure. Their result is similar to that of Barako et al., (2006) that examine the factors that influence voluntary disclosure in Kenyan listed companies. Their sample consists of 43 companies covering the period 1992 to 2001. With the aid of pooled regression analysis they provide evidence of a negative relationship between block shareholders and voluntary disclosure. On the other hand Haniffa & Cooke (2002) with evidence from Malaysia report a positive relationship between the variables indicating that the block shareholders improve the level of disclosure of information by companies. This finding is consistent with the alignment hypothesis.

The few identified studies that have examined the transparency of directors' remuneration (Ben-Amar & Zeghal, 2011; Coulton, James, & Taylor, 2001; Muslu, 2010) did not consider block share ownership as an explanatory variable. Samaha et al. (2012: 171) argue that "... investors with large equity shares in a company can obtain information about the company from internal sources. Therefore, more closely held companies are more likely to disclose less information." On the principal-principal problem, Hope (2013) argues that there exists agency conflict between block shareholders and minority shareholders in countries with low legal protection for minority shareholders. He argues further that the block shareholders may be more likely to extract private benefits of control to the detriment of the minority shareholders. Their extraction of private benefits of control is more likely to make them to become pressure sensitive and as such may not be inclined to demand transparent disclosure of directors' remuneration.

Consistent with the expropriation hypothesis since legal protection for investors is low in Nigeria, we therefore hypothesize that block share ownership in companies will result in lower transparent disclosure of directors' remuneration in Nigerian listed companies.

6.0 DATA AND METHODOLOGY

6.01 SAMPLE SELECTION

The initial sample for this study consists of 108 companies listed on the Nigerian Stock Exchange whose annual reports for 2012 could be accessed. The companies in the financial and insurance sectors were excluded from the sample size because of their adherence to additional codes and legislations. Additional companies whose shareholders information could not be accessed were further removed from the sample. After eliminating companies with missing information this study had 45 companies for the OLS regression and 59 companies for the binary logistic regression. The period 2012 was chosen as appropriate for the study because it is the first year after the publication of the CG Code 2011.

6.02 DEVELOPING TRANSPARENCY DISCLOSURE INDEX

The dependent variable is the directors' remuneration transparency disclosure score (TRASC). The study developed the transparency disclosure index from the recommendations of the Code of Corporate Governance for Public Companies in Nigeria (CG Code) 2003 and 2011 as regards directors' remuneration issues. Content analysis was used for extracting the necessary information on directors' remuneration matters from the annual reports. Since the required information is not contained in a particular section of the annual report, considerable effort was put to reading each annual report in order to obtain needed information. In all 10 indicators that relate to directors' remuneration matters were identified and they were all equally weighted as assigning weights to any would make for loss of objectivity. Both weighted and unweighted methods have been reported to produce similar results (Barako et al., 2006). In remuneration transparency disclosure studies researchers have used different disclosure indexes (Ben-Amar & Zeghal, 2011; Coulton, James, & Taylor, 2001; Muslu, 2010) depending on the study's legal and regulatory environment.

6.03 INDEPENDENT VARIABLE

The objective of this study is to examine how block share ownership (BLKOWN) influences the transparency of information disclosure on directors' remuneration matters in NLCs in the annual report. The independent variable is the block share ownership and this is measured as the percentage shareholding by shareholders who hold a minimum of 5% of company shares. This is consistent with measures used in past research (Eng & Mak, 2003; Guthrie & Sokolowsky, 2010; Samaha et al., 2012).

6.04 CONTROL VARIABLES

The remuneration disclosure literature shows association with different company characteristics and other variables. In this study we control for audit quality (AUDT4), company performance (ROA), company size (SIZE), leverage (LEV), and sales growth (GRT) as they have been included in the regression equation in previous studies (Adelopo, 2011; Akhtaruddin & Haron, 2010; Ben-Amar & Zeghal, 2011; Gul & Leung, 2004; Samaha et al., 2012). The relationship between voluntary disclosure and multinational auditors (Big Auditors) has remained mixed from past research (Adelopo, 2011; Barako et al., 2006; Gul & Leung, 2004). When any of the big audit firms serve as a company's external auditor, it is an indication of high audit quality (Gul & Leung, 2004) and is therefore expected to be associated with increased transparent disclosure of information by companies in their annual report. Adelopo (2011) documents a positive relationship between audit quality and voluntary disclosure while (Barako et al., 2006; Gul & Leung, 2004) document an insignificant relationship. Consistent with prior studies we measure audit quality with the Big 4 audit firms (Adelopo, 2011). A company that is audited by any of the Big 4 is assigned a value of 1, and 0 otherwise.

Past research on voluntary disclosure studies has shown that company performance is a determinant of voluntary disclosure (Adelopo, 2011; Babío Arcay & Muiño Vázquez, 2005; Ben-Amar & Zeghal, 2011). High performing companies are expected to have the inclination to make increased transparent disclosure of information as signal to the market. However, Ben-Amar & Zeghal (2011) provide empirical evidence of an insignificant relationship between disclosure transparency and company performance. In contrast, Adelopo (2011) document a significant negative relationship between voluntary disclosure and company performance measured as return on assets (ROA). Following Adelopo (2011) this study measures company performance as the company's ROA. We also control for company size as previous studies have argued that large companies have the resources to make higher disclosures than their smaller counterparts (Babío Arcay & Muiño Vázquez, 2005; Hossain & Hammami, 2009). Company size is measured as the company's total assets similar to that used by Babío Arcay & Muiño Vázquez (2005). Muslu (2010) and Ben-Amar & Zeghal (2011) report a significant positive relationship between company size and extent of disclosure made by companies.

Next, we control for leverage even though past research has produced inconsistent findings (Ben-Amar & Zeghal, 2011; Samaha et al., 2012). Restrictive debt covenants serve as constraint on managers and creditors may not necessarily demand increased disclosure of information by companies (Eng & Mak, 2003). The implication is that highly levered companies may likely provide less transparent disclosure in the annual report. While Ben-Amar & Zeghal (2011) report a negative relationship between disclosure and leverage, Samaha et al. (2012) document an insignificant relationship between the variables. Following (Ben-Amar & Zeghal, 2011; Eng & Mak, 2003), leverage is measured as total liabilities deflated by total assets. Finally, we consider growth as another control variable that has been controlled for in prior research. Eng & Mak (2003) argue that growth companies are more likely to make increased disclosure of information than their non-growth counterparts. We measure growth as sales growth over that of the previous year similar to Colpan and Yoshikawa (2012).

6.05 MODEL SPECIFICATION

Our study employs both the ordinary least squares (OLS) and the binary logistic regression to examine the association between block share ownership and disclosure transparency score and disclosure of the highest paid director respectively. Model 1 is for the OLS regression while Model 2 is for the binary logistic regression. The binary logistic regression is used for Model 2 because the highest paid director is a dichotomous variable that takes the value of 1 if a company discloses its highest paid directors and 0 if not disclosed.

$$\text{DTRASC} = \beta_0 + \beta_1\text{BLKOWN} + \beta_2\text{AUDT4} + \beta_3\text{ROA} + \beta_4\text{SIZE} + \beta_5\text{LEV} + \beta_6\text{GRT} + \varepsilon \quad \dots 1$$

$$\text{HPD} = \beta_0 + \beta_1\text{BLKOWN} + \beta_2\text{AUDT4} + \beta_3\text{ROA} + \beta_4\text{SIZE} + \beta_5\text{LEV} + \beta_6\text{GRT} + \varepsilon \quad \dots 2$$

Where:

DTRASC	=	Disclosure transparency score
HPD	=	Highest paid director
BLKOWN	=	Block share ownership
AUDT4	=	Big 4 audit firms
ROA	=	Return on assets
SIZE	=	Total assets
LEV	=	Total liabilities divided by total assets
GRT	=	Sales growth
ε	=	Random error term

Table 1: Descriptive statistics on level of transparency of disclosure of directors' remuneration (N = 48)

	Mean	Std. Dev.	Minimum	Maximum
Transparency Score	3.729	1.440	1	5
Compensation Policy	0	0	0	0
Material Benefits	0.021	0.144	0	1
Total Directors' Remuneration	0.875	0.334	0	1
Remuneration Committee	0.542	0.504	0	1
Non-Executive Directors' Fees	0.771	0.425	0	1
Executive Directors' Remuneration	0.688	0.468	0	1
Long-Term Incentive Plans	0	0	0	0
Share Options	0	0	0	0
Highest Paid Director	0.833	0.377	0	1
Individual Director's Remuneration	0	0	0	0

Table 2: Descriptive statistics on the study variables (N = 45)

Variables	Mean	Median	Std. Dev.	Minimum	Maximum
TRASC	0.389	0.400	0.134	0.100	0.500
BLKOWN	0.556	0.600	0.233	0.105	0.949
AUDT4	0.778	1	0.420	0	1
ROA	0.088	0.087	0.185	-0.927	0.302
SIZE (₦'000)	7.44e+07	2.80e+07	1.29e+08	672492	6.74e+08
LEV	0.609	0.562	0.225	0.265	1.504
GRT	0.071	0.050	0.180	-0.493	0.595

7.0 RESULTS

7.01 SUMMARY STATISTICS

The descriptive statistics on level of transparency of disclosure of directors' remuneration is presented in Table 1. The Table shows that out of the maximum 10 points available from the indicators, the maximum score obtained by sample companies was 5 with a minimum of 1. On the average the transparency score stood at 37.29%. This is low compared to the 68% reported by Muslu (2010) for large European companies and 54.44% documented for Australian companies by Coulton et al. (2001). 2.10% of the companies disclosed information on material benefits received by company directors while 87.50% disclosed directors' total remuneration in the annual report. Companies with remuneration committees constitute 54.20% of the sample. 83.30% of the companies disclosed the highest paid director. The average disclosure for non-executive directors' fees was 77.10% and 68.80% for executive directors' remuneration. The result also indicates that none of the companies made any disclosure as regards compensation policy, long-term incentive plans, share options, and individual directors' remuneration. This result however is an improvement over the survey report conducted by the World Bank/IFC on Corporate Governance ROSC assessment of Nigeria in 2008 (see ROSC, 2008).

Table 2 presents the descriptive statistics for the study variables. The disclosure transparency score is 38.90% on average. The mean block share ownership is 55.60% from a minimum of 10.50% to a maximum of 94.90%. This implies that there is high share ownership concentration in Nigeria, and is consistent with the finding of Sanda, Garba, and Mikailu (2011). The Table shows that 77.80% of the companies are audited by any of the Big 4 audit firms while the Return on Assets stood at 8.80% on average. The average company is worth ₦7.44 Billion. On average, the leverage ratio is 0.609 and the mean sales growth is 7.10%.

Table 3: Correlation Matrix

Variables	TRASC	BLKOWN	AUDT4	ROA	SIZE	LEV	GRT
TRASC	1.0000						
BLKOWN	-0.1753 (0.2493)	1.0000					
AUDT4	0.3599** (0.0152)	0.1111 (0.4676)	1.0000				
ROA	0.0708 (0.6438)	0.0186 (0.9033)	0.0038 (0.9800)	1.0000			
SIZE	0.2694* (0.0736)	0.1019 (0.5054)	0.2465 (0.1026)	0.1647 (0.2797)	1.0000		
LEV	0.0906 (0.5538)	0.0062 (0.9676)	-0.0278 (0.8562)	-0.4157*** (0.0045)	-0.0348 (0.8205)	1.0000	
GRT	-0.0687 (0.6538)	-0.1258 (0.4104)	0.0818 (0.5931)	0.5230*** (0.0002)	0.2466 (0.1025)	-0.2515* (0.0957)	1.0000

*** at 1% level; ** at 5% level. The p-values are in parentheses

Table 4: OLS regression result of transparency of directors' remuneration disclosure on block share ownership and control variables

	Coef.	t-Stat	p-value
Intercept	0.321***	3.930	0.000
BLKOWN	-0.161*	-2.010	0.052
AUDT4	0.113**	2.520	0.016
ROA	0.174	1.400	0.169
SIZE	2.54e-10	1.680	0.101
LEV	0.083	0.930	0.359
GRT	-0.211	-1.710	0.095
N	45		
F-stat	2.63**		
Adjusted R ²	18.15%		

*** at 1% level; ** at 5% level; * at 10% level. The t-statistics are in parentheses.

Table 5: Binary logistic regression of disclosure of highest paid director on block share ownership and control variables

	Coef.	z-Stat	p-value
Intercept	0.931	0.460	0.645
BLKOWN	0.414	0.210	0.834
AUDT4	1.531	1.490	0.135
ROA	-4.742	-1.300	0.193
SIZE	-5.54e-10	-0.120	0.908
LEV	0.675	0.250	0.804
GRT	3.116	0.920	0.358
N	59		
Log likelihood	-17.102		

7.02 CORRELATION ANALYSIS

The correlation matrix presented in Table 3 shows the correlation analysis for all the variables employed in the study. The result indicates no significant correlation between transparent disclosure of directors' remuneration and block share ownership. This result is not consistent with the study's hypothesis. It however shows that large companies and those audited by any of the Big 4 audit firms are more likely to make transparent disclosure of their directors' remuneration in the annual report. The highest correlation coefficient is 0.5320 between ROA and GRT. We further investigate for the existence of multicollinearity among the independent and control variables using the variance inflation factor (VIF) and find that the highest VIF is 1.59 suggesting that multicollinearity is not an issue in the study.

7.03 REGRESSION RESULTS

For Model 1, the dependent variable is the transparency score that has values between 0 and 1. Table 4 shows the OLS regression on transparency score and block share ownership and the control variables. The adjusted R² is 18.15% indicating that the model explains 18.15% of the variations in transparent disclosure of directors' remuneration in NLCs. For the block share ownership variable, we find that the coefficient estimate on BLKOWN is negative and statistically significant at the 10% level ($\beta = -0.161$, $p = 0.052$). The implication of this negative coefficient is that block share holders constrain increased disclosure of directors' remuneration. This result supports the study's hypothesis that block share ownership in companies will result in lower transparent disclosure of directors' remuneration in NLCs, a

confirmation of the expropriation hypothesis. This finding is consistent with Adelopo (2011) for NLCs on extent of corporate governance disclosure and also with that of Samaha et al. (2012) from Egypt but differs from the finding of Haniffa and Cooke (2002) from Malaysia that document a positive association. This is consistent with the argument that block shareholders have the tendency to expropriate the minority shareholders and align their interest with those of the management. Another explanation could be that since they have access to needed information about directors' remuneration they are more likely to become indifferent to its disclosure in the annual report.

Further, we document that companies that are audited by the Big 4 audit firms show positive association with level of transparency of disclosure of directors' remuneration at 5% level ($\beta = 0.113$, $p = 0.016$). This finding is similar to that documented by Adelopo (2011) but contrasts the result of Eng and Mak (2003) that report an insignificant relationship. There is a significant negative relationship between transparent disclosure of directors' remuneration and growth at 10% level ($\beta = -0.211$, $p = 0.095$). This result contrasts the finding of Eng and Mak (2003) that there is no significant relationship between disclosure and a company's growth. For the other control variables, we find that company performance, size, and leverage do not have any significant relationship with the level of transparency in the disclosure of directors' remuneration.

7.04 FURTHER ANALYSIS

For Model 2, the binary logistic regression for the disclosure of the highest paid director is presented in Table 5 to examine the robustness of our result. The disclosure of the highest paid director is used as the dependent variable. The significant negative relationship between transparency score and block share ownership is not supported for the disclosure of the highest paid director and block share ownership. The audit quality (Big 4) that shows positive association with transparency disclosure returns insignificant result for disclosure of the highest paid director. All other control variables also do not show any significant relationship with the disclosure of the highest paid director. Further, in the OLS regression we entered ROE in place of ROA and the result remains qualitatively similar with the first regression result.

8.0 CONCLUSION AND RECOMMENDATIONS

This paper has examined the relationship between directors' remuneration disclosure transparency and block share ownership in Nigeria. The regulatory disclosure requirements on directors' remuneration from international perspective were first discussed before situating the Nigeria context. It does appear that the developed economies are always from time to time reviewing their directors' remuneration disclosure requirements to adequately protect the shareholders from CEOs rent extraction tendencies, encourage transparency and so reduce information asymmetry between shareholders and managers. The implication is that the effort at ensuring transparency in directors' remuneration disclosure remains a continuous process. This however cannot be said about Nigeria whose only legislative effort remains the disclosure requirement in the Companies and Allied Matters Act (CAMA) 1990 that is long overdue for amendment to make it compliant with what obtains in the present global corporate environment. The CG Code 2011 requirement is not strong enough and the directors' remuneration disclosure requirement is at an abysmally low level when benchmarked against international standards, besides there is no penalty for non-compliance as there is no clause for 'comply or explain' in the CG Code 2011 as such none of the companies provide explanations for their noncompliance with the remuneration disclosure requirement of the CG Codes. The disclosure requirement is structurally defective as it seems to shield the executives' remuneration from public scrutiny.

Empirically, this study finds that block share ownership is associated with lower transparency in the disclosure of directors' remuneration. This supports the expropriation hypothesis while the multinational audit firms seem to encourage transparent disclosure of directors' remuneration. We also document that the directors' remuneration disclosure transparency level is low compared to those of some other countries. While it is obvious that Nigeria may not be able to match the developed economies directors'

remuneration disclosure requirements considering the cost implications it is important that the shareholders know the components of what the directors and executives receive as total pay for their services to the company. Drawing from the discussions above, the question is what path should Nigeria take? We make the following suggestions to ensure transparent disclosure of directors' remuneration by NLCs since the directors are not willing to make voluntary disclosure to reduce information asymmetry between the shareholders and the managers. The National Assembly committee on Capital Markets should initiate a process that will lead to the amendment of CAMA 1990 that will make directors' remuneration disclosure a core issue among other issues. This is expected to make the Act be up to date with present day reality. The Securities and Exchange Commission (SEC) Nigeria should make directors' remuneration disclosure a top priority so as not to be seen as protecting the over bearing executives. The remuneration should be detailed on individual basis and the components identified like that of the U.K. It will be appropriate for SEC Nigeria to provide a code for directors' remuneration disclosure that will be mandatory for listed companies to comply with.

It is also expected that the Nigerian Stock Exchange should include the both legal and regulatory requirements on directors' remuneration disclosure into its listing rules and make it mandatory for companies. From the ethical view, there is the need for collaboration between the Institute of Directors Nigeria and the Society for Corporate Governance Nigeria on how to make the boards of directors effective in their oversight duties so as to make their companies comply with the directors' remuneration disclosure requirements that will be truly transparent. While it could be argued that the regulators are not doing enough regarding disclosure of directors' remuneration by companies in Nigeria, it should however be noted that voluntary disclosure of information is part of evidence of transparency by companies.

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