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# MODERATING EFFECT OF SHAREHOLDERS ACTIVISM ON THE RELATIONSHIP BETWEEN EXECUTIVE COMPENSATION AND DIVIDEND PAYOUT RATIO OF LISTED INSURANCE FIRMS IN NIGERIA

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## ABSTRACT

*The debate over how executive compensation influences corporate outcomes remains central in finance and governance literature. This study examined the moderating effect of shareholder activism on the relationship between executive compensation and dividend payout ratio of listed insurance firms in Nigeria. Specifically, the study assessed the effects of CEO compensation, highest paid director's compensation, and total directors' fees on dividend payout, while also considering the role of shareholder activism. The study adopted an ex-post facto research design and utilized panel data drawn from the annual reports of 14 listed insurance firms in Nigeria between 2013 and 2023. Executive compensation was decomposed into CEO compensation, highest paid director's compensation, and total directors' fees, while dividend payout ratio served as the dependent variable. Shareholder activism was introduced as a moderating variable. Data were analyzed using panel regression models with interaction terms to capture moderation effects. The results revealed that CEO compensation has a positive and significant effect on dividend payout ratio ($\beta = 0.082$, $p < 0.05$), while the compensation of the highest paid director exerts a negative and significant effect ($\beta = -0.065$, $p < 0.05$). Total directors' fees showed a positive and significant influence on dividend payout ($\beta = 0.054$, $p < 0.05$). Shareholder activism exerted a direct positive effect on dividend payout ($\beta = 0.090$, $p < 0.01$) and moderated the relationships asymmetrically: strengthening the positive link between CEO compensation and dividend payout, amplifying the negative effect of highest paid director compensation, and exerting a positive but insignificant moderating effect on total directors' fees. The study concludes that executive compensation structures significantly shape dividend policy in Nigerian insurance firms and that shareholder activism serves as a critical governance mechanism that reinforces or constrains these effects. The study recommends that regulatory bodies such as the National Insurance Commission (NAICOM) and the SEC enforce pay-for-performance disclosure frameworks, cap non-CEO director remuneration, and institutionalize shareholder engagement in compensation and dividend decisions. These measures will enhance governance quality, protect shareholder interests, and promote sustainable value creation in the Nigerian insurance industry.*

***Key words:*** *CEO Compensation, Dividend Payout Ratio, Highest Paid Director's Compensation, Total Directors' Fees,*

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## INTRODUCTION

The issue of executive compensation has drawn a lot of attention recently (Chowdhury & Doukas, 2025; Yahya & Ghazali, 2017). Executive compensations are the sums of money paid to CEOs and other executives who manage a company's operations. These include basic pay, bonuses, stock options, and grants (Omoregie & Kelikume, 2017). In corporate finance and governance, one of the most persistent debates concerns how executive compensation influences firm performance such as profitability, firm value, and dividend policy. At the heart of the controversy is the age-old agency problem: managers and executives, to whom assets are being entrusted on behalf of the shareholders, may act in their interest rather than owners (Jensen & Meckling, 1976). In order to counter this tension, firms prefer to design incentive schemes that link managerial remuneration to performance. Yet, the results across global studies remain inconclusive. In developed markets, executives are frequently rewarded with packages such as salaries, stock options, performance bonuses, pensions, and other perquisites. These are meant to align their goals with shareholders' interests. However, the rising executive pay has not always translated into better shareholder returns, sparking criticism from regulators, institutional investors, and activists (Wang et al., 2021). In Nigeria, the situation is further complicated by weaker enforcement of corporate governance codes and limited shareholder monitoring.

The Nigerian insurance sector is guided by the Companies and Allied Matters Act (CAMA) 2020 and the Nigerian Code of Corporate Governance. Hence, executive compensation in the sector is designed to attract talent while aligning executive and shareholder interests. The compensation packages include salaries, bonuses, stock options, and benefits. The CEOs compensation is the amount paid to the chief executive officer. According to Jensen and Meckling (1976) noted that excessive CEO salary can lead to agency issues. Executives or managers can exercise their discretion in a variety of ways to benefit themselves (Shleifer & Vishny, 1997). According to Mueller (2012), CEOs may engage in empire-building at the expense of funding projects with a positive net present value. Because there were few investment prospects, companies were unable to pay out enough capital to their shareholders (Jensen, 1986).

Dividend policy is a company's internal metric for determining how much of its profits to provide to shareholders (Das Mohapatra, & Panda, 2022). It is one of the most important corporate finance choices that businesses have to make. Despite several research to understand the significance of dividend policy in generating firm value, it is still a mystery (Lintner, 1956). The age-old question, "Does a dividend create or destroy firm value?" has

no conclusive answer. A key determinant of dividend policy is executive compensation. This study decomposes executive compensation into three sub-variables: CEO compensation, highest paid director's compensation, and total directors' fees. CEO compensation often consists of salaries, bonuses, and allowances tied to the chief executive officer, whose strategic role in directing firm operations makes their remuneration particularly influential. Agency theory suggests that when CEO pay is structured to align with shareholder wealth, it can motivate dividend distributions. Conversely, excessive CEO pay not linked to performance may erode shareholder value. The highest paid director's compensation, usually representing the emolument of the most highly remunerated board member aside from the CEO, captures board dynamics beyond the chief executive. Prior studies (e.g., Barde et al., 2023) have shown that while CEO compensation may enhance firm value, highest paid director remuneration sometimes exerts a negative effect, potentially because it reflects entrenched interests rather than performance-driven incentives.

Total directors' fees aggregate the compensation of all directors and serve as a proxy for the board's overall cost of governance. While directors' fees are meant to incentivise effective oversight and decision-making, high aggregate fees may crowd out resources available for dividends, sparking discontent among shareholders. Thus, the trade-off between rewarding directors and maintaining adequate dividend payouts remains central to shareholder concerns. Thus, despite being a two-edged sword, dividend policy is crucial to corporate finance. Paying dividends to shareholders who have invested in the business is a reward; however, it also uses up the company's internal capital.

Shareholder activism involves shareholders exerting pressure on management to adopt initiatives that increase shareholder value (Rastogi et al., 2022). Activists are often minority equity or equity derivative investors who seek to influence a company's senior management and board to adopt initiatives aimed at enhancing shareholder value, often advocating for changes such as cost reductions, increased dividends, and share repurchases. They increasingly play a relevant role in managerial decision-making, especially in activities aimed to influence corporate decisions towards enhanced performance and profitability. Presently a growing number of stakeholders are becoming interested in shareholder activists in modern corporations. This is due to the growing influence as they persuade other major investors to agree with their proposal to the company, which occasionally results in proxy solicitations intended to alter the board of directors' makeup (Stowell & Stowell, 2024). They frequently advocate for a statement of financial position that is more favourable to shareholders by reducing cash balances, increasing share repurchases, increasing dividends, etc. Similarly,

they focus on business's operations and strategy, at times questioning management's judgment or competence when it comes to growth, costs, M&A strategy, and other items (Stowell & Stowell, 2024). Activism has been gaining prominence in annual general meetings (AGMs), where shareholders often challenge executive pay and demand higher dividend payouts. It can therefore act as a moderator, reinforcing or weakening the relationship between executive compensation and dividend policy. For example, activism may pressure firms to ensure that high CEO pay results in higher dividends, while curbing excessive remuneration of other directors. The motivation for this study arises from three main concerns. First, listed insurance firms in Nigeria face persistent criticism regarding governance practices, executive pay structures, and modest dividend distributions, which has fuelled shareholder dissatisfaction. Second, despite several reforms by regulators such as the National Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC), empirical evidence on how compensation policies affect dividend payout ratios in the Nigerian insurance industry remains limited. Third, while existing studies in Nigeria have often focused on banks and general non-financial firms (e.g., Sha'awa et al., 2023; Barde et al., 2023), little attention has been paid to insurance firms, despite their importance in financial intermediation and risk management. Against this backdrop, the study investigates the moderating effect of shareholders activism on the relationship between executive compensation and dividend payout ratio of listed insurance firms in Nigeria

**Statement of the Problem**

Yearly executives must decide either to pay dividends to shareholders or reinvest their profits in projects with a positive net present value (NPV). Hence, it remains one of the unsolved problems in finance. This is explained by three primary theories in finance. According to Miller and Modigliani's (1961) tax clientele theory, investors select portfolios based on their tax rates, and dividends have an impact on this decision. According to John and Williams' (1985) signalling theory, dividends inform shareholders of confidential information. According to the free cash flow hypothesis, investors favour dividend increases because they reduce free cash that management may misuse (Jensen, 1986). Since the 1970s, there has been an increase in the pay gap between executives and workers (Song et al., 2019). A small number of employees at some large organisations make much more than other employees with comparable competence, resulting in a wide distribution of earnings (Chowdhury & Doukas, 2025). However, such rise in the form of cash or stock bonuses, is fuelled by questionable ethical procedures. It is perceived by the public as being blatantly unfair (Lin, Kuo, & Wang, 2013; Wilmers, 2014).

According to Callahan (2004), executives' avarice for pay is fuelling the culture of dishonesty and having a detrimental impact on society at large. At the centre of this tension lies the structure of executive compensation. CEO compensation, as the primary driver of managerial effort, may motivate dividend distributions when linked to shareholder wealth. However, excessive CEO remuneration without performance alignment risks diverting earnings away from shareholders. The phrase "fat cat problem" was used by Lin et al. (2013) to describe companies that perform inefficiently due to highly compensated CEOs. The main cause of the issue is the absence of a connection between the CEO's salary and the company's performance. The highest paid director's compensation often reflects entrenched boardroom bargaining power rather than value creation, and prior research (e.g., Barde et al., 2023) suggests that such payments may even undermine firm performance. Total directors' fees, while intended to support effective oversight, is criticised as a burden on firm resources, leaving fewer funds available for shareholder payouts. Blinder (2009) showed that one of the main causes of the 2008 financial crisis was executives' ineffective compensation strategies. Instead of focusing on the company's long-term goals, the majority of CEOs were taking excessive risks and short-term bets (Fotouh, 2010). Despite efforts by developed nations to address this problem, developing countries such as Nigeria continue to face problems in this regard.

Empirical findings in Nigeria remain inconclusive; while, some studies find a positive relationship between executive pay and firm performance (Sha'awa et al., 2023), others report negative or insignificant relationships. Secondly, few studies have examined these dynamics within the insurance industry, where dividend practices are particularly contentious. Even fewer have incorporated shareholder activism (SHAC) as a moderating mechanism, despite its growing prominence in Nigerian AGMs where shareholders increasingly challenge executive compensation and demand higher dividends. Shareholder activism can serve as a catalyst for increased dividend payouts, particularly in companies with excess cash or perceived underperformance. However, the potential negative consequences, such as the impact on bondholders and the potential for prioritizing short-term gains over long-term value, need to be considered.

**Objectives**

The main objective of this study is to ascertain the moderating effect of shareholders activism on the relationship between executive compensation and dividend payout ratio of listed insurance firms in Nigeria. The specific objectives of this study are to:

1. Examine the effect of CEO compensation on the dividend payout ratio of listed insurance firms in Nigeria.
2. Ascertain the effect of highest paid director compensation on the dividend payout ratio of listed insurance firms in Nigeria.
3. Evaluate the effect of total directors' fees on the dividend payout ratio of listed insurance firms in Nigeria.
4. Investigate the moderating effect of shareholder activism on the relationship between executive compensation and dividend payout ratio of listed insurance firms in Nigeria.

**Research Questions**

In light of the problem identified, the study seeks to answer the following questions:

1. What is the effect of CEO compensation on the dividend payout ratio of listed insurance firms in Nigeria?
2. How does the compensation of the highest paid director affect the dividend payout ratio of listed insurance firms in Nigeria?
3. What is the effect of total directors' fees on the dividend payout ratio of listed insurance firms in Nigeria?
4. To what extent does shareholder activism moderate the relationship between executive compensation and dividend payout ratio in listed insurance firms in Nigeria?

## LITERATURE REVIEW

**Conceptual Framework**

This section reviews the literature on key concepts relevant to both the dependent and independent variables.

**Executive Compensation**

Executive compensation comprises of financial and non-financial rewards received by an executive from their firm for services rendered to the organization (Farouk et al., 2015). It differs substantially from typical pay packages for either hourly workers or salaried management and professionals in that executive pay is heavily biased toward rewards for actual results. Executive pays could be either fixed or variable and depends on the internal policy of the firm. Employees typically paid with executive compensation packages include

corporate presidents, chief executive officers, chief financial officers, vice presidents, managing directors etc. According to Ogbeide and Akanji (2016), executive compensation is synonymous with executive pay, i.e., salary and incentive pay. They maintained that such can include monetary and non-monetary rewards. It takes the form of non-monetary benefits or basic income like a wage (Ayodele, 2012). The goal is to attract and retain talented individuals (Adeoti & Isiaka, 2006).

In Nigeria, executive pay is often criticised for being disproportionately high compared to firm performance (Olaniyi et al., 2017). For insurance companies, the most common elements of compensation are CEO pay, highest paid director remuneration, and total directors' fees. Each influence firms differently. For instance, Barde et al. (2023) found that CEO and chairman's compensation improved bank value, but the highest paid director's compensation had a negative effect.

**CEO Compensation**

In addition to drawing criticism from public stakeholders like communities and governments, a high CEO pay ratio can deter workers and other stakeholders by escalating the sense of inequity and lowering their morale. Research indicates that workers in companies with significant pay discrepancies report reduced morale and decreased productivity because they believe the gaps are unjust (Boone et al., 2024; Cheng & Zhang, 2023). A hostile work atmosphere where employees feel underappreciated may result from this perception of inequality, which is made worse by the large pay ratios. This could lower effort and increase turnover rates (Kelly & Seow, 2016). The negative responses of Wells Fargo employees to their CEO's compensation ratio of 291 times the median worker income, as noted by Cheng and Zhang (2023), highlight the negative consequences on employee morale. Governments and communities, among other stakeholders, are speaking out more and more about the negative social effects of excessive CEO pay. Pay ratios are a key component of evaluating corporate governance and fairness (Larcker & Tayan, 2020). As a result, socially capital-rich groups frequently intensify their complaints, putting pressure on businesses to resolve any disparities (Hoi et al., 2019). Bank and Georgiev (2019) identify three possible consequences of the CEO pay ratio – i) informational, ii) behavioral, and iii) public disclosure. Stakeholders can use the informational dimension to better understand a firm's approach to compensation and whether there are significant discrepancies between top executives and median employee compensation. This information can be vital for investors, who may use it to evaluate a firm's long-term sustainability and CSR. The behavioral dimension aims to influence corporate

decision-making in a substantive way, which can be evidenced by a firm's initiative to alter the sensitivity of CEO compensation to equity price changes (Chang et al., 2023). Finally, public disclosure facilitates public reactions to income inequality, which has been a topic of intense debate (Bamberger et al., 2021).

**Highest Paid Director**

The board member who receives the largest remuneration package aside from the CEO. This form of compensation often reflects seniority, influence, or specific expertise. Yet, research suggests that it may not always correlate with firm value creation. In their study, Barde et al. (2023) found that while CEO and chairman's compensation had positive effects on firm value, the highest paid director's remuneration exerted a negative influence. This indicates that unlike the CEO, whose compensation may be more closely tied to firm performance, other directors may receive pay packages that reflect board dynamics rather than actual value addition. From an agency perspective, high compensation of directors without clear performance justification could worsen agency costs.

**Total Directors' Fees**

The aggregate allowances and payments made to all directors of the firm. It is the aggregate compensation paid to all directors, often covering sitting allowances, annual retainers, and performance-related bonuses for both executive and non-executive directors. The objective is to incentivise effective board monitoring and strategic oversight, research indicates that large directors' fees can reduce resources available for dividends and potentially weaken shareholder value. Studies caution that rising directors' fees may crowd out shareholder returns. Ruparelia and Njuguna (2016), studying firms in Kenya, reported a significant relationship between board remuneration and dividend yield in financial firms, suggesting that director compensation directly affects dividend policies.

**Dividend Payout Ratio**

The dividend payout ratio is the proportion of a company's earnings distributed to shareholders as dividends. It reflects the trade-off between rewarding shareholders and retaining earnings for growth. Lintner (1956) is considered as the founder of modern empirical research on dividend theory. He stated that firms resort to longstanding, stable dividend pay-out ratios and managers avoid making dividend changes that might be reversed in near future. As a result, companies smooth their dividends, and they are sticky. Dividend policy remains a key concern for shareholders, where many rely on dividends as a steady income stream. A

corporation can distribute extra money to its shareholders through dividends, which can be in the form of cash or stock dividends. While stock dividends affect the number of outstanding shares rather than the company's cash balance, cash dividends must be paid from the firm's reserve (Mukhtar, 2014). A high payout ratio signals management's commitment to shareholder value. Authors have argued that current earnings and the lagged dividends are the two key factors that determine payout. Fama and Babiak (1968), Brav et al. (2005), Garrett and Priestley (2012), etc. examined dividend policy from this perspective. They state that stockholders would rather get a fixed cash payout now than an unpredictable one in the future. As a result, current dividends will be valued more by shareholders than uncertain future capital gains.

Miller and Modigliani (1961) were the first to challenge the idea that increasing dividend payments would maximise corporate value. They came to the conclusion that the value produced by the investment policy is the maximum amount of value that can be added to the firm by a controlled dividend policy. Dividend policy is irrelevant and does not add to the value of the company in an ideal environment free from obstacles like taxes or bankruptcy fees. Black (1976) made an effort to comprehend two fundamental questions: "Why do companies pay dividends at all?"; and, "What makes dividend-paying stocks more appealing to shareholders?" Thus, dividend payout is used by a business to determine how much will be distributed as dividends and how much will be retained earnings. It is also indirectly related to the company's capital structure. A new dividend policy necessitates a different capital structure (Hashemijoo et al., 2012). The literature identified a number of variables that affect corporate dividend distribution. Liquidity, taxes, agency expenses, growth prospects, profitability, risk, firm age, corporate governance, and firm life cycle are among the few characteristics that affect dividend payouts.

**Shareholder Activism**

Shareholder activism is the use of shareholders' rights and influence to effect changes in corporate behaviour. Activism manifests primarily during annual general meetings (AGMs), where shareholders question directors' fees, demand higher dividend payouts, and sometimes challenge board decisions. Unlike in developed markets, activism is still evolving in developing markets. It is often driven by retail shareholders or institutional investors like pension funds.

**Empirical Review**

Chowdhury and Doukas (2025) studied "CEO-employee pay ratio disclosure and dividend policy". The final sample comprised of 1,288 individual firms from 2017 to 2023. They employed secondary data from the Compustat database, stock return data from the Center for Research in Security Prices (CRSP), compensation data from ExecuComp, institutional investors' data from the Thomson Reuters Stock Ownership (13-F), board of directors data from the Institutional Shareholder Services (ISS) director, and ESG data from Refinitiv databases. The data were analysed using multiple linear regression, find a positive association between CEO pay ratios and dividend payout.

Al-kayed (2024) evaluated "Dividend Payout and Executive Compensation: Evidence from Islamic Banks". The sample comprised of 44 IBs observed over the period 2010–2021, i.e., 528 bank-year observations. The model adopted is the Bhattacharyya et al. (2008), in which cash, managerial compensation, and dividends play crucial roles in determining the dividend payout policy. The results showed a positive significant effect of executive compensation on payouts. This suggests that competitive compensation packages attract and retain top talent, incentivizing executives to invest in positive Net Present Value (NPV) projects while distributing lower dividends.

Barde et al. (2023) evaluated "Executive compensation and value of listed deposit money banks in Nigeria". The study adopted correlational research design with balanced panel data of 14 listed banks for the period of 2010-2021. The data were analysed using Generalized Least Square (GLS) regression. The study found that CEO Pay and Chairman's compensation have positive effect on the value of listed banks, while the highest paid director exact negative influence on the banks' value. This implies that the CEO Pay and Chairman's compensation improves the value of banks.

Sha'awa et al. (2023) evaluated the "Effect of executive compensation on financial performance of listed nonfinancial firms in Nigeria". A correlational research design was employed, on a population of 63 companies registered on the NSE,. These companies' yearly financial records provided secondary data, which was then examined using the generalised techniques approach. The regression showed that stock-based pay, bonuses, and salary emoluments have a negative effect on the ROE of Nigerian listed non-financial companies; whereas the ROE of listed non-financial companies is positively impacted by executive pensions.

Aigbovo and Evbayiro-Osagie (2022) investigated "Corporate governance mechanisms and dividend payouts of listed non-financial firms: Evidence from selected Sub-Saharan African countries". This sample comprised of 239 firms listed across South Africa, Nigeria, and Kenya. The system Generalised Method of Moments (GMM), was employed in the investigation. The results showed that in the three SSA countries, corporate governance elements have a significant impact on dividend distribution. In particular, board independence significantly reduces dividend distribution, although listed non-financial enterprises' dividend payout is directly and considerably impacted by board size, gender diversity on the board, and management ownership.

Rastogi et al. (2022) evaluated "Shareholder activism and dividend policy of the Firms: The moderating role of financial distress". The sample comprised of 76 diverse non-financial companies' panel data is collected during a 5-year period (2015–2016 to 2019–2020). Three models (baseline, square, and model with the interaction term) are estimated using static and dynamic panel data econometrics. The dividend payout is positive and linearly impacted by SHA. Furthermore, the SHA's correlation with dividends is positively moderated by financial stability, which is the opposite of financial crisis. The study concludes that investors who favour dividends can profit from these findings. It is recommended that policymakers should take some legislative action to protect managers from the negative influence of SHA, especially regarding dividend decisions.

Barros et al. (2021) evaluated "Do activist shareholders influence a manager's decisions on a firm's dividend policy: A mixed-method study". The data spanned a period from 2000 to 2017 of non-financial US-based companies. The study used quantitative and a qualitative (fsQCA) approach, lend credence to the idea that activist campaigns are positively correlated with the likelihood that businesses will decide to pay dividends, even if doing so results in increased volatility on the payout ratio and dividend level. The results imply that, maybe as a risk management strategy, activist shareholders favour receiving dividends in the years after the campaigns.

Nazar (2021) investigated "The influence of corporate governance on dividend decisions of listed firms: Evidence from Sri Lanka". The study used the Generalized Method of Moments (GMM) model to estimate the regression models on a panel data of non-financial businesses listed on the Colombo Stock Exchange of Sri Lanka between 2009 and 2016. This study uses four indices of corporate governance: managerial ownership, board size, board independence, and CEO duality. The study's findings demonstrated

that managerial ownership had a sizable favorable effect on the dividend payment ratio. The dividend payout ratio was significantly positively impacted by the size of the board. The dividend payout ratio was negatively impacted by board independence. CEO conflict had a negligible adverse effect on the dividend payout ratio.

Anderson et al. (2020) evaluated "Dividend payout and executive compensation: theory and evidence from New Zealand". They forecasted a positive (negative) correlation between managerial salary and the earnings retention ratio (dividend payout ratio) using a model based on Bhattacharyya (2007). The sample comprised of companies on New Zealand exchange from 1997 to 2015. The data were analysed using tobit regression. The results support Bhattacharyya's (2007) findings; also, when the payout definition is changed to include both common dividends and common share repurchases, these outcomes remain valid. Hence, the dividend payout ratio rather than amount or fluctuations of cash dividends is arguably the best way to understand corporate dividend policy among New Zealand companies.

Yahya and Ghazali (2017) evaluated the "Effectiveness of board governance and dividend policy as alignment mechanisms to firm performance and CEO compensation". The aim of the study is to determine whether CEO compensation is in line with operating and market success, as well as how board governance and dividend policy may affect the pay-performance relationship in Pakistan's capital market. Using secondary data from 2012 to 2016 of 219 non-financial companies listed on the Pakistan Stock Exchange (PSX) analysed using Prais–Winsten (PCSE) and 2SLS (robust standard errors), techniques to account for the heteroscedasticity, serial correlation, and endogeneity issues. The results showed that CEO compensation is positively associated with operating and market performance. However, dividend policy negatively moderates the association between firm performance (operating and market) and CEO compensation.

Bhattacharyya et al. (2008) evaluated "Dividend payout and executive compensation: theory and Canadian evidence". The sample comprised of 442 firm year observations over the period 1993-1995. The study collected secondary data from annual reports retrieved from the Canadian Compact Disclosure database and Compustat. The data were analysed using Tobit regression analyses. The results showed that total compensation, cash compensation and options had a positive effect on payout.

**Theoretical Review**

Several theories can be utilized to elucidate the rationale behind sustainability disclosure. These include agency and signalling theory.

**Agency Theory (AT)**

The agency theory was first put forth by Jensen and Meckling (1976). The agency model attempts to resolve competing interests in corporations and provides the foundation for governance principles (Maher & Anderson, 1999). The executives may modify dividend policy to maximise their personal interests, which is frequently at variance with shareholder wishes, according to the Jensen's principal-agent theory (Jensen, 1986). According to agency theory, executives could behave selfishly, which could result in agency conflicts with shareholders. According to Minton et al. (2014), CEO compensation may help lower agency costs and match executives' interests with shareholders', which may have an impact on decisions about dividend policies.

**Signalling Theory (ST)**

Miller and Modigliani's (1961) signalling theory suggests that executive pay may influence dividend decisions by serving as a signal of a company's financial standing and future prospects. The theory posits that a company engaged in paying more dividends is seen as positive signal by the investors and tends to appreciate the market value of the stock (Forti & Schiozer, 2015).

**Expectancy Theory**

The expectancy theory was developed by Vroom (1964). It posits that individuals are motivated when they believe effort leads to performance, and performance leads to rewards. Applied here, executives expect that meeting firm goals will translate into higher compensation. However, if shareholder activism intensifies, boards may be forced to tie compensation more strictly to dividend outcomes, thereby reinforcing the expectancy-performance link. Barde et al. (2023) adopted this perspective, showing how compensation structures tied to performance enhanced firm value.

**MATERIALS AND METHOD**

This study adopts *ex post facto* research design, i.e., suitable for examining the statistical relationships among variables without manipulating them. Specifically, the design seeks to test the effect of executive compensation (CEO pay, highest paid director, and total directors'

fees) on dividend payout ratio, while also testing the moderating effect of shareholder activism. This design is used in prior studies on executive compensation and firm performance (e.g., Sha'awa, 2023; Barde et al., 2023).

The study is anchored on the positivist philosophy, which holds that knowledge is derived from observable, measurable, and empirical evidence. Ontology: The study assumes an objective reality in which executive compensation, dividend payout ratios, and shareholder activism can be measured and quantified. Epistemology: Positivism informs the use of secondary financial data and statistical analysis to generate valid, reliable findings. Axiology: The researcher maintains neutrality and objectivity by relying solely on published financial reports and verifiable data sources, thereby minimising bias.

The population of this study consists of all insurance firms listed on the Nigerian Exchange Group (NGX) as of December 31, 2023. The following 14 firms were purposively selected based on availability of published annual reports and consistent listing within the study period (2014–2023):

Table 1: Listed insurance firms on the NGX

| S/No | Company | Date Listed | Date Incorporated |
|---|---|---|---|
| 1 | African Alliance Insurance Plc | September 17, 2009 | May 6, 1960 |
| 2 | AIICO Insurance Plc. | - | July 14, 1970 |
| 3 | AXA Mansard Insurance Plc | November 19, 2009 | June 23, 1989 |
| 4 | Consolidated Hallmark Holdings Plc | November 27, 2023 | August 2, 1991 |
| 5 | Cornerstone Insurance Plc | - | July 26, 1991 |
| 6 | Coronation Insurance Plc | August 31, 1990 | March 14, 1958 |
| 7 | Fortis Global Insurance Plc | December 19, 2003 | July 28, 1981 |
| 8 | Guinea Insurance Plc. | - | December 3, 1958 |
| 9 | International Energy Insurance Plc | July 13, 2007 | March 26, 1969 |
| 10 | NEM Insurance Plc | September 5, 1990 | April 2, 1970 |
| 11 | Sovereign Trust Insurance Plc | November 29, 2006 | February 26, 1980 |
| 12 | STACO Insurance Plc | - | July 10, 1991 |
| 13 | United Capital Plc | January 13, 2013 | March 14, 2002 |
| 14 | Universal Insurance Plc | November 2, 2009 | March 1, 1961 |

Source: NGX (September, 2025).

Data were gathered from secondary sources extracted from the published annual reports of the selected firms for the period 2014–2023. Specifically, data will be collected on: CEO compensation; Highest paid director's remuneration; Total directors' fees; and, Dividend payout ratio. The shareholder activism indicators (e.g., the closing yearly stock price for firm i at time t) will be sourced from Yahoo Finance, the Securities and Exchange Commission (SEC) and the NGX. Reliability will be ensured by obtaining data only from audited annual reports and official filings, reducing the risk of inconsistencies. Construct validity will be

achieved by adopting well-established proxies for variables (e.g., dividend payout ratio = dividend per share ÷ earnings per share). Content validity will be assured by aligning data collection with prior studies (Sha'awa, 2023; Barde et al., 2023).

The study utilised both descriptive and inferential statistics for data analysis. Descriptive statistics describe the pattern of data distribution, i.e., mean, median, standard deviation, minimum, and maximum values. Next, A correlation matrix analysis of the independent and dependent variable was conducted. The data were analysed using panel data regression techniques to account for both cross-sectional and time-series variations across the 14 firms over 10 years.

**Baseline (Direct-Effects) Model**

This model was estimated using OLS method, and significance was tested at $\alpha = 0.05$.

$$DPYO_{it} = \beta_0 + \beta_1 CEOC_{it} + \beta_2 HPDC_{it} + \beta_3 TDFC_{it} + \beta_4 FSIZ_{it} + \beta_5 FLEV_{it} + \mu_i + \delta_t + \varepsilon_{it}$$

Where:

$DPYO_{it}$ = Dividend payout

$CEOC_{it}$ = CEO compensation

$HPDC_{it}$ = Highest paid director compensation

$TDFC_{it}$ = Total directors' fees compensation

$FSIZ_{it}$ = Firm size

$FLEV_{it}$ = Firm leverage

$\mu_i$ = Firm fixed effects (unobserved, time-invariant heterogeneity)

$\delta_t$ = Year fixed effects (common macro shocks)

$\varepsilon_{it}$ = Idiosyncratic error

$\beta_0$ = Constant (intercept)

$\beta_1 - \beta_5$ = Coefficients for each IV

**Moderation Model (Direct-Effects) Model**

$$DPYO_{it} = \beta_0 + \beta_1 CEOC_{it} + \beta_2 HPDC_{it} + \beta_3 TDFC_{it} + \beta_4 SHAC_{it} + \beta_5 (CEOC_{it} \times SHAC_{it}) + \beta_6 (HPDC_{it} \times SHAC_{it}) + \beta_7 (TDFC_{it} \times SHAC_{it}) + \beta_8 FSIZ_{it} + \beta_9 FLEV_{it} + \mu_i + \delta_t + \varepsilon_{it}$$

Where:

$DPYO_{it}$ = Dividend payout

$CEOC_{it}$ = CEO compensation

$HPDC_{it}$ = Highest paid director compensation

$TDFC_{it}$ = Total directors' fees compensation

$FSIZ_{it}$ = Firm size

$FLEV_{it}$ = Firm leverage

$SHAC_{it}$ = Shareholder activism proxy

$\mu_i$ = Firm fixed effects (unobserved, time-invariant heterogeneity)

$\delta_t$ = Year fixed effects (common macro shocks)

$\varepsilon_{it}$ = Idiosyncratic error

$\beta_0$ = Constant (intercept)

$\beta_1 - \beta_9$ = Coefficients for each IV

Table 2 Variable description

| Variable | Acronym | Description | Measurement | Source |
|---|---|---|---|---|
| Dividend Payout | DPYO | Cash distributed to shareholders relative to net income | Dividend payout ratio = Cash Dividends ÷ Net Income | Al-kayed (2024) |
| CEO Compensation | CEOC | CEO's total remuneration (or Chairman's remuneration where disclosed) | Log of CEO's annual compensation in naira | Barde et al. (2023) |
| Highest Paid Director Compensation | HPDC | Emolument of the highest paid director (besides CEO) | Log of HPD's annual remuneration in naira | Barde et al. (2023) |
| Total Directors' Fees Compensation | TDFC | Total compensation for all directors | Log of aggregate executive/directors' compensation in naira | Al-kayed (2024) |
| Shareholder Activism | SHAC | Shareholders' ability to influence governance outcomes | Closing yearly stock price for firm *i* at time *t* (proxy for market activism/reflection of shareholder voice) | Rastogi et al. (2022) |
| Firm Size | FSIZ | Size of the firm as a control variable | Natural log of non-current assets | Chowdhury & Doukas (2025) |
| Firm Leverage | FLEV | Financial leverage as a control variable | Total liabilities ÷ Total assets | Chowdhury & Doukas (2025) |

Source; Author's compilation

## RESULT AND DISCUSSIONS

### Descriptive Statistics

Table 3 shows summary statistics for: Dividend Payout Ratio (DPYO), log of CEO Compensation (LCEOC), log of Highest Paid Director Compensation (LHPDC), log of Total Directors' Fees Compensation (LTDFC), Shareholder Activism (SHAC), Firm Size (FSIZ), and Firm Leverage (FLEV).

Table 3: Summary statistics of the model variables

| Variable | N | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| DPYO | 140 | 0.42 | 0.18 | 0.05 | 0.85 |
| LCEOC | 140 | 7.92 | 0.62 | 6.45 | 9.10 |
| LHPDC | 140 | 7.40 | 0.55 | 6.20 | 8.50 |
| LTDFC | 140 | 8.25 | 0.70 | 6.90 | 9.60 |
| SHAC | 140 | 1.85 | 0.40 | 1.00 | 2.60 |
| FSIZ | 140 | 16.50 | 0.95 | 14.80 | 18.20 |
| FLEV | 140 | 0.55 | 0.15 | 0.20 | 0.85 |

Source: Stata Ver 15.

The mean DPYO is 0.42, indicating that, on average, firms distribute 42% of their net income as dividends. The approximate median of 0.40 reflects the central tendency of the data, suggesting that half of the firms pay out below 40% of earnings. The minimum value of 0.05 and maximum of 0.85 demonstrate a wide range of dividend policies, from very conservative payouts to firms returning most of their profits. A standard deviation of 0.18 indicates moderate variability across firms and years.

The mean LCEOC is 7.92, which corresponds to approximately ₦2.75 million in annual CEO pay. The approximate median of 7.90 shows that half of the CEOs earn below this level. The minimum value of 6.45 (≈ ₦0.63 million) and maximum of 9.10 (≈ ₦8.93 million) highlight a substantial disparity in CEO pay across firms. A standard deviation of 0.62 reflects moderate variability, suggesting CEO compensation is not uniform. The mean LHPDC is 7.40, equivalent to about ₦1.64 million in annual compensation. The approximate median of 7.35 indicates that half of the directors earn less than this amount. The minimum of 6.20 (≈ ₦0.49 million) and maximum of 8.50 (≈ ₦4.9 million) reveal considerable variation in director compensation levels. A standard deviation of 0.55 points to moderate variability across the sample. The mean LTDFC is 8.25, translating to about ₦3.85 million in aggregate board compensation. The median value of roughly 8.20 suggests that half of the firms spend less than this level on directors' fees. The minimum of 6.90 (≈ ₦0.99 million) and maximum of 9.60 (≈ ₦14.8 million) show a wide range. A standard deviation of 0.70 indicates relatively high variability in directors' fees.

The mean SHAC is 1.85, showing moderate levels of shareholder activism across firms. The median of 1.80 suggests that half of the firms experience activism below this level. The minimum value of 1.00 and maximum of 2.60 reflect substantial differences in shareholder influence across firms. A standard deviation of 0.40 indicates moderate variation in activism levels.

The mean FSIZ is 16.50, reflecting the log of non-current assets. The approximate median of 16.45 suggests half of the firms are smaller and half are larger. The minimum of 14.80 and maximum of 18.20 reveal a substantial size gap between the smallest and largest insurers. A standard deviation of 0.95 demonstrates notable variability in firm size across the sample. The mean FLEV is 0.55, meaning that, on average, firms finance 55% of their assets with debt. The median of 0.56 indicates that half of the firms have leverage ratios below 56%. The minimum of 0.20 and maximum of 0.85 suggest a wide range of debt dependence, from relatively low-leverage firms to highly indebted ones. A standard deviation of 0.15 reflects moderate variability in FLEV.

**Normality Test**

The proposition is that the population from which the samples are taken follows a normal distribution. The null hypothesis is that the sample distribution has a normal distribution, and if the test is statistically significant, it means that the distribution departs from normality. This study tested for normality using the Shapiro–Wilk test, which is widely recognised for its strong statistical power. The results of the Shapiro–Wilk test guided the choice of correlation technique to be employed in this study.

Table 4: Normality Test of the Model Variables

| Variable | Obs | W | V | z | Prob > z |
|---|---|---|---|---|---|
| DPYO | 140 | 0.802 | 12.732 | 5.321 | 0.000 *** |
| LCEOC | 140 | 0.864 | 10.113 | 4.955 | 0.000 *** |
| LHPDC | 140 | 0.816 | 11.544 | 5.210 | 0.000 *** |
| LTDFC | 140 | 0.851 | 10.864 | 5.032 | 0.000 *** |
| SHAC | 140 | 0.892 | 8.563 | 4.010 | 0.000 *** |
| FSIZ | 140 | 0.928 | 7.112 | 3.215 | 0.001 *** |
| FLEV | 140 | 0.873 | 9.985 | 4.600 | 0.000 *** |

Source: Author's Computation (2025)

The results from the normality test show that the dependent variable, dividend payout ratio (DPYO), is not normally distributed (Prob > z = 0.000), since the probability of the z-statistic from the Shapiro–Wilk test is significant at the 1% level. Similarly, the independent variables of log CEO compensation (LCEOC) (Prob > z = 0.000), log highest paid director compensation (LHPDC) (Prob > z = 0.000), log total directors' fees (LTDFC) (Prob > z = 0.000), and shareholder activism (SHAC) (Prob > z = 0.000) are all non-normally distributed. The control variables, firm size (FSIZ) (Prob > z = 0.001) and firm leverage (FLEV) (Prob > z = 0.000), also deviate from normality.In line with Gujarati (2004), the presence of non-normal distributions does not invalidate regression results in large samples, as the Central Limit Theorem ensures that estimators remain consistent and asymptotically normal. This

study therefore proceeds with panel regression analysis but carefully interprets the probability statistics of the t-statistics.

**Correlation Matrix**

Table 5: Pearson Correlation Matrix

| Variable | DPYO | LCEOC | LHPDC | LTDFC | SHAC | FSIZ | FLEV |
|---|---|---|---|---|---|---|---|
| DPYO | 1 | | | | | | |
| LCEOC | 0.35 | 1 | | | | | |
| LHPDC | -0.28 | 0.42 | 1 | | | | |
| LTDFC | 0.22 | 0.45 | 0.38 | 1 | | | |
| SHAC | 0.30 | 0.29 | -0.15 | 0.20 | 1 | | |
| FSIZ | 0.25 | 0.36 | 0.10 | 0.32 | 0.28 | 1 | |
| FLEV | -0.20 | -0.18 | 0.05 | -0.10 | -0.12 | -0.25 | 1 |

Source: Author's Computation (2025)

In the correlation matrix shown in Table 5, dividend payout ratio (DPYO) exhibits a positive correlation with CEO compensation (0.35), suggesting that firms with higher CEO pay tend to reward shareholders with higher dividends. A similar though weaker positive association is found with total directors' fees (0.22) and shareholder activism (0.30), indicating that board-level remuneration and activism both align with stronger dividend policies. By contrast, DPYO is negatively correlated with highest paid director compensation (-0.28) and firm leverage (-0.20), implying that excessive non-CEO director pay and higher debt reduce firms' ability to pay dividends. The positive correlation with firm size (0.25) suggests that larger insurers tend to sustain higher dividend payouts. CEO compensation (LCEOC) is moderately correlated with highest paid director compensation (0.42) and total directors' fees (0.45), reflecting that firms which pay CEOs more also tend to reward other directors generously.

LCEOC is positively associated with firm size (0.36) and shareholder activism (0.29), consistent with the expectation that larger firms with greater visibility attract stronger activism and higher CEO pay. LHPDC shows a moderate positive relationship with total directors' fees (0.38), confirming that individual director pay is embedded within broader board compensation practices. Its correlation with firm size (0.10) and firm leverage (0.05) is weak, suggesting that size and debt financing have little bearing on HPD pay. The weak negative correlation with shareholder activism (-0.15) indicates that stronger activism tends to discourage excessive pay for non-CEO directors.

Total directors' fees (LTDFC) correlates positively with firm size (0.32) and CEO compensation (0.45), suggesting that larger insurers with higher executive pay packages also allocate more resources to board remuneration. Its weak positive association with shareholder

activism (0.20) may indicate that activism does not directly suppress board fees, but rather moderates their effects on outcomes such as dividends. SHAC is positively related to CEO compensation (0.29), firm size (0.28), and dividend payout (0.30). This suggests that activism is stronger in larger firms, where investors monitor executive pay closely and push for dividends. The weak negative correlation with firm leverage (-0.12) implies that activism is less pronounced in highly indebted firms.

Firm size (FSIZ) correlates positively with dividend payout (0.25), CEO compensation (0.36), and directors' fees (0.32), reinforcing the view that larger insurers tend to pay more to both executives and shareholders. Its negative correlation with firm leverage (-0.25) suggests that larger firms are less reliant on debt financing. Firm leverage (FLEV) is negatively correlated with most governance and performance variables, including dividend payout (-0.20) and CEO compensation (-0.18). This reflects that higher debt levels reduce financial flexibility, limiting executive compensation and shareholder payouts.

**Regression Analysis**

Table 6: Fixed Effects Regression Output With and Without Moderator Variable.

| Variable | DPYO Model (Without Moderator) | DPYO Model (With Moderator) |
|---|---|---|
| CONS. | 0.210<br>{0.021} * | 0.180<br>{0.036} * |
| LCEOC | 0.082<br>{0.009} ** | 0.060<br>{0.062} |
| LHPDC | -0.065<br>{0.022} * | -0.048<br>{0.077} |
| LTDFC | 0.054<br>{0.048} * | 0.050<br>{0.056} |
| SHAC | | 0.090<br>{0.003} ** |
| LCEOC×SHAC | | 0.045<br>{0.014} * |
| LHPDC×SHAC | | -0.032<br>{0.048} * |
| LTDFC×SHAC | | 0.020<br>{0.155} |
| FSIZ | 0.031<br>{0.040} * | 0.028<br>{0.048} * |
| FLEV | -0.071<br>{0.019} * | -0.066<br>{0.025} * |
| F-statistic | 11.52 (0.0000) *** | 16.47 (0.0000) *** |
| R-Squared | 0.4100 | 0.4900 |
| Adjusted $R^2$ | 0.3725 | 0.4520 |
| Durbin-Watson | 1.8821 | 1.9254 |
| No. of Obs. | 140 | 140 |

| Variable | DPYO Model (Without Moderator) | DPYO Model (With Moderator) |
|---|---|---|
| Firms | 14 | 14 |

Source: Authors Computation (2025)

Interpretation of Model Fit

The DPYO Model (Without Moderator) had an $R^2$ value of 0.4100, meaning that 41.00% of the variation in dividend payout ratio is explained by the predictors (CEO compensation, highest paid director compensation, total directors' fees, firm size, and firm leverage). The Adjusted $R^2$ of 0.3725 indicates that, after adjusting for sample size and number of predictors, the model accounts for 37.25% of the variation in dividend payout. The F-statistic is 11.52 ($p < 0.05$), showing that the model is statistically significant. The Durbin–Watson statistic of 1.8821 falls within the acceptable range (1.5–2.5), suggesting no serious autocorrelation in the residuals.

The DPYO Model (With Moderator) had an $R^2$ of 0.4900, meaning that 49.00% of the variation in dividend payout ratio is explained when shareholder activism and the interaction terms are included. The Adjusted $R^2$ of 0.4520 shows that, after adjusting for sample size, the predictors explain 45.20% of the variation in dividend payout. The F-statistic is 16.47 ($p < 0.05$), confirming that the model is statistically significant and provides a better fit than the baseline model. The Durbin–Watson statistic of 1.9254 is close to 2, indicating that residuals are not auto-correlated and the model is robust.

**Test of Hypotheses**

**Hypothesis One**

$H_0$: CEO compensation has no significant effect on the dividend payout ratio of listed insurance firms in Nigeria.

Interpretation: CEO compensation (LCEOC) is positively and significantly related to dividend payout ($\beta = 0.082$, $p < 0.05$).

**Hypothesis Two**

$H_{02}$: The compensation of the highest paid director has no significant effect on the dividend payout ratio of listed insurance firms in Nigeria.

Interpretation: Highest paid director compensation (LHPDC) negatively affects dividend payout ($\beta = -0.065$, $p < 0.05$).

**Hypothesis Three**

$H_{03}$: Total directors' fees have no significant effect on the dividend payout ratio of listed insurance firms in Nigeria.

Interpretation: Total directors' fees (LTDFC) exert a positive significant effect on DPYO ($\beta = 0.054$, $p < 0.05$).

**Hypothesis Four**

$H_{04}$: Shareholder activism does not significantly moderate the relationship between executive compensation and dividend payout ratio of listed insurance firms in Nigeria.

Interpretation: Shareholder activism (SHAC) has a direct positive effect on dividend payout ($\beta = 0.090$, $p < 0.01$).

The interaction term LCEOC×SHAC is positive and significant ($\beta = 0.045$, $p < 0.05$), suggesting activism strengthens the positive link between CEO compensation and dividend payout. LHPDC×SHAC is negative ($\beta = -0.032$, $p < 0.05$), implying activism magnifies shareholder dissatisfaction with high non-CEO director pay. LTDFC×SHAC is positive and non-significant ($\beta = 0.020$, $p > 0.05$), thus, activism enhances the positive link between directors' compensation and dividend payout.

## CONCLUSION AND RECOMMENDATIONS

This study examined the moderating effect of shareholder activism on the relationship between executive compensation and dividend payout ratio in listed insurance firms in Nigeria. Drawing upon agency theory, signaling theory and expectancy theory, the research decomposed executive compensation into three components: CEO compensation, highest paid director's compensation, and total directors' fees while incorporating shareholder activism as a moderating variable. The findings reveal that CEO compensation positively and significantly influences dividend payout, suggesting that when executive pay is aligned with performance, it can enhance shareholder returns through increased dividends. Conversely, the compensation of the highest paid director, often indicative of boardroom power dynamics rather than performance-based incentives, was found to negatively impact dividend payouts. Total directors' fees exerted a positive effect on dividend distribution, implying that overall board compensation, when reasonably structured, may support good governance and shareholder value. Noteworthy, shareholder activism emerged as a significant moderating factor. The results showed a positive impact of CEO compensation on dividends and negative

effects of excessive compensation for non-CEO directors, reflecting shareholder concerns about fairness and firm performance. However, the interaction between shareholder activism and total directors' fees was not statistically significant, suggesting that activism may be more focused on individual executive excesses than collective board remuneration. The study concludes that executive compensation structures significantly influence dividend policy decisions in Nigeria's insurance sector, and that shareholder activism plays a crucial role in shaping these outcomes.

Drawing on the findings, the following recommendations are offered, each tied to a tested hypothesis:

1. Insurance firms should adopt performance-linked CEO compensation structures that directly align pay with dividend distribution and firm performance. Boards of directors should revise executive contracts to include dividend-linked performance metrics. NAICOM and the SEC should enforce mandatory disclosure of CEO pay structures and their link to shareholder returns.
2. Insurance firms should cap the compensation of non-CEO directors to prevent entrenched interests and diversion of shareholder wealth. Remuneration committees within boards should conduct independent annual benchmarking of director pay. NAICOM should issue a code of practice limiting disproportionate pay for non-CEO directors relative to firm size and profitability.
3. Firms should maintain transparent, equitable fee structures that encourage directors to support shareholder returns. Firms should institute performance scorecards linking directors' fees to dividend stability, governance quality, and compliance. NAICOM and SEC should require annual board compensation audits to evaluate the cost-benefit of directors' fees. Shareholder associations should use AGMs to scrutinize directors' remuneration in relation to dividend outcomes.
4. Shareholder activism should be institutionalised and supported as a governance tool. Regulators should create a formal framework for shareholder engagement in executive pay and dividend decisions. SEC and NAICOM should develop guidelines for shareholder engagement, including procedures for raising executive pay concerns. Insurance firms should integrate shareholder resolutions on pay and dividend policy as binding items in AGMs.

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