

Executive tunnelling and financial performance of mortgage banks in Nigeria

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Abstract

Purpose: The study examined the relationship between executive tunnelling and the financial performance of mortgage banks in Nigeria.

Methodology: The study employed panel data covering the period 2016 to 2025 and applied the random-effects panel regression model to examine the effects of executive compensation intensity (ECI) and executive compensation burden (ECB) used as measures for executive tunneling on return on assets (ROA), used as measure for financial performance.

Results and Conclusion: The results showed a strong inverse relationship between ECI and financial performance, suggesting that higher compensation intensity was linked to lower mortgage bank financial performance. ECB, on the other hand, showed a strong positive correlation with financial performance, indicating that more expansive executive compensation plans were linked to higher performance.

Implication of Findings: In general, the study established that the financial implications of executive tunnelling were not uniform but depended on the specific dimension of executive compensation considered. The results emphasized how crucial it is to carefully design executive compensation plans and bolster governance frameworks in order to guaranty that executive rewards are in line with long-term mortgage banks performance. The study came to the conclusion that Nigeria mortgage banking industry should receive more attention on the composition, transparency, and performance orientation of her executive compensation.

Keywords: Executive Tunnelling; Executive compensation intensity; Executive compensation burden; Financial Performance; Mortgage Banks.

1. Introduction

Mortgage banks (MBs) play a key role in Nigeria housing finance scheme by offering mortgage financing and associated financial services that make housing more accessible. In order to promote responsible management, accountability, and the institution safety and soundness, the Central Bank of Nigeria (CBN) sets governance standards and supervises the operations of mortgage banks. Just like in most organizations, the board of directors in mortgage banks are responsible for the performance and affairs of the mortgage banks which makes the directors to exercise their duties in the interest of shareholders and other stakeholders at large. Upon the standing of effective governance, the separation between ownership and control creates opportunities for executives to pursue private interests that may not necessarily correspond with those of shareholders. This concern is particularly important in financial institutions since executives control substantial financial resources and make decisions regarding lending, investments, operating expenditures and remuneration. Agency theory explains that managers may pursue personal objectives when their interests are not sufficiently aligned with those of shareholders (Jensen & Meckling, 1976). Tunnelling, which primarily refers to the diversion of corporate resources for the benefit of insiders at the expense of the company and its other stakeholders, is one manifestation of this agency problem. Tunnelling can occur through related-party transactions, asset transfers, preferential contracts, excessive remuneration and other mechanisms through which corporate resources are appropriated for private benefit (Johnson et al., 2000).

Executive tunnelling therefore represents a significant corporate-governance concern since extraction of organization resources will reduce the amount of funds available for productive activities and ultimately weaken firm performance. In contrast to traditional forms of theft, tunnelling can occur through

seemingly legitimate corporate arrangements, including compensation packages, bonuses, and other executive-related payments. Nnubia and Obiora (2018) identified excessive executive compensation among the mechanisms through which directors may tunnel corporate resources and reported that certain forms of directors' compensation were negatively associated with firm performance. Ali et al. (2025) operationalized executive tunneling using executive compensation intensity and executive compensation burden in their study of Nigerian listed insurance companies.

Ali et al. (2025) further defined executive compensation intensity (ECI) as the portion of a business overall revenue that goes toward executive compensation. This measure provides information on whether executive compensation levels are in line with the company capacity to make money by capturing the relationship between executive compensation and the financial performance of the business. According to Fan & Wong (2020), a high ECI may indicate tunneling activities by implying exorbitant CEO compensation. In a similar vein, the portion of a business operational costs allotted to executive remuneration is known as the Executive remuneration Burden (ECB). When a burden disproportionately affects a company ability to reinvest in its core operations, such as manufacturing, marketing, or research and development, it becomes problematic (Gul et al, 2022).

The relationship between executive compensation and financial performance remains theoretically and empirically contested. Financial performance can be assessed using several accounting and market-based measures, including, return on equity, earnings per share, and return on assets. For the purpose of this study return on asset (ROA) is considered an appropriate measure since it measures how efficiently mortgage banks use their total asset base to generate profit. Particularly, as mortgage banks operations are highly asset-intensive. Mortgage banks hold substantial assets in the form of mortgage loans, advances, investment securities, cash and other financial assets. ROA therefore captures how effectively management, including executives use these resources to generate earnings. Against this background, this study investigates the effect of executive tunnelling on the financial performance of mortgage banks in Nigeria.

2. Literature review

2.1 Executive Tunnelling

The term "tunnelling" was first used in the Czech Republic (as in removing assets through an underground tunnel), to describe the transfer of assets and profits out of firms for the benefit of those who control them (Johnson, et al., 2000). During the first half of the 1990s, when a number of sizable, previously privatized banks and factories unexpectedly filed for bankruptcy. It was originally used to describe the expropriation of minority shareholders in the country, as well as the transfer of assets and profits out of businesses for the benefit of those who control them (Johnson, et al., 2000; Onyele & Ikwuagwu, 2020). Later on, it was found that the company management were purposefully moving company property and real estate into their own private corporations, often located offshore. The transfer of firms resources were carried out by selling corporate real estate for a small portion of its market value, making large overpayments for outsourced services, or issuing enormous loans with no expectation of repayment (Henemana & Schwab, 1972; Nnubia & Obiora, 2018).

Currently, tunnelling comes in two forms. Firstly, a controlling shareholder can easily use self-dealing activities to take resources from the company for his personal gain. According to Onyele, Onyekachi-Onyele, and Ikwuagwu (2024), these transactions include asset sales, contracts such as transfer pricing

advantageous to the controlling shareholder, excessive compensation, loan guarantees, expropriation of corporate opportunities, and outright theft or fraud, which are illegal go unnoticed or unpunished. Secondly, through dilutive share offerings, minority freeze outs, insider trading, creeping acquisitions, or other financial operations that discriminate against minorities, the controlling shareholders might expand their ownership stake in the company without transferring any assets (Nnubia and Obiora, 2018).

2.2 Executive compensation intensity

The amount a company allots to executive compensation in relation to its overall income is known as Executive Compensation Intensity (ECI). Therefore, by revealing whether compensation levels are in line with the company capacity to generate revenue, it captures the relationship between CEO compensation and the firm financial performance. Ali et al. (2025) and Fan & Wong (2020) furthered that a high ECI may indicate exorbitant executive compensation, which could be a sign of tunnelling practices.

2.3 Executive compensation burden

Executive Compensation Burden (ECB) is the portion of executive remuneration to operating expenses of the firm. As a result, ECB calculates how much of a company resources that is, its operating expenses are allocated to CEO compensation. When it significantly affects a business ability to reinvest in its primary operations, including manufacturing, marketing, or research and development, this becomes problematic (Gul et al., 2022). A high ECB suggests that CEOs are abusing their position of authority to take resources, which causes inefficiencies and takes money away from crucial corporate functions.

2.4 Firm performance

Company performance measures the effectiveness and efficiency of deployment of company resources which includes assets, liabilities, and equity in achieving revenue, profitability and value creation for stakeholders. Performance measurement is a scorecard statistic for a company total profitability, operational effectiveness, and financial health over a certain time frame (Fred-horsfall, 2026). Financial performance (reflected in profit maximization, assets utilization, maximization on return on assets and maximization on shareholder return) is based on the companies' efficiency. Return on investment, residual income, earnings per share, dividend yield, price/earnings ratio, growth in sales, and market capitalization can also be used to evaluate financial performance (Nnubia and Obiora, 2018). Return on asset (ROA) serves as a stand-in for financial performance in this study.

2.5 Empirical Review

Agbai, et. al. (2026) focused on executive compensation and financial performance of listed deposit money banks in Nigeria. Executive compensation was measured using Directors' compensation, CEO compensation and chairman's compensation while financial performance was measured using return on assets, return on equity and earnings per share. Ex-post facto research design was employed in the study. Results revealed that Directors' compensation, had a positive but insignificant effect on return on asset (ROA) and return on equity (ROE). While CEO compensation and chairman's compensation had a significant but negative effect on return on asset and return on equity of listed deposit money banks in Nigeria. The study concluded that executive compensation do not have significant effect on financial performance of listed deposit money banks in Nigeria and further recommended that deposit money banks should develop a more performance-oriented compensation structure that closely ties executive

pay especially CEO and chairman's compensation to measurable financial indicators such as ROA and ROE. It further recommended that bonuses and incentives should be linked to long-term performance metrics rather than short-term gains can reduce agency problems and ensure that executives act in the best interest of shareholders.

The relationship between executive compensation and the performance of Nigerian financial institutions was examined by Fred-Horsfall (2026). The study used the purposive sampling technique to collect data. The research used executive director and chairman remuneration as a proxy for executive compensation. The ROCE, net profit margin, market price, and Tobin Q were among the performance indicators that were found to have a substantial positive relationship with the executive compensation using multiple regression analysis. Additionally, the study discovered a substantial association between directors' compensation and market price and an insignificant relationship between directors' compensation and ROCE and net profit margin. In order to stop the use of executive compensation in asset expropriation, the study suggested more corporate governance control and regulatory monitoring.

With an emphasis on Nigeria listed insurance businesses, Ali et al. (2025) examined the effect of board gender diversity on executive tunnelling. Executive compensation intensity and executive compensation burden were used to quantify executive stress. Two models and panel data from 112 observations between 2012 and 2022 were utilized in the study. For executive compensation intensity, the first model (1) used Random-Effects Generalized Least Squares (GLS), while for executive compensation burden, Model 2 used Fixed-Effects (Within) regression. Gender-diverse boards contribute to reducing excessive executive remuneration, according to Model 1 findings, which showed a strong negative association between board gender diversity and executive compensation intensity. In Model 2, there was a slight but positive correlation between the executive compensation burden and the gender diversity of the board. They came to the conclusion that encouraging gender diversity on boards can improve corporate governance by lowering executive tunnelling, and as a result, they suggested strategies to raise the proportion of women on boards.

Yahaya (2025) examined the link between CEO compensation and company performance, focusing on agency conflicts in corporate governance and pay-performance sensitivity. To ascertain their varying effects on performance, CEO compensation was broken down into fixed (salary) and variable (bonus, stock options) components. The empirical analyses revealed a positive and significant relationship between variable pay and firm performance, indicating that performance-contingent compensation aligns managerial incentives with shareholder value creation. Ohidoa and Kolade (2024) ascertained the relationship that exists between executive compensation and firms' financial performance in Nigeria for a period of nine years ranging from 2014 to 2022. The regression result showed that executive compensation had a positive relationship with firm performance on returns on equity and return on asset. The study recommended that executive compensation is a vital element that should not be undermined in an organization since such is a key driver of financial performance in organizations.

Rousseau et al. (2023) focused their research on determining whether CEO financial incentives predict firm financial performance and financial restatement due to misreporting. The result showed that

bonuses show no predictive effect on the following years' market-related measures but does affect ROA. Also, that stock Options had no effect on the following year's ROA on Market-to-Book Value or Stock Return which means no predictive effect for Stock Options on either accounting or market-related performance. Okafor and Ifurueze (2019) investigated the impact of directors tunnelling on the performance of Nigerian industrial firms that were listed. Using fifteen (15) companies chosen from the Nigeria Stock Exchange (NSE) now Nigeria Exchange Group (NGX), an ex-post factor study approach was employed. The study used secondary data collected from 2008 to 2017 and examined it using regression analysis, correlation, and descriptive statistics. The findings demonstrated that the performance of Nigerian manufacturing businesses that were listed was significantly impacted by the directors' negative equity holdings. Additionally, it demonstrated that while dividend payments to directors were positive and have no impact on the profitability of Nigerian manufacturing businesses that were publicly traded, the salaries of the chairman and board of directors were negative. The study suggested that a reduced directors' shareholding would result in better performance for Nigerian manufacturing enterprises because of the detrimental impact that director's equity holdings have on their performance.

The impact of CEO remuneration on the financial performance of Nigerian listed non-financial companies was investigated by Mohammed, Ibrahim, and Maitala (2023). The study found that salary emoluments, bonuses and stock-based compensation, as measures of executive compensation, had negative impact on the return on equity while executive pension claims had a positive impact on return on equity. Elsayed and Elbardan (2018) investigated the associations between executive compensation and firm performance, using data from a five-year period (2010-2014) for financial times and stock exchange 350 companies. The study employed simultaneous equation modelling in the investigation and found strong evidence of executive compensation on firm performance.

Smirnova and Zavertiaeva (2017) examined whether CEO remuneration is performance sensitive and whether companies that pay their CEOs more perform better. The study used both a functionalist paradigm of social theory and agency theory assumptions to examine whether CEO remuneration is performance sensitive, whether companies that pay their CEOs more perform better. The study made use of a sample of 330 large European firms for the period 2009 to 2013. The findings revealed that CEO compensation was positively associated with corporate performance. Ridwan, Fitri and Berto (2015) studied directors tunnelling using firms quoted in Indonesia Stock Exchange. The study was based on longitudinal design and made used of board size, outsider's directors, group and big five ownership as independent variable. The data were analysed using multiple regressions and the finding revealed that firms with family and state ownership experience more tunnelling activities than others. The study also found that family, state and leverage ownership structure had positive effect on tunnelling. In view of the above reviews, the study hypothesises that:

Ho₁: executive compensation intensity has no significant effect of the financial performance of mortgage banks in Nigeria

Ho₂: Executive compensation burden has no significant effect on the financial performance of mortgage banks in Nigeria

3. Methodology

The study adopted ex-post facto research design to examine the effect of executive tunnelling on the financial performance of mortgaged banks in Nigeria. The population of the study consisted of the three (3) listed mortgaged banks [Abbey building society, Infinity Mortgage Bank Plc and Omoluabi (LivingTrust) mortgage bank] in Nigeria Exchange Group (NGX). The same three (3) formed the sample size in which data were collected from the NGX for the period 2016 to 2025. The independent variables, Executive Compensation Intensity (ECI) and Executive Compensation Burden (ECB), were used as proxies for executive tunnelling, while the dependent variable return on asset as proxy for the financial performance. The reliability of the data were tested by cross-referencing with multiple data sources to ensure consistency while validity of the data was ensured by using established measures for the variables.

Model Specification

The secondary data collected were analysed using descriptive statistics, correlation and regression analysis. The model for the study was premised on the main objective and anchored on the sub-objective. The model used was adopted from the work of Ali et al. (2025) and modified to suite the study.

$$ROA_t = \beta_0 + \beta_1 ECI_{it} + \beta_2 ECB_{it} + \varepsilon_{it}$$

Where,

ECI = Executive Compensation Intensity

ECB = Executive Compensation Burden

ROA = Return on Assets

ε = Error term

β_1 - β_2 = the independent variable coefficients

4. Results and discussion

4.1 Trend Analysis of Data

Figure 1 shows the trend of executive tunnelling proxies such as Executive Compensation Intensity (ECI) and Executive Compensation Burden (ECB) alongside Return on Assets (ROA) for the mortgage banks in listed in Nigeria Exchange Group over the 2016–2025 period.

From 2016 to 2019, ECI largely trended upwards across the three mortgage banks, with Banks 1 and 3 recording noticeable increases and Bank 1 reaching the highest level. From 2020 moving forward, however, ECI declined across the banks, although Bank 2 remained relatively stable before experiencing a gradual fall. By 2025, comparatively, all three banks recorded low ECI values which suggests a general reduction in executive ECI over the period.

Considerable fluctuations among the three banks is exhibited by ECB. Bank 1 maintained relatively high levels between 2016 and 2019, followed by a sharp fall in 2020–2021 and relative stability after words. Bank 2 substantially increased from 2017, swinging between 2019 and 2023, and slightly declined towards 2025. Bank 3 increased steadily up to 2022 but witnessed a pronounced decline from 2023, reaching its lowest level in 2025.

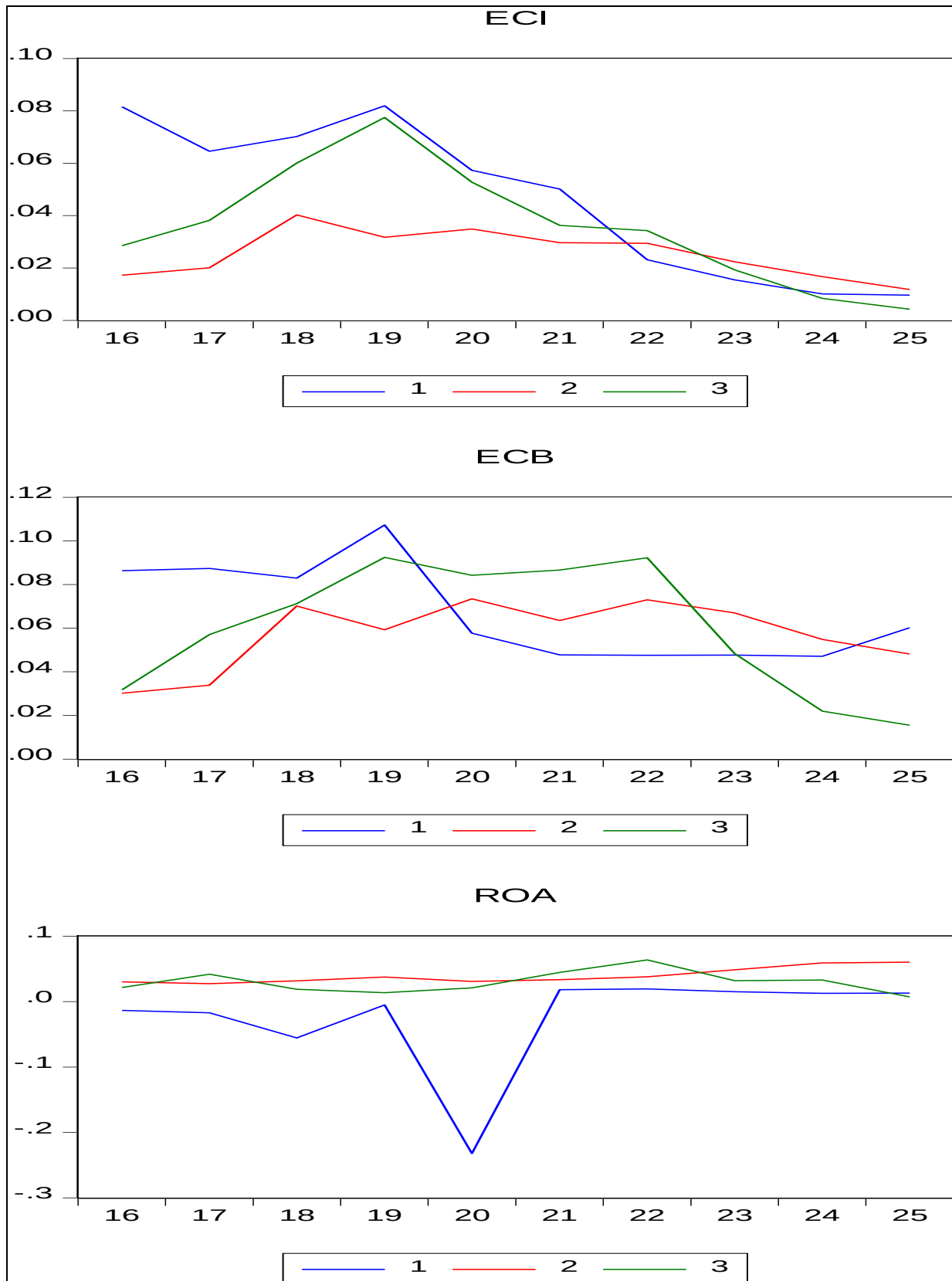


Figure 1. Trend pattern of the variables

ROA displayed greater variation, particularly for Bank 1. Its performance remained negative during most of 2016–2020, with a sharp deterioration in 2020, before recovering strongly from 2021. Banks 2 and 3 generally maintained positive ROA throughout the period, although both experienced some fluctuations. By 2024–2025, ROA for Banks 2 and 3 remained relatively stable at positive levels, while Bank 1 showed a modest decline towards 2025.

4.2 Descriptive Statistic

This summarizes the distributional properties of the study variables, providing preliminary evidence on their central tendencies, variability, asymmetry and departure from normality across the 30 observations.

Table 1. Descriptive Statistic

	ECI	ECB	ROA
Mean	0.035928	0.061542	0.014911
Median	0.030710	0.059714	0.024411
Maximum	0.081938	0.107273	0.063628
Minimum	0.004246	0.015490	-0.232264
Std. Dev.	0.022997	0.022663	0.052690
Skewness	0.637357	-0.079253	-3.616719
Kurtosis	2.294880	2.356578	17.47891
Jarque-Bera	2.652612	0.548895	327.4520
Probability	0.265456	0.759992	0.000000
Sum	1.077833	1.846247	0.447325
Sum Sq. Dev.	0.015337	0.014895	0.080511
Observations	30	30	30

ECI had a mean value of 0.035928 which indicates that executive compensation intensity averaged about 3.59% across the 30 observations. Its median of 0.030710 is lower than the mean to suggest a moderate influence of relatively higher observations on the distribution. Values ranged from 0.004246 to 0.081938, while the standard deviation of 0.022997 indicates a considerable dispersion around the mean. Positive skewness of 0.637357 confirms a right-tailed distribution which implies that, comparatively, some banks recorded elevated levels of ECI. The kurtosis of 2.294880, below the normal benchmark of 3, indicates a relatively platykurtic distribution. With a Jarque–Bera probability of 0.265456, normality cannot be rejected at the 5% level.

ECB showed a higher central tendency, with a mean of 0.061542 and a median of 0.059714, implying an average executive compensation burden of approximately 6.15%. The relatively close proximity of the mean and median suggests limited distortion from extreme observations. A minimum of 0.015490 and maximum of 0.107273 produced a range of 0.091783, while the standard deviation of 0.022663 points to moderate variability across the sampled mortgage banks. Skewness of -0.079253 indicates an almost symmetrical distribution with a slight leftward tail. Its kurtosis of 2.356578 also reflects a platykurtic pattern. The Jarque–Bera statistic of 0.548895 and probability of 0.759992 provide no evidence of departure from normality.

ROA demonstrated a markedly different distributional profile. Its mean of 0.014911 exceeded the median of 0.024411 only because the mean is strongly depressed by an extreme negative observation, as shown

in the minimum value of -0.232264 . Meanwhile, the maximum ROA of 0.063628 indicates that some observations achieved positive returns, producing a broad range of 0.295892 and the highest standard deviation among the variables (0.052690). Strong negative skewness of -3.616719 and extremely high kurtosis of 17.47891 reveal substantial asymmetry and heavy-tailed behaviour, pointing to the presence of an influential extreme observation. The Jarque-Bera statistic of 327.4520 with a probability value of 0.000000 decisively rejects the null hypothesis of normality, indicating that ROA is non-normally distributed over the study period.

4.3 Correlation Analysis

This presents the pairwise correlation coefficients among the variables and offers a preliminary evidence on the direction and strength of their linear associations.

Table 2. Pairwise correlation coefficients

	ECI	ECB	ROA
ECI	1.0000		
ECB	0.6599	1.0000	
ROA	-0.4091	-0.0740	1.0000

Table 3 revealed a strong positive correlation between ECI and ECB ($r = 0.7599$), indicating that higher ECI tends to coincide with a higher ECB. ECI also exhibited a moderate negative association with ROA ($r = -0.4091$), suggesting that greater ECI is associated with lower ROA. In contrast, ECB had a very weak negative relationship with ROA ($r = -0.0740$) which implied a negligible linear linkage between ECB and ROA.

4.4 Diagnostic Tests

Prior to interpreting the regression results, a series of diagnostic tests were conducted to assess the adequacy, reliability and robustness of the estimated panel model.

4.5 Hausman Tests

Table 5 presented the Hausman specification test conducted to determine whether the Fixed Effects or Random Effects estimator is more appropriate for the panel regression model.

Table 5. Hausman tests

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.410643	2	0.4939

The Hausman test reported a Chi-square statistic of 1.410643 with 2 degrees of freedom and a probability value (0.4939), which exceeded the 5% significance level. Hence, the null hypothesis that the random-effects estimator was consistent cannot be rejected which indicates no systematic difference between the fixed-effects and random-effects estimates. The coefficient comparisons further showed minimal differences for ECB (0.736204 versus 0.744447) and ROA (-0.146774 versus -0.154835), with probability values (0.6655 and 0.7877), respectively. Accordingly, the evidence supported the use of the random-effects specification for the model.

Lagrange multiplier tests for random effects

Table 7 showed the Lagrange Multiplier tests for Random Effects to assess whether significant panel-specific effects existed and whether the Random Effects specification was preferable to the pooled regression model.

Table 7. Lagrange multiplier tests

	Cross-section	Time	Both
Breusch-Pagan	34.82000 (0.0000)	0.000000 (1.0000)	34.82000 (0.0000)

Results from the Lagrange Multiplier (LM) test indicated a significant cross-sectional random effect, with a Breusch–Pagan statistic of 34.8200 and a p-value of 0.0000, which was below the 5% significance level. Hence, the null hypothesis of no cross-sectional random effects was rejected to indicate the presence of significant unobserved heterogeneity across the cross-sectional units. In contrast, the time-effect statistic was 0.0000 with a p-value of 1.0000 which implied that the null hypothesis of no time-specific effects cannot be rejected. The joint “Both” test also reported a statistic of 34.8200 with a p-value of 0.0000, confirming the significance of the panel effects driven by cross-sectional heterogeneity rather than time effects. Consequently, the results indicated that a panel-effects model was preferable to Pooled OLS, while the subsequent choice between Fixed Effects and Random Effects should be determined using the Hausman specification test.

4.6 Estimation of Random Effects Model

The outcome of the regression estimates is presented in Table 8.

Table 8. Random effects model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ECI	-1.913036	0.521853	-3.665854	0.0011
ECB	1.303017	0.529540	2.460660	0.0206
C	0.003452	0.023319	0.148044	0.8834
Effects Specification			S.D.	Rho
Cross-section random			5.79E-09	0.0000
Idiosyncratic random			0.042010	1.0000
Weighted Statistics				
R-squared	0.600062	Mean dependent var		0.014911
Adjusted R-squared	0.548215	S.D. dependent var		0.052690
S.E. of regression	0.045685	Sum squared resid		0.056352
F-statistic	5.787421	Durbin-Watson stat		2.203749
Prob(F-statistic)	0.008097			

Results from the random-effects estimation showed that ECI had a statistically significant negative effect on ROA, with a coefficient of -1.9130 and a p-value of 0.0011 which indicated that increased in ECI were associated with reductions in return on assets, *ceteris paribus*. In contrast, ECB had a statistically significant positive effect on ROA, with a coefficient of 1.3030 and a p-value of 0.0206, suggesting that increased in ECB are associated with improvements in bank profitability. The constant term was statistically insignificant ($p = 0.8834$), indicating that it did not independently explain ROA. Generally, the model was statistically significant, as indicated by the F-statistic of 5.7874 and its probability of 0.0081, while the adjusted R-squared of 0.5482 indicated that approximately 54.82% of the variation in ROA is

explained by ECI and ECB after adjustment for model degrees of freedom. The Durbin–Watson statistic of 2.2037 suggested no obvious first-order serial correlation in the residuals. Economically, the findings implied that the two explanatory variables had opposing relationships with bank profitability: ECI was associated with lower ROA, whereas ECB was associated with higher ROA. These results suggested that the nature and direction of the specific factors represented by ECI and ECB had important implications for bank asset profitability, although the estimated coefficients should be interpreted as conditional associations rather than causal effects without further identification.

4.7 Discussion of Findings

ECI turned out negative and statistically significant with a coefficient of -1.9130 and a p-value of 0.0011 . This finding meant that higher ECI was connected with lower profitability, contrary to some studies that see executive remuneration as an incentive mechanism for aligning managerial interests with those of shareholders. For instance, Smirnova and Zavertiaeva (2017) found that executive compensation was positively linked with accounting-based performance and showed that incentive-based compensation could improve internal performance. Similarly, Elsayed and Elbardan (2018) found evidence that executive compensation exerted a considerable influence on firm performance rather than the reverse relationship. The inverse ECI–ROA relationship may be a reflection of the distinction between compensation that effectively incentivizes performance and compensation that represented a last cost relative to the productive gains generated by executives. Particularly, high ECI may reduce the fraction of operating resources committed to productive investment, especially where remuneration was not adequately linked to measurable long-term performance outcomes (Agbai *et al.*, 2026). Excessive or unexplained executive pay can be linked with weaker firm performance, consistent with the possibility that high compensation may be reflecting an unresolved agency problems rather than superior managerial contribution.

ECB produced the opposite result with its exhibition of a positive and statistically significant relationship with ROA ($\beta = 1.3030$; $p = 0.0206$). As such, although a greater compensation burden may appear costly, the result suggested that executive remuneration relative to the firm's relevant financial base may also show investment in managerial capability, retention, motivation and performance incentives that contribute to profitability. This result was broadly consistent with Ohidoa and Kolade (2024), who reported a positive relationship between executive compensation and ROA among quoted Nigerian firms over 2014–2022. Nevertheless, the contrasting signs obtained for ECI and ECB demonstrated that the effect of ECB was sensitive to how compensation is operationalised, rather than being uniformly positive or negative. Variations from past studies may obtain different results because executive compensation and firm performance can be jointly determined. Smirnova and Zavertiaeva (2017) explicitly treated compensation and performance as endogenous in a simultaneous-equation analysis.

5. Conclusion

The study looked at the effect of executive tunnelling on the financial performance of mortgaged banks listed in Nigeria exchange group. The study employed panel data covering the period 2016 to 2025 and applied the random-effects panel regression model to examine the effects of executive compensation intensity (ECI) and executive compensation burden (ECB) used as measures for executive tunneling on return on assets (ROA), used as measure for financial performance. The study concluded that executive compensation dimensions exert differential effects on the performance of mortgage banks, as measured by ROA. The random-effects estimated that ECI has a statistically significant negative correlation with ROA, while, ECB has a statistically significant positive correlation with ROA. The model combined significance and adjusted R-squared of 54.82% show that ECI and ECB together have a significant

amount of explanatory power for differences in ROA among the mortgage banks examined. The opposing coefficients further suggest that the performance implications of executive compensation depend not merely on the magnitude of remuneration but also on how compensation was structured and operationalised. As a result, the results highlight how crucial it is to create executive compensation plans that match managerial incentives with long-term performance results while avoiding pay plans that can impose expenses that are out of proportion to their productive contribution. Given the observational nature of the analysis, however, the estimated relationships should be interpreted as conditional associations rather than definitive causal effects.

When deciding on the level of executive compensation, bank boards and compensation committees should be more cautious due to the strong negative correlation between ECI and ROA. To guarantee that pay increases are economically justifiable, executive remuneration should be tightly correlated with quantifiable gains in management performance and bank performance. In order to lessen the chance that high compensation expenses might jeopardize asset performance, banks should also bolster performance-based compensation systems and routinely assess CEO compensation in relation to financial results.

Looking at the statistically significant positive relationship between ECB and ROA, bank boards and remuneration committees should consider maintaining a broad and strategically structured executive compensation framework. These agreements have to include remuneration elements that support executive retention, management motivation, and enhanced organizational performance. The many components of executive compensation should be connected to precisely define financial and strategic performance objectives in order to optimize their contribution to performance. Regular review of compensation structures are also necessary to determine whether the existing mix of incentives continues to support sustainable profitability while ensuring that remuneration costs remain economically defensible.

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