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Assessing the Effect of ESG-Linked Pay in the Relationship between Effective Pay-Committee and Firm Performance in Sub-Saharan Africa

Aniku Ahmed Mohammed Moyini
The University of Lahore, Pakistan
ahmadaniku@gmail.com
Dr. Sarah Nawazish
Assistant Professor, Imperial College of Business Studies Lahore, Pakistan
Sarah.nawazish@imperial.edu.pk

ABSTRACT
This study explores a crucial conflict in sustainable corporate governance in emerging markets: whether the performance-enhancing function of efficient compensation committees is aided or hindered by the explicit incorporation of Environmental, Social, and Governance metrics into executive compensation. We use moderated regression models with resilient standard errors using a manually created panel dataset of 100 non-financial enterprises from ten Sub-Saharan African countries between 2016 and 2023. The findings show a recurring conundrum. Higher firm performance (ROA, ROE, Tobin's Q) is correlated with both the adoption of ESG-linked pay and the competence of the compensation committee (measured by size, independence, mandate, Frequency of meetings, and expertise and knowledge), but their combination has a significant negative impact. According to this research, linking CEO Pay to ESG standards can lessen the beneficial monitoring of a watchful committee under sub-Sahara Africa's unique institutional setting, which is marked by evolving governance regulations and difficulties in ESG measurement. Using the twin perspectives of agency and stakeholder theory, we explain this and propose that inadequately verifiable ESG indicators could lead to expensive short-term goal conflicts or managerial rent-extraction. The study adds to the body of knowledge on global governance by emphasizing how local institutional infrastructures play a crucial role in determining the effectiveness of hybrid (financial-ESG) incentive structures. It emphasizes the necessity of cautious, context-specific, and sequentially applied Pay systems for sub-Saharan Africa practitioners and policymakers as opposed to the broad adoption of international 'best practices.'

Keywords: *ESG-Linked Pay, Effectiveness of Pay-Committee, Firm Performance, Corporate Governance, Sub-Saharan Africa, Sustainability.*

1. Introduction

The incorporation of Environmental, Social, and Governance (ESG) measures into CEO remuneration contracts is a significant change in corporate governance brought about by the global need for sustainable business. Growing from a small percentage of businesses in 2010 to more than 30% by 2021 (Cohen et al., 2023), this technique is praised as a way to match managerial incentives with long-term shareholder value (Simic et al., 2024). However, a basic theoretical disagreement hinders its effectiveness.

The opacity of ESG results, according to agency theory, might make such compensation a tool for managerial rent-extraction, a sophisticated kind of executive reward greenwashing (Bebchuk & Tallarita, 2022). Stakeholder theory, on the other hand, suggests that it is an essential tool for integrating sustainable value creation into the business culture (R. B. Freeman, 1983; Liu, 2024).

Sub-Saharan Africa, a region marked by a convergence of pressing sustainability concerns and emerging governance infrastructures, gives this debate a unique and urgent character. According to Owusu-Acheampong et al. (2024), Areneke et al. (2022) and Yates et al. (2023) corporate landscapes in this area are frequently dominated by concentrated ownership structures, such as family, state, and pyramidal holdings, functioning within changing and occasionally laxly enforced governance regulations. Internal capabilities for complex, verifiable ESG measurement are still severely constrained, despite growing external pressures for sustainability (Kwarteng et al., 2024; Lee et al., 2023; Vu, 2025). The Pay committee is pressed into a crucial position in this complicated environment, charged with the delicate challenge of creating pay structures that balance emerging sustainability goals with old financial imperatives.

Importantly, there is little empirical guidance for this sub-Saharan Africa setting in the global literature. Contradictory results about the ESG pay-performance relationship are found in existing research, which is primarily concentrated on Western economies with developed institutions (Adu et al., 2022; Gull et al., 2023; Radu & Smaili, 2022). This creates a stark gap: we do not know how ESG-linked remuneration works as a conduit between business results and governance quality within sub-Sahara Africa's particular institutional 'voids.' Does it provide conflicting incentives that compromise the efficacy of governance, or does it successfully channel the advantages of a capable compensation committee into improved performance?

This gap is directly addressed by this study. We go beyond looking at sustainability and governance separately to examine the interaction mechanism that links them: ESG-linked compensation. We offer nuanced, context-specific evidence that challenges the universal application of global 'best practices' and advances our understanding of sustainable corporate governance in emerging markets by examining whether it increases or decreases the relationship between compensation committee effectiveness and firm performance in sub-Saharan Africa.

To frame this investigation, we engage the central theoretical debate in corporate governance. Agency Theory Jensen & Meckling (1976) provides a cautionary lens, viewing the Pay-committee as a mechanism to align executive actions with shareholder wealth. From this perspective, ESG-linked pay is only justified if these metrics are verifiable proxies for long-term value; otherwise, they risk becoming a tool for managerial rent-extraction (Bebchuk & Tallarita, 2022). In contrast, Stakeholder Theory Freeman (1983) offers a normative rationale, positing that embedding ESG metrics into compensation is essential for aligning managerial incentives with broader societal and environmental objectives, thereby ensuring long-term corporate legitimacy and sustainable value.

Understanding the effectiveness of ESG-linked Pay in Sub-Saharan Africa requires taking into account both the region's unique institutional environment and these conflicting theoretical assumptions. In an environment marked by evolving governance codes and substantial measurement challenges, this study investigates whether ESG-linked compensation introduces costly distortions, as agency theory might caution, or whether it acts as a credible bridge between governance and performance, as stakeholder theory would hope.

The rest of the paper is structured as follows: Literature review and hypotheses development section 2, Research methodology section 3, Results section 4, Discussion section, Conclusion 6, and Reference 7.

2. Literature Review and Hypotheses development

The fundamental yet competing logics of Agency Theory (Jensen & Meckling, 1976) and Stakeholder Theory (R. B. Freeman, 1983) serve as the framework for this investigation. However, we purposefully place these theoretical viewpoints inside the distinct institutional framework of Sub-Saharan Africa, contending that local circumstances—specifically, the region's "institutional voids"—determine their predictive capacity (Khanna & Palepu, 1997).

Theoretical Anchors and SSA Context

Agency Theory posits that the primary role of the Pay-Committee is to mitigate principal-agent conflicts by designing contracts that credibly align managerial actions with shareholder wealth maximization (Morri et al., 2025). From this perspective, incorporating ESG metrics into executive pay is rational only if these metrics are verifiable, material indicators of long-term value or risk. In SSA's context characterized by scarce, non-standardized ESG data (Areneke, Adegbite, et al., 2022) such metrics become "soft" and non-verifiable. This opacity risks transforming ESG-linked pay into a tool for managerial opportunism or "disguised excessive compensation" (Bebchuk & Tallarita, 2022), undermining genuine alignment.

Stakeholder Theory expands the firm's fiduciary focus, viewing ESG-linked pay as a mechanism to harmonize executive incentives with broader societal and environmental objectives (Freeman, 1999; Freeman et al., 2010; Liu, 2024). An effective Pay-committee, under this view, integrates these metrics to ensure long-term legitimacy and sustainable value creation (Cohen et al., 2023). However, in the resource-constrained, high-growth-pressure environment of many SSA firms, a sharp short-term trade-off may emerge (Kavadis & Thomsen, 2023; Simic et al., 2024).

Diverting attention and resources from core financial objectives to meet stakeholder-oriented ESG targets could lead to "goal dilution," potentially depressing immediate financial performance. The unique institutional characteristics of SSA: strong information asymmetries, underdeveloped ESG verification markets, and evolving governance codes critically moderate the interaction of these ideas. This leaves an institutional gap where measurement issues and implementation difficulties could undermine the theoretical benefits of ESG-linked pay.

2.1. Pay-Committee Characteristics and Firm Performance: A Framework

The separation of ownership and control necessitates governance mechanisms like the Pay-Committee to mitigate agency conflicts (Morri et al., 2025). The committee's effectiveness in setting executive pay is a function of its structural and qualitative characteristics (Elmghaamez et al., 2024; Sharma et al., 2021). We examine five key characteristics, analyzing their direct link to performance and how this link is moderated by the adoption of ESG-linked pay in SSA.

2.1.1. Size of the Pay-Committee

The size of the committee presents a theoretical trade-off. Resource dependence theory suggests larger committees provide greater access to diverse expertise, networks, and advisory capacity, which is crucial for complex tasks like compensation design (Elmghaamez et al., 2024; Kwarteng et al., 2024). Conversely**,** group process and agency theories warn of increased coordination costs, communication inefficiencies, and reduced accountability in larger groups, potentially diluting monitoring effectiveness (Kolev et al., 2019; Kufo & Shtembari, 2023).

*Moderating Role of ESG-Linked Pay in SSA***:** Integrating ESG metrics exponentially increases task complexity, requiring committees to identify material, verifiable metrics and integrate them with financial KPIs. While a larger committee may possess the diverse expertise needed (Hart & Zingales, 2022), SSA's institutional voids—particularly the measurement and verification void—amplify the risks of large-group inefficiency. The lack of standardized data can fuel unproductive

debate in a larger committee, leading to vague, non-verifiable ESG targets that facilitate managerial rent-extraction (Bebchuk & Tallarita, 2022). Thus, the coordination costs likely outweigh the resource benefits.

H1a: The size of the Pay-committee has a positive direct effect on firm performance.

H2a: The adoption of ESG-linked executive Pay will negatively moderate the positive relationship between Pay-committee size and firm performance in Sub-Saharan Africa.

2.1.2. Independence of the Pay-Committee

Committee independence, a cornerstone of agency theory, is crucial for objective oversight and resisting managerial capture in executive pay setting (Farooq et al., 2024; Gerged & Salem, 2023). Independent directors also bring external perspective and networks. However, its efficacy is moderated by ownership concentration and institutional strength; in SSA, powerful block holders or weak legal enforcement can render independence symbolic (Farooq et al., 2024).

Moderating Role of ESG-Linked Pay in SSA: An independent committee is theoretically best positioned to objectively balance financial and ESG goals and prevent greenwashing (Lu et al., 2024). Yet, SSA's institutional voids severely test this ideal. Without robust verification infrastructure or market benchmarks, even an independent committee may lack the power and information to design credible ESG pay components, potentially leading to the adoption of ineffective or symbolic metrics.

H1b: Pay-committee independence has a positive direct effect on firm performance.

H2b: The adoption of ESG-linked executive Pay will negatively moderate the positive relationship between Pay-committee independence and firm performance in Sub-Saharan Africa.

2.1.3. Clear Mandate and Authority

A formally defined mandate, grounded in agency theory, mitigates role ambiguity, delegates' authority, and institutionalizes objective processes for compensation design (Elmghaamez et al., 2024; Kolev et al., 2019). It is associated with better governance outcomes and is a vital counterweight to informal practices prevalent in some SSA contexts.

Moderating Role of ESG-Linked Pay in SSA: While a strong mandate authorizes action, SSA's data and verification voids create an operational gap. A committee may diligently execute its mandate to include ESG metrics but lacking qualified information, may implement metrics that are symbolic or immaterial (Kolev et al., 2019; Rey, 2022). Thus, authority cannot guarantee efficacy in a data-poor environment.

H1c: A clear mandate and authority of the Pay-committee has a positive direct effect on firm performance.

H2c: The adoption of ESG-linked executive Pay will negatively moderate the positive relationship between a clear committee mandate/authority and firm performance in Sub-Saharan Africa.

2.1.4. Meeting Frequency

Frequent meetings signal committee diligence and active monitoring, allowing for deeper scrutiny and timely response to issues (agency theory) and enhancing collaborative efficacy (resource dependence). However, excessive meetings can signal inefficiency or dysfunction.

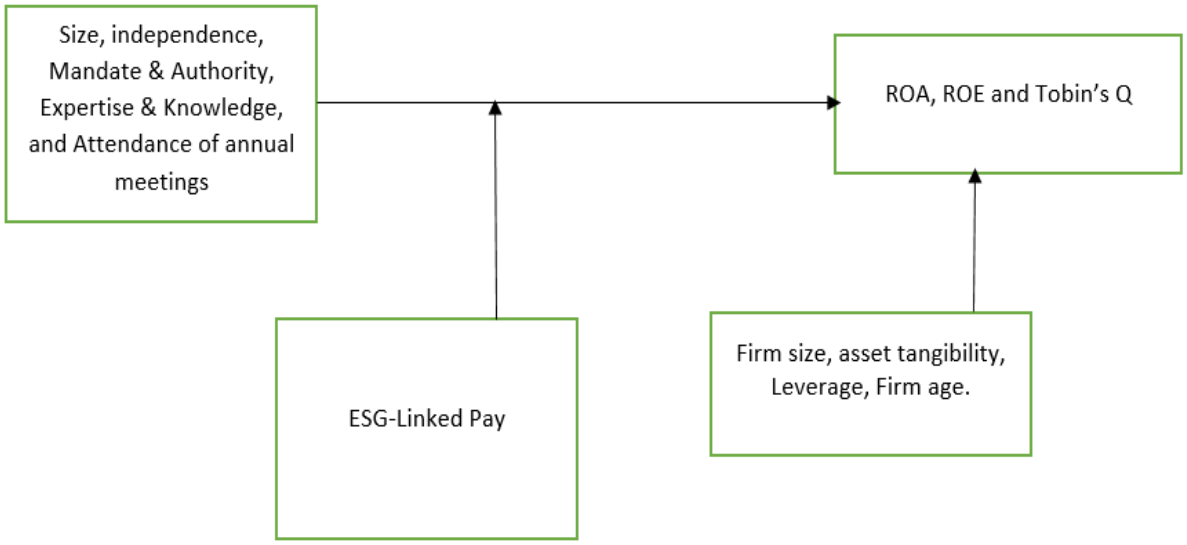
Moderating Role of ESG-Linked Pay in SSA: In the context of integrating poorly defined ESG metrics, high meeting frequency may lead to diminishing returns. Committee time may be consumed by unproductive debates over opaque metrics, diverting focus and resources from core financial oversight without yielding proportional benefits.

H1d: A higher frequency of Pay-committee meetings has a positive direct effect on firm performance.
H2d: The adoption of ESG-linked executive Pay will negatively moderate the positive relationship between meeting frequency and firm performance in Sub-Saharan Africa.

2.1.5. Expertise and Knowledge of Members

Member expertise particularly financial literacy and compensation design knowledge is a critical resource that enables the committee to design sophisticated, strategic incentive contracts (Elmghaamez et al., 2024).
Moderating Role of ESG-Linked Pay in SSA: Integrating ESG pay demands new expertise in sustainability and impact measurement a pronounced gap in SSA. A committee expert in finance may lack the specific knowledge to assess the credibility or ambition of ESG metrics. This can lead to over-reliance on management proposals or the approval of superficial metrics ("cheap talk"), undermining the committee's overall oversight effectiveness.
H1e: The presence of expertise and knowledge on the Pay-committee has a positive direct effect on firm performance.
H2e: The adoption of ESG-linked executive Pay will negatively moderate the positive relationship between committee expertise/knowledge and firm performance in Sub-Saharan Africa.

Figure 1: Conceptual Framework



3. Research Methodology

3.1 Sample construction and Data

This study analyzes a manually constructed, balanced panel dataset comprising 100 listed non-financial firms from ten Sub-Saharan African (SSA) economies: South Africa, Nigeria, Kenya, Ghana, Botswana, Mauritius, Namibia, Tanzania, Uganda, and Zambia. The sample period spans eight years, from 2016 to 2023, yielding 800 firm-year observations. Financial institutions (banks, insurance, and other financial service firms) are excluded due to their distinct regulatory frameworks governing capital and executive pay (Alodat et al., 2023).
Data was meticulously hand-collected from annual reports, integrated corporate governance reports, and remuneration committee reports. This labor-intensive approach is necessary and

justified given the sparse and unreliable coverage of SSA firms in global databases like Compustat or Refinitiv (Areneke et al., 2022; Kgwete, 2024). The selection of countries and firms was designed to capture the diversity of corporate governance maturity and market development across the region.

3.2 Variable Measurement

Dependent Variables: Firm Performance (FP)

Firm performance is captured using a multi-dimensional approach to ensure robustness. *Return on Assets (ROA):* Net income divided by total book value of assets. *Return on Equity (ROE):* Net income divided by total shareholders' equity. *Tobin's Q:* (Market Value of Equity + Book Value of Liabilities) / Book Value of Total Assets. This market-based metric reflects investor expectations of future growth and risk (Elmghaamez et al., 2024).

Independent Variables: Pay-Committee Effectiveness (PCE)

Effectiveness is deconstructed into five binary (0, 1) characteristics, each representing a distinct dimension of committee quality as per corporate governance codes and prior literature (Al-ahdal et al., 2020; Bukari et al., 2024; Kanapathippillai et al., 2024). Size: Coded 1 if the committee has three or more members. Independence: Coded 1 if a majority of members, including the chair, are independent non-executive directors. Clear Mandate & Authority**:** Coded 1 if the committee operates under a formally disclosed, board-approved charter. Meeting Frequency**:** Coded 1 if the number of annual meetings exceeds the annual sample median. Expertise & Knowledge**:** Coded 1 if at least one member possesses disclosed financial, remuneration, or relevant sustainability expertise.

Moderating Variable: ESG-Linked Pay (ESG_PAY)

The critical moderating variable is a binary indicator coded 1 if the firm's annual pay report explicitly discloses the inclusion of ESG metrics (Environmental, Social, or Governance) in the performance criteria for determining executive short-term or long-term incentive pay.

Control Variables

To isolate the effects of the variables of interest, we control for firm-specific factors: Firm Size**:** Natural logarithm of total assets. Leverage: Ratio of total debt to total equity. Firm Age: Number of years since incorporation. Asset Tangibility**:** Ratio of net property, plant, and equipment to total assets. To mitigate the influence of extreme outliers, leverage and asset tangibility were winsorized at the 1st and 99th percentiles

3.3 Empirical Model and Estimation Strategy

To test the hypothesized moderating effect of ESG-linked pay, we employ a moderated regression framework. The baseline model for each Pay-Committee characteristic is specified as follows:

Model:

$$FPit = \beta_0 + \beta_1 EPC_{it} + \beta_2 ESG\_Pay_{it} + \beta_3(EPC_{it} \times ESG\_Pay_{it}) + \gamma' Controls_{it} + \lambda_t + \epsilon_{it}$$

Where: FP_{it} represents Firm Performance for firm i*i* in year t*t*, measured alternatively by ROA, ROE, and Tobin's Q. EPC_{it} is a vector representing individual characteristics of Effectiveness of Pay-Committee (Size, Independence, Clear Mandate & Authority, Meeting Frequency, Expertise & Knowledge). ESG_Pay_{it} is a binary or continuous measure indicating the presence or weighting of ESG-linked metrics in executive compensation. EPC_{it} x ESG_Pay_{it} is the interaction term capturing moderating effect. $Controls_{it}$ includes firm-level control variables: Leverage, Firm Size

(log of assets), Asset Tangibility, and Firm Age. λt represents year-fixed effects. ϵ_{it} is the clustered robust error term.

Estimation Strategy:

The primary analysis uses pooled Ordinary Least Squares (OLS) with robust standard errors clustered at the firm level to account for heteroskedasticity. This approach is suitable for assessing the average partial effects across the panel. To validate the robustness of our findings and account for unobserved, time-invariant firm heterogeneity, we re-estimate all models using a Random-Effects Maximum Likelihood (ML) estimator.

4. Results

4.1. Descriptive Statistics and Correlations

Table 1 presents the descriptive statistics. The sample firms are, on average, profitable (ROA: 6.86%, ROE: 8.41%) and trade at a market premium (Tobin's Q: 3.12). The high mean values for Pay-Committee variables (e.g., Expertise and Knowledge = 0.979) and ESG_PAY (0.890) indicate a strong *de jure* adoption of formal governance structures and sustainability-linked Pay among sampled SSA firms.

Table 2, the correlation matrix, provides initial insights. Notably, *ESG_PAY* exhibits a significant negative correlation with both ROA (-0.061) and ROE (-0.122), suggesting a potentially complex relationship that warrants multivariate investigation.

4.2. Main Regression Findings

The regression results, presented in *Tables 3 through 7* (OLS) and *Tables 8 through 12* (Random Effects), deliver a consistent and compelling narrative. *Support for Direct Effect Hypotheses (H1a-H1e).* The coefficients for all five Pay-Committee characteristics (Size, Independence, Mandate, Meetings, and Expertise) *are positive and statistically significant at the 1% level* across nearly all model specifications and performance measures. For instance, in Model 1 (Table 3), an effective committee size is associated with a 4.241-point increase in ROA. This provides robust support for *H1a-H1e,* confirming that structurally effective Pay-Committees enhance firm performance in SSA, consistent with agency theory's prediction that vigilant oversight reduces agency costs and aligns managerial actions with shareholder interests.

Similarly, the direct coefficient for *ESG_PAY* is predominantly positive and significant; suggesting that its adoption, in isolation, is perceived positively by the market and correlates with better accounting performance a finding aligned with stakeholder theory's signaling argument.

Core Finding: Support for Negative Moderation Hypotheses (H2a-H2e)

The central and most robust finding is the *negative and statistically significant coefficient of the interaction term* (PCE×ESG_PAY) across all five committee characteristics, both performance metrics (ROA, ROE), and both estimation techniques (OLS and RE-ML). For example, the interaction between Committee Size and ESG_PAY is -4.680 for ROA (Model 1, Table 3).

This provides clear and consistent support for *H2a-H2e*, indicating a *significant negative moderating effect*. The interpretation is critical: while both a robust Pay-Committee and the adoption of ESG-linked pay independently correlate with higher performance, their *concurrent implementation* yields a detrimental combined effect. The positive governance impact of an effective committee is *diminished* when that committee actively integrates ESG metrics into the executive compensation contract within the SSA context.

Table 1: Descriptive Statistics of the study variables

Variable	*Mean*	*SD*	*Min*	*25th Pctl*	*Median*	*75th Pctl*	*Max*	*N*
ROA	6.859	3.517	1.050	3.872	6.389	9.539	15.927	800
RoE	8.411	3.985	1.003	5.430	7.877	11.661	19.640	800
Tobin's Q	3.121	1.309	1.729	2.808	2.986	3.198	20.887	800
FINEXPERT	0.979	0.144	0.000	1.000	1.000	1.000	1.000	800
EXCOESG	0.890	0.313	0.000	1.000	1.000	1.000	1.000	800
NOOFMEET	0.979	0.144	0.000	1.000	1.000	1.000	1.000	800
SIOCCMT	0.870	0.337	0.000	1.000	1.000	1.000	1.000	800
SOMAME	0.891	0.312	0.000	1.000	1.000	1.000	1.000	800
ICCMTCP	0.919	0.273	0.000	1.000	1.000	1.000	1.000	800
Leverage (wins.)	1.467	6.390	−32.242	0.378	0.954	1.938	36.330	800
Firm Size	15.247	3.146	8.026	13.278	15.300	17.596	22.102	800
Asset Tangibility (wins.)	3.350	27.042	0.000	0.226	0.389	0.595	256.905	800
Firm Age	40.250	23.781	5	20.5	34	59	105	800

Table 2**:** Correlation Matrix

Variable	**ROA**	**ROE**	**Tobin's Q**	**Expert/Knowledge**	**ESG-linked pay**	**#meetings**	**Size**	**Independence.**	**Mandate & Authority**	**Lev. (wins)**	**Firm Size**	**Asset Tan. (wins)**	**Firm age**
ROA	1.000												
ROE	0.086*	1.000											
Tobin's Q	0.025	−0.046	1.000										
Expertise & Knowledge	0.045	−0.049	0.017	1.000									
ESG-Linked Pay	−0.061*	−0.122*	−0.014	0.170*	1.000								
#of Meetings	0.045	−0.049	0.017	1.000*	0.170*	1.000							
Size	−0.068*	−0.007	0.091*	0.149*	−0.041	0.149*	1.000						
Independence	−0.050	0.023	0.080*	−0.052	−0.123*	−0.052	0.904*	1.000					
Mandate & Authority	−0.021	0.062*	0.060*	0.242*	−0.105*	0.242*	0.647*	0.719*	1.000				
Leverage (wins)	0.017	0.072*	−0.045	0.003	0.035	0.003	−0.098*	−0.121*	−0.037	1.000			
Firm Size	0.120*	0.080*	−0.125*	0.093*	−0.018	0.093*	−0.182*	−0.204*	−0.138*	0.067*	1.000		
Asset Tangibility (Wins)	−0.048	−0.050	0.001	0.017	0.040	0.017	0.040	0.036	0.032	−0.014	−0.235*	1.000	
Firm Age	−0.067*	0.064*	0.021	−0.236*	0.092*	−0.236*	−0.086*	0.013	−0.004	−0.025	−0.023	−0.027	1.000

Regression Table of results

Table 3**:** *Size of Compensation Committee, ESG-linked pay and Firm Performance (ROA, ROE and Tobin's Q)* **(**OLS with Robust Standard Errors)

	Model 1 (ROA)	Model 2 (ROE)	Model 3 (Tobin's Q)
Size of Pay-Committee	4.241*** (0.786)	5.738*** (0.911)	2.921*** (0.308)
ESG-linked Pay	3.970*** (0.787)	3.637*** (0.998)	2.462*** (0.340)
Interaction term	−4.680*** (0.914)	−5.291*** (1.096)	−2.579*** (0.311)
Leverage	0.001 (0.001)	0.005*** (0.001)	−0.000 (0.000)
Firm Size	0.193*** (0.039)	0.198*** (0.045)	−0.009 (0.021)
Asset Tangibility	0.000 (0.001)	−0.001 (0.002)	−0.000 (0.000)
Firm Age	−0.001 (0.005)	0.024*** (0.006)	0.006*** (0.002)
Model Fit			
Observations	800	800	800
R-squared	0.795	0.820	0.848
F-statistic	226.86***	266.02***	2483.54***
Year Fixed Effects	Yes	Yes	Yes
Constant	No	No	No

Table 4: Independence of Pay-Committee members, ESG-linked pay and Firm Performance (ROA, ROE, and Tobin's Q) *(OLS with Robust Standard Errors)*

	Model 4 (ROA)	Model 5 (ROE)	Model 6 (Tobin's Q)
Independence of Pay-Committee members	5.919*** (0.828)	7.911*** (0.880)	3.797*** (0.317)
ESG-Linked Pay	5.647*** (0.847)	6.006*** (0.967)	3.523*** (0.355)
Interaction term	−6.301*** (0.971)	−7.594*** (1.075)	−3.563*** (0.318)
Leverage	0.001 (0.001)	0.005*** (0.001)	−0.000* (0.000)
Firm Size	0.122*** (0.041)	0.104** (0.044)	−0.048* (0.023)
Asset Tangibility	−0.000 (0.001)	−0.001 (0.002)	*−0.001* (0.000)
Firm Age	*−0.009* (0.005)	0.013* (0.006)	0.001 (0.002)
Model Fit			
Observations	800	800	800
R-squared	0.799	0.825	0.854
F-statistic	231.99***	274.56***	2520.85
Year Fixed Effects	Yes	Yes	Yes
Constant	No	No	No

Table 5**:** Clear mandate and authority, ESG-linked pay and firm performance (ROA, ROE, and Tobin's Q) **(***OLS with Robust Standard Errors)*

	Model 7 (ROA)	Model 8 (ROE)	Model 9 (Tobin's Q)
Clear mandate and Authority of compensation committee	5.825*** (0.817)	7.851*** (0.870)	3.836*** (0.316)
ESG-Linked Pay	5.353*** (0.845)	5.404*** (0.932)	3.584*** (0.347)
Interaction term	−5.972*** (0.960)	−6.948*** (1.036)	−3.635*** (0.310)

Leverage	0.001 (0.001)	0.005*** (0.001)	−0.000** (0.000)
Firm Size	0.128*** (0.040)	0.108** (0.043)	−0.051** (0.023)
Asset Tangibility	−0.000 (0.001)	−0.001 (0.002)	−0.001* (0.000)
Firm Age	*−0.009* (0.005)	0.013** (0.006)	0.001 (0.002)
Model Fit			
Observations	800	800	800
R-squared	0.799	0.826	0.854
F-statistic	229.68***	275.51***	2408.10***
Year Fixed Effects	Yes	Yes	Yes
Constant	No	No	No

***Table 6*:** Meeting Frequency, ESG-linked pay and Firm performance (ROA, ROE, and Tobin's Q) (OLS with robust standard Errors)

	Model 10 (ROA)	**Model 11 (ROE)**	**Model 12 (Tobin's Q)**
Number of meeting held in a year	4.259*** (0.784)	5.793*** (0.912)	3.013*** (0.324)
ESG-Linked Pay	1.880*** (0.5618)	4.715*** (0.761)	2.566*** (0.264)
Interaction term	−2.514*** (0.697)	−6.438*** (0.850)	−2.729*** (0.235)
Leverage	0.001 (0.001)	0.005*** (0.001)	−0.000** (0.000)
Firm Size	0.192*** (0.038)	0.194*** (0.045)	−0.016 (0.022)
Asset Tangibility	0.000 (0.001)	−0.000 (0.002)	−0.000 (0.000)
Firm Age	−0.000 (0.005)	0.024*** (0.007)	0.007*** (0.0022)
Model Fit			
Observations	800	800	800
R-squared	0.795	0.820	0.847
F-statistic	302.84***	311.43***	1834.65***
Year Fixed Effects	Yes	Yes	Yes
Constant	No	No	No

Table 7: Expertise and Knowledge, ESG-linked pay and firm performance (ROA, ROE, and Tobin's Q) (OLS with robust standard Errors)

	Model 13 (ROA)	**Model 14 (ROE)**	**Model 15 (Tobin's Q)**
Expertise and Knowledge	3.641*** (0.631)	4.212*** (0.807)	2.34*** (0.311)
ESG-Linked Pay	−0.401 (0.411)	−1.124** (0.445)	0.090 (0.103)
Interaction term	Omitted (collinearity)	Omitted (collinearity)	Omitted (collinearity)
Leverage	0.001 (0.001)	0.005*** (0.001)	−0.000** (0.000)
Firm Size	0.210*** (0.036)	0.239*** (0.041)	0.004 (0.021)
Asset Tangibility	0.000 (0.001)	−0.000 (0.002)	−0.000 (0.000)
Firm Age	0.001 (0.005)	0.026*** (0.006)	0.007*** (0.002)
Model Fit			
Observations	800	800	800
R-squared	0.794	0.816	0.841
F-statistic	238.90***	274.13***	1309.03***
Year Fixed Effects	Yes	Yes	Yes

Constant	No	No	No

Robustness Checks

Table 8: Size of Pay Committee, ESG-linked pay and Firm Performance (ROA, ROE and Tobin's Q) *Random Effect (ML) Panel Model*

Variables	ROA (Model 1)	ROE (Model 2)	Tobin's Q (Model 3
Size of Pay-Committee	5.246*** (1.151)	6.276*** (1.22)	3.657*** (0.429)
ESG-linked pay	4.748*** (1.187)	4.709*** (1.275)	3.252*** (0.446)
Interaction term	−5.524*** (1.3995)	−5.979*** (1.490)	−3.391*** (0.522)
Leverage	0.000 (0.001)	0.005*** (0.002)	−0.000 (0.001)
Firm Size	0.1457** (0.059)	0.151** (0.064)	−0.044* (0.023)
Asset Tangibility	0.002 (0.002)	−0.001 (0.002)	−0.001 (0.001)
Firm Age	0.001 (0.009)	0.024** (0.010)	0.008** (0.003)
Observations	800	800	800
Firms	100	100	100
Avg. Obs./Firm	8	8	8
Wald χ^2	879.35	1233.42	1389.98
Prob > χ^2	0.000	0.000	0.000
σ_u	2.080	2.080	0.739
σ_e	2.841	3.387	1.109
P	0.349	0.274	0.308
Model	Random Effects (ML)	Random Effects (ML)	Random Effects (ML)
Constant	No	No	No

***Table 9*:** Independence of Pay-Committee members, ESG-linked pay and Firm Performance (ROA, ROE and Tobin's Q) *Random Effect (ML) Panel Model*

Variables	ROA (Model 4)	ROE (Model 5)	Tobin's Q (Model 6)
Independence of Pay-Committee members	6.474*** (1.220)	7.936*** (1.286)	4.347*** (0.440)
ESG-linked pay	5.947*** (1.295)	6.304*** (1.379)	4.134*** (0.472)
Interaction term	−6.649*** (1.472)	−7.550*** (1.557)	−4.189*** (0.533)
Leverage	0.000 (0.001)	0.005*** (0.002)	−0.000 (0.001)
Firm Size	0.088 (0.063)	0.073 (0.067)	−0.078*** (0.023)
Asset Tangibility	0.002 (0.002)	−0.002 (0.002)	−0.001 (0.001)
Firm Age	−0.009 (0.010)	0.012 (0.010)	0.001 (0.003)
Observations	800	800	800
Firms	100	100	100
Avg. Obs./Firm	8	8	8
Wald χ^2	933.57	1352.33	1596.06
Prob > χ^2	0.000	0.000	0.000
σ_u	2.015	1.966	0.681
σ_e	2.838	3.382	1.106
P	0.335	0.253	0.275
Model	Random Effects (ML)	Random Effects (ML)	Random Effects (ML)
Constant	No	No	No

Table 10: Clear Mandate and Authority, ESG-linked Pay, and Firm Performance (ROA, ROE and Tobin's Q): Random-Effect (ML)

Variables	ROA (Model 7)	ROE (Model 8)	Tobin's Q (Model 9)
Clear mandate and Authority of Pay committee	6.466*** (1.217)	7.901*** (1.276)	4.363*** (0.439)
ESG-linked Pay	5.978*** (1.353)	5.832*** (1.422)	4.153*** (0.489)
Interaction term	−6.678*** (1.522)	−7.056*** (1.590)	−4.215*** (0.546)
Leverage	0.000 (0.001)	0.005*** (0.002)	−0.000 (0.001)
Firm Size	0.089 (0.062)	0.076 (0.067)	−0.080*** (0.023)
Asset Tangibility	0.002 (0.002)	−0.002 (0.002)	−0.001 (0.001)
Firm Age	−0.010 (0.010)	0.012 (0.010)	0.001 (0.003)
Observations	800	800	800
Firms	100	100	100
Avg. Obs./Firm	8	8	8
Wald χ^2	931.62	1366.92	1591.32
Prob > χ^2	0.000	0.000	0.000
σ_u	2.017	1.952	0.682
σ_e	2.837	3.383	1.106
P	0.336	0.250	0.276
Model	Random Effects (ML)	Random Effects (ML)	Random Effects (ML)
Constant	No	No	No

Table 11: Number of Meetings held in a year, ESG-Linked Pay and Firm performance (ROA, ROE, and Tobin's Q): Random-Effect (ML)

Variables	ROA (Model 10)	ROE (Model 11)	Tobin's Q (Model 12)
Number of Meetings held in a year	5.257*** (1.147)	6.315*** (1.219)	3.725*** (0.429)
ESG-Linked pay	3.097 (2.003)	5.336** (2.165)	3.220*** (0.749)
Interaction	−3.828* (2.133)	−6.646*** (2.277)	−3.391*** (0.789)
Leverage	0.000 (0.001)	0.005** (0.002)	−0.000 (0.001)
Firm Size	0.145** (0.059)	0.149** (0.064)	−0.049* (0.022)
Asset Tangibility	0.002 (0.002)	−0.001 (0.002)	−0.001 (0.001)
Firm Age	0.001 (0.009)	0.024** (0.010)	0.008** (0.003)
Observations	800	800	800
Firms	100	100	100
Avg. Obs./Firm	8	8	8
Wald χ^2	882.14	1229.72	1367.74
Prob > χ^2	0.000	0.000	0.000
σ_u	2.077	2.084	0.747
σ_e	2.841	3.387	1.109
P	0.348	0.275	0.312
Model	Random Effects (ML)	Random Effects (ML)	Random Effects (ML)
Constant	No	No	No

Table 12: Expertise and Knowledge, ESG-linked pay and firm performance (ROA, ROE, and Tobin's Q): Random-Effect (ML) Panel Model

Variables	ROA (Model 13)	ROE (Model 14)	Tobin's Q (Model 15)

Expertise and Knowledge	4.255*** (1.002)	4.647*** (1.103)	2.870*** (0.3845)
ESG-Linked Pay	−0.298 (0.705)	−0.554 (0.773)	0.210 (0.269)
Interaction term	omitted (collinearity)	omitted (collinearity)	omitted (collinearity)
Leverage	0.000 (0.001)	0.005*** (0.002)	−0.000 (0.001)
Firm Size	0.179*** (0.056)	0.204*** (0.062)	−0.021 (0.022)
Asset Tangibility	0.002 (0.002)	−0.001 (0.002)	−0.001 (0.001)
Firm Age	0.003 (0.009)	0.028*** (0.010)	0.010*** (0.004)
Observations	800	800	800
Firms	100	100	100
Avg. Obs./Firm	8	8	8
σ_u	2.080	2.170	0.783
σ_e	2.847	3.392	1.117
P	0.348	0.290	0.329
Model	Random Effects (ML)	Random Effects (ML)	Random Effects (ML)
Constant	No	No	No

5. Discussion

This study reveals a consequential governance paradox in Sub-Saharan Africa: the intentional integration of sustainability (through ESG-linked pay) by a capable governing body (the Pay-Committee) might, in reality, jeopardize the same long-term firm performance it aims to secure. The Universalist notion that global "best practices" are directly transferable is called into question by our strong discovery of a continuous negative interaction impact, which necessitates a contextually nuanced view of sustainable governance.

5.1. Theoretical Interpretation: Clash of Logics in an Institutional Void

The results can be interpreted through the conflicting mandates of agency and stakeholder theory, exacerbated by SSA's distinct institutional landscape.

Agency Theory Perspective: Monitoring Subverted by Opacity. In contexts with weak institutional enforcement, ESG metrics are often non-verifiable and subjective classic "soft" information. An effective committee that ties executive pay to these metrics may inadvertently create a new avenue for managerial rent-extraction (Bebchuk & Tallarita, 2022). Executives can be rewarded for symbolic "ESG-washing" rather than substantive performance, diluting the precision and credibility of the incentive contract. The committee's effectiveness is thus diverted from monitoring clear, verifiable financial outcomes to policing ambiguous, easily manipulated goals, reducing its overall governance efficacy.

*Stakeholder Theory Perspective: The Costly Short-Term Trade-off***.** Implementing meaningful ESG initiatives requires significant managerial attention and firm resources. In the capital-scarce, high-growth-pressure environments typical of SSA, a committee mandating ESG-linked pay may force a *painful short-term resource allocation conflict*. Executives may divert effort and investment from immediately value-creating financial projects toward longer-term, stakeholder-oriented objectives. While this may build social legitimacy, our results indicate the immediate financial cost, captured by ROA, ROE, and Tobin's Q, is negative. The market's penalization of this combination (via Tobin's Q) further suggests investor skepticism about the immediate value-creation of such ESG mandates in this region.

5.2. The Central Role of SSA's Institutional Voids

The persistence of the negative interaction is not a statistical artifact but a direct reflection of SSA's *institutional voids* (Khanna & Palepu, 1997), which cripple the theoretical transmission mechanism of ESG-linked pay: *The Measurement & Verification Void:* The lack of standardized, audited, and comparable ESG data transforms performance evaluation into a subjective exercise. Committees lack the objective benchmarks to set ambitious yet credible targets.

The Contractual Enforcement Void: Weak legal and regulatory frameworks provide limited recourse against executives who meet poorly defined ESG targets, increasing the risk of "cheap talk" and greenwashing. *The Specialized Expertise Void***:** Pay-Committees, even those with financial acumen, often lack the specific, technical expertise in sustainability science and impact measurement needed to design robust, material, and balanced ESG-KPIs. These voids create a chasm between the *intent* of ESG-linked pay (strategic alignment) and its *credible execution* in the SSA context. A committee, however well-structured, cannot build a reliable incentive bridge without the foundational institutional materials.

5.3. Toward a "Contextual Alignment" Theory of Governance

Our findings necessitate moving beyond a direct application of Western-centric theories. They suggest that in emerging markets with significant institutional voids, agency and stakeholder logics can operate in *acute short-term tension* rather than harmony. This advocates for a **"***Contextual Alignment" theory*, where the efficacy of hybrid governance mechanisms is critically contingent on the maturity of the supporting institutional infrastructure. In SSA, where this infrastructure is nascent, the premature and rigid formalization of ESG in compensation can be counterproductive, representing a case of institutional misfit.

5.4. Practical Implications and Future Research

For *practitioners and boards in SSA*, this study is a cautionary tale. It argues for a phased, capability-building approach: first strengthening core committee oversight and internal ESG measurement/audit systems *before* integrating ESG metrics into pay, potentially starting with low-weighted or qualitative modifiers. For *regulators*, it highlights that promoting substantive sustainable governance requires foundational investments in local ESG reporting standards, assurance professions, and investor education.

Future research should employ qualitative methods to open the "black box" of committee deliberations on ESG pay in SSA, track the long-term trajectory of these relationships, and disaggregate the effects of Environmental, Social, and Governance metrics to provide more granular guidance. Comparative studies across other emerging regions could further refine the boundaries of the proposed "Contextual Alignment" theory

6. Conclusion

This study concludes by highlighting a crucial paradox in Sub-Saharan Africa's quest for sustainable government. We discover that while the adoption of ESG-linked executive remuneration and efficient compensation committees both independently correlate with improved company performance, their combined application has a substantial negative impact. This unexpected outcome highlights how, in SSA's particular institutional setting, the explicit incorporation of ESG metrics into remuneration contracts, as supervised by watchful committees, functions as a negative moderating factor.

The results are best understood in light of the region's severe institutional gaps, which turn a well-meaning governance mechanism into a source of incentive distortion, short-term trade-offs, and possible managerial rent-extraction, especially in ESG measurement, verification, and

specialized expertise. As a result, this study casts doubt on the direct transferability of international "best practices" and promotes a "contextual alignment" viewpoint, contending that the effectiveness of hybrid governance instruments is essentially dependent on the state of local institutional infrastructures.

It is a strong argument for prudence, contextual calibration, and a phased, capacity-building approach to creating executive compensation that actually balances sustainability and financial goals for SSA practitioners and politicians.

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