

ISSN Online: 2616-4965



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ISSN: 2616-4965

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How to cite this article: Nzunga, D. J., Koori, J. & Kimutai, C. (2022). Executive Reward Structure and Financial Performance of Listed Companies in the Nairobi Securities Exchange, Kenya. *Journal of Finance and Accounting*, 6(3), 21-39. <https://doi.org/10.53819/81018102t4057>

Abstract

Studies have reported positive and significant relationship, that is, positive relationship between executive fixed pay, cash bonus, stock options and company's financial performance; others negative and significant relationship, while others no significant relationship. In view of this, the study sought to establish the relationship between executive reward structure and financial performance of listed companies at the Nairobi Securities Exchange, Kenya. The investigation's precise goals were to establish the impact of executive base pay, bonuses, and non-cash incentives, as well as executive stock options, on the financial performance of firms listed on the Nairobi Securities Exchange in Kenya. The research also determined if the rate of inflation had a moderating influence on the association between CEO compensation and financial performance of Nairobi securities exchange-listed businesses. Stakeholder theory, agency theory, marginal productivity theory, and managerial power and governance theory were all used in this research. In this study, the positivist philosophy was applied, as well as a causal research design. The target population was all 65 listed businesses on the Nairobi Securities Exchange in Kenya, and a census was conducted. The research employed panel secondary data from annual financial statements of NSE-listed businesses. The study finding indicated that all the study variables except for inflation had a positive correlation with financial performance of listed firms. However it is basic pay, bonuses and non cash benefits that had a positive and significant effect on the financial performance of listed firms. The effect of executive share options was positive but insignificant at 5% level of significance. Equally the effect of inflation was negative but insignificant. However, inflation has a significant effect as a moderator in the relationship between executive rewards and

<https://doi.org/10.53819/81018102t4057>

financial performance of listed firms at the Nairobi Securities Exchange. Its is on the basis on of this findings that the study recommends that listed firms need to tailor their executive compensation and reward schemes to performance to encourage the top executives to continuous work hard and achieve their performance targets.

Keywords: *Executive reward structure, executive basic salary, executive bonuses, executive non-cash benefits, executive stock options, inflation rate, financial performance.*

1.0 Background to the Study

Listed corporations play an important part in an economy's revenue flow. People who want to accumulate wealth or earn a steady source of income invest in publicly traded corporations in exchange for dividends, capital gains, and interest. Listed corporations are the primary employers and drivers of economic development in a given country. Companies on the stock exchange offer employment that allow individuals to earn money, as well as products and services. An economy without listed businesses would be inefficient and/or primitive (Andries, 2009). Listed corporations are the engines that propel a country's economy forward . They provide income to the working population, buy resources, sell products, bring innovation, generate foreign capital, fulfill daily necessities, etc. Listed companies can be national or multinational (Importance of Business, 2012).

Globally great recession which took place in the U.S. between 2007 - 2009 global financial crisis weakened financial performance of most economies. Investors took advantage of low interest rates in emerging economies e.g., Turkey, Brazil etc. by investing heavily in their markets speculating higher returns in the future. Principally US economy as at January 2018 had recovered and bailout funds advanced in 2014 recovered by the Government (NBER 2019). Seck (2017) during financial crisis 2008 to 2015 stock markets in Africa continent financial performance weakened in terms average returns. Recovery to their pre-crisis index (2000 - 2007) has not yet taken place fully due to slow recovery process.

Since the dawn of the modern business, the issue of CEO compensation (base pay, cash bonuses, non-cash perks, and stock options) has been a source of contention. The public's mistrust of CEO compensation and how it impacts a company's financial success has a long history in study and practice. These advances, together with public views of unduly lavish pay (Steiner and Steiner, 2011), lay the groundwork for regulatory regulations requiring thorough disclosure of a corporation's executive compensation structure (Constanttinides, Harris and Stulz, 2013). Short-term CEO incentive pay on a global scale (a base wage plus a monetary bonus) to earnings changes is generally more symmetric for High-tech firms than for Non High-tech firms, which is consistent with the view that High-tech firms engage in more conservative financial reporting than Non High-tech firms, while executive long-term compensation (equity-based) to market-adjusted returns is significantly negative for High-tech firms compared to Non High-tech firms (Kwon, 2012).

A corporate governance tool for monitoring, punishing, and motivating executives of publicly traded businesses is the executive incentive structure. The goal of reward structures is to give senior executives with incentives to succeed while also aligning their interests with the interests of shareholders (Ataay, 2018). Because executives who are improperly rewarded may not behave in the best interests of shareholders, attractive remuneration is seen as an incentive for CEOs to drive a company's profitability (Erick, Kefah and Nyaoga 2014). Executive incentives which include monetary non-monetary and psychological components,

<https://doi.org/10.53819/81018102t4057>

are intended to keep employees committed and encourage work performance (Erick, Kefah & Nyaoga, 2014). Direct pay includes starting salary, hours, incentives, pay increases, leave reimbursements, bonus motivations, deferred compensation, and employee compensation; indirect pay includes healthcare insurance and insurance, social security benefits, gym memberships, automobiles, and discounted meals, among other things (Kurawa & Saidu, 2014).

The basic pay is a set financial amount that is paid every year. The fixed pay, which is included in the compensation package, provides financial certainty to CEOs and is competitive (Yamina & Mohamed, 2017). It is legally agreed upon, however it may be changed once a year. As mandated by the board's internal rules, the board of directors is in charge for determining CEO remuneration and evaluating it yearly (Yang, Dolar & Mo, 2014). Kazan (2016) utilized the yearly CEO dollar package set by the board of directors to calculate basic compensation, while Mutuma (2016) used the annual Kenya shilling basic salary. The yearly CEO administrative cost in listed firms' public financial statements was used to calculate the basic remuneration in this research.

The bonus is predicated on short - term financial measures as a short-term incentive. The CEO bonus plan is based on the board of directors' appraisal of the CEO's performance based on a set key performance data, which may also take into consideration risk-incentive trade-offs, and is intended to drive CEOs without rewarding poor performance or deterring risk taking (Elly, 2012). Bonuses are often provided to top managers who fulfill a certain goal. Accounting data is often used to set this benchmark, which has both a minimum and maximum criterion. Accounting measurements like as profits per share (EPS), return on equity (ROE), and return on assets (ROA), among others, may be used to calculate short-term incentives, as can non-accounting measures such as customer happiness and attainment of strategic goals (Vaneylen, 2017).

The long-term stock-based incentive is dependent on the company's share price at a future date. Executive share option plans (ESOPS) are stock-based plans in which a management is granted the right to acquire a certain number of shares at a set price for a set length of time (Elly, 2012). Non-qualified preferred shares, inducement restricted stock, and member financial rights are the three basic forms of executive share options. Non-voluntary preferred shares, incentive stock options, and equity compensation programs are the most common option structures used by businesses (Yang *et al.*, 2014). Lutta (2016) evaluated stock-based compensation programs using a stock option program that served as a motivator for CEOs to perform well. Executive Share Option Plans (ESOPs) were assessed in this research using a variety of schemes used by publicly traded firms.

CEOs are rewarded with non-cash rewards that are personal in character. For example, as part of a CEO's contract, they may be given a free property, a company aircraft, a car for personal use, security, and a country club membership fee, among other things. Executive management, especially CEOs, often have a variety of non-cash rewards. These privileges, sometimes termed as perks which are not monetary in nature, but very useful. Non-cash benefits were measured by Mutuma (2016) as medical insurance plans, pension funds, and vacations, whilst non-cash benefits were measured by Yamina and Mohamed (2017) as part of total CEO remuneration. In this research, non-cash rewards were quantified in disclosed financial statements by executive non-cash benefits.

A company's financial performance refers to its capacity to use its assets to produce economic rewards for its shareholders. Regularly two methods are used to measure financial performance in researches: accounting based performance and market based performance. Accounting based performance measures include: Earnings before interest, tax, depreciation and amortisation (EBITDA), return on equity (ROE), return on assets (ROA), economic value added (EVA), return on investments (ROI), etc (Etengu, 2016). Share price information, such as the Price to Earnings Ratio, is emphasized in market-based performance (Hass, 2014).

Inflation is the decrease in purchasing power in a month, a year of a country's currency. We have three inflation types i.e., Built in inflation, Demand pull inflation, and Cost push inflation. Built in inflation takes place when people assume current inflation rates to endure in the future. Demand pull inflation arises when money and credit increased supply kindles demand of goods and services in an economy higher than production capacity of the economy. Cost push inflation takes place when production input prices of goods and services increases hence increase in goods and services prices.

1.1 Statement of the Problem

The financial success of publicly traded corporations is a top focus when making economic decisions about CEO remuneration. Good performance indicates the management's efficacy and efficiency in resource management. Over the previous six years (2014–2019), listed firms on the NSE have reported diminishing financial performance. From 2014 to 2019, average ROA was on a decreasing trend (0.117, 0.086, 0.057, 0.007, 0.005 and 0.003), while average Price to Earnings ratio was at its lowest in 2014, followed by a significant increase in 2015, and then diminishing variations all the way to 2019. (-561.6971, 25.9580, 29.0196, 15.996, -0.64 and -0.59625). Over the previous six years, poor financial performance has resulted in the suspension of certain firms (ARM Cement PLC, Deacons East Africa PLC, Mumias Sugar Company PLC) and the delisting of one (Atlas) (NSE 2020). Poor financial performance has resulted in a decrease in the value of the firm on the Nairobi Securities Exchange in Kenya, and as a result, a decrease in investor wealth. East Africa Packaging, Kenya Airways, Mumias Sugar PLC, Eveready Company, and Uchumi Supermarket are among the enterprises that have been delisted. Mumias Sugar PLC's financial difficulties resulted in the company's senior executives and directors being taken into court (Kakah, 2015).

Mohamed & Yamin (2017) Ismail, Yabai, and Hahn (France, Ismail, Yabai, and Hahn) (2014) Kutum, Malaysia (2015) Kazan and Canada (2016) Scandinavian research on CEO compensation and the financial success of publicly traded corporations in developed and developing nations. In emerging countries, there are limited research on CEO pay structures. Furthermore, there are mixed outcomes when it comes to the association between executive pay and financial success. Some research found a substantial positive association (Yamina & Mohamed, 2017), others found a significant negative relationship (Kyalo, 2015), while yet others found no significant relationship (Kazan, 2016). The discrepancies in the conclusions of the link may be due to different country/economic circumstances, study population, industry/sector, coverage (in terms of the time covered), and the executive salary and financial performance metrics utilized.

Direct comparisons are difficult to make since studies in Kenya focused on various industries, spanned different years, and utilized different metrics. These studies include: - Erick, Kefah and Nyaoga (2014) insurance firms in Kenya, Kyalo (2015) nationalized industries in the energy market, Kenya, Basaule (2014) banks and financial Institutions and Mutuma (2016) listed companies in Kenya over a period of 5 years (2010 -2014). (2010-2014). The sole independent variable in Mutuma's (2016) study was executive remuneration (director's fees), the financial performance measure was ROE, and descriptive survey research technique was used.

The present study filled up research gaps by broadening the scope in terms of firms included in the sample size, years covered in executive compensation structure assessment and financial performance of publicly traded companies. Instead than being limited to a single industry, the research included all businesses listed on the Nairobi Securities Exchange in Kenya. The research also included a longer data gathering period, in this instance six years (2014 - 2019). Furthermore, the executive compensation system will include base pay, bonuses, non-cash perks, and Executive Share Option Plans in terms of variable measures (ESOPs). The accounting metric of return on assets was used to assess financial success. The study used a causal research design to explain the cause and effect of CEO compensation structure and financial performance of firms listed on the Nairobi Securities Exchange in Kenya.

1.2 Research Objectives

- i. To determine the relationship between Executive basicsalary and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- ii. To determine the relationship between Executive bonuses and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- iii. To find out the relationship between Executive non-cash benefits and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- iv. To establish the relationship between Executive stock options and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- v. To determine moderating effect of inflation rate on the relationship between Executive Reward structure and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.

1.3 Research Hypotheses

- H₀₁:** Basic salary does not have a significant relationship financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- H₀₂:** Executive bonus does not have a significant relationship on financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- H₀₃:** Executive non-cash benefits do not have significant relationship on financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.
- H₀₄:** Executive stock options plans do not have significant relationship on financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.

H₀₅: Inflation rate does not have a significant moderating effect on the relationship between Executive reward and financial performance of listed Companies in the Nairobi Securities Exchange, Kenya.

2.1 Theoretical Framework

2.1.1 Theory of Stakeholder

Stakeholders theory, according to Freeman (1984), are a collection of people who have a legitimate claim to the firm. Employees, investors, suppliers, the government, managers, regulators, and others are all stakeholders in a corporation. Each group contributes critical resources to the organization, and in exchange, each wants its interests to be met (Kazan, 2016). Externally and internally stakeholders are the two types of stakeholders. Employees/managers are internal stakeholders and suppliers/customers are examples of external stakeholders (Puyvelde, Caers & BoisandJegers, 2012). Every stakeholder of a company adds value for the company. Since managers are factored in as stakeholders of a company, the executives are also included in this consideration. Therefore, according to this theory, the executives are affected by the financial performance of the company. Thus, changing the executive reward structure or setting attractive incentives will lead to desirable financial performance(Thomsen &Conyon, 2012).

2.1.2 Theory of Agency

Agency theory developed by Jensen and Meckling (1976) explains agency relationship arises when one or more parties (principal) contracts/hires another (agent) to undertake on his behalf some services and then delegates decision making authority to agent. Shareholders are the principals of a traditional corporate entity, whereas executives are the agents. The basic premise of agency theory is that founders may be geographically distributed, have too many to govern a single firm, and lack technical skills and competence to run it, so they hire agents to act on their behalf. Problems arise when the principal is unable to fully supervise every conceivable action of an agent whose actions have an impact on both his own and the principal's well-being (Elly, 2012).

Corporate heads' actions will also be in conflict with equity holders' interests if they pursue their own personal interests, resulting in undesirable financial performance of the company, notwithstanding being rewarded with basic salaries, expansive non-cash incentives, bonuses, and participation in executive Share Option Plans (Kazan, 2016). The study's aims are reinforced by agency theory, which explains the link between CEO pay and financial performance of Listed Companies on the Nairobi Securities Exchange in Kenya, as well as how disputes might be addressed. Shareholders should devise strategies to reduce conflicts and guarantee that CEOs are acting in their best interests.

2.1.3 Theory of Managerial Power and Governance

A study by Bebchuk (2002) indicated managerial power theory is fully furnished for predicting essential executive compensation variables but less so for predicting the sensitivity of pay for performance. Compensation package is much higher if CEOs have control over the pay setting process. On the contrary, when the board of directors has greater influence, the overall salary of the CEO is reduced. On top of that, influential directors have the ability to establish strong links between CEO compensation and company financial performance and can achieve this even in the presence of powerful CEOs.

Governance theory is held that executives should pursue strategies that will increase long-term shareholder value and should receive closely equivalent rewards. Executives may feel free to pursue interests that do not coincide with those of the company's owners, knowing that the owners have a limited ability to influence the executive's rewards. Consequently, the executive reward structure may not be effectively linked to performance, which maximizes shareholder value. Advocates of governance theory asserts that a hired executive will act in the best interests of the owners if he has a personal ownership stake. Many modern-day executive rewarding structures are structured to reflect this theory by paying considerable amounts of compensation in the form of stock options.

2.1.4 Theory of Marginal Productivity

According to Mejjia (1994) this theory is concerned with predicting the pay levels of executives. Many of its propositions about executive rewarding are made with a context of analysing the company's ability to make profits and maximize productive output. The size of the executive reward is proportional to the executive's marginal revenue product. It is presumed that the executives are hired by a company and are rewarded proportionate with their economic value addition. The amount of reward equals the executive's marginal revenue net product (Busaule, 2014). Practical inference of marginal productivity theory is both the company's profitability and the executive's relative economic contribution are pay-level bases. Executives who have demonstrated track records of adding shareholder value through their management skills are expected to demand and receive outsized compensation levels compared to others doing the same job because of their potential to influence a company's future profitability and value.

2.2 Empirical Review

2.2.1 CEO Basic Salary and Company Financial Performance

Yamina and Mohamed (2017) studied the impact of company performance on executive compensation in France. The purpose of the study was to model the executive compensation in France. The study finding established that there was positive significant relationship between executive pay (fixed compensation) and financial performance. They studied a sample of 90 French companies included in the SBF 120 index over a period of one year. The research was conducted in a developed nation, France. The base pay, bonus, and share options were used to evaluate the executive compensation structure. A one-year time frame is insufficient to provide substantial proof of the results. The present study filled up the gaps by extending the study period and using a new measure of executive compensation structure, non-cash perks.

Kyalo (2015) sought to establish the relationship between executive compensation and financial performance of commercial state-owned enterprises in the energy sector in Kenya. A census of all the 8 commercial state corporations under the Ministry of Energy was carried out. The research focused on the factors that drive CEO remuneration and to what extent they improve financial performance and, as a result, corporate value. The study was conducted using a cross-sectional research approach. It discovered a modest negative relationship between financial performance and CEO pay. The research looked at commercial state-owned firms in Kenya's Ministry of Energy, which has no direct comparisons to other economic sectors. In the present research, all economic sectors were considered.

<https://doi.org/10.53819/81018102t4057>

In Scandinavia, Kazan (2016) investigated the influence of CEO salary on firm performance. The research looked at firms in the northern portion of Europe, such as those in Norway, Sweden, Denmark, and Finland, that had a space on Forbes in 2016, to see how CEO salary affected company success. A total of 45 firms were examined. The study's hypothesis was that overall CEO salary and firm performance had a non-significant negative connection. The research was conducted out in another country for a group of northern European nations (Scandinavian countries) (Denmark, Finland, Norway and Sweden). The present research was carried out in Kenya for firms registered on the Nairobi Securities Exchange.

2.2.2 Non-Cash Benefits and Company Financial Performance

Erick, Kefah and Nyaoga (2014) investigated the relationship between Executive Compensation and Financial Performance of Insurance Companies in Kenya. According to their results, there is no statistically significant link between CEO salary and profitability. The research concentrated on non-cash benefits in the insurance business, and it had no proper comparison to other economic sectors. The latest study filled the gap by looking at all of the nation's economic sectors. Kutum (2015) wanted to see whether there was a link between CEO pay and the size and performance of banks. The study's purpose was to determine if there is a link between CEO salary and bank size and financial success. The research found that non-monetary incentives such as health insurance and other associated perks were incorporated in CEO compensation structures, but that they had no impact on the financial success of publicly traded businesses. The current research filled up the gaps by demonstrating the relationship between non-cash rewards and financial success of NSE-listed businesses.

Mutuma (2016) looked at the link between executive pay and financial performance of Kenyan companies listed on the Nairobi Securities Exchange. The study found a non-significant relationship between director salary and listed company financial performance, a positive link between executive fees and financial success, and a non-significant but negative link between market capitalization and performance. Although the report acknowledged that non-cash incentives are an element of CEO remuneration, it did not specify how they influenced listed financial success. Non-cash perks impact listed businesses' financial performance on the NSE, according to current data.

2.2.3 Executive Bonus and Company Financial Performance

Lutta (2016) investigated CEO cash compensation and company performance: An empirical study from emerging markets established that CEO's bonus had a positive effect on company performance. Financial management criteria were used to analyze firms listed on six developing country financial markets. The purpose of this research was to see whether executive bonuses had an influence on the financial performance of firms listed on Kenya's Nairobi Securities Exchange. In France, Yamina and Mohamed (2017) investigated the influence of corporate performance on CEO remuneration. According to the findings of the research, there was a substantial positive association between bonus and accounting performance. Over the course of a year, the research focused only on a sample of 90 French firms included in the SBF 120 index. A one-year term is insufficient to provide sufficient proof of the results. The new study overcame the gap by extending the study period and included all businesses listed on Kenya's Nairobi Securities Exchange, a developing nation.

Mutuma (2016) investigated the relationship between Executive Compensation and Financial Performance of Companies Listed in Nairobi Securities Exchange in Kenya.

<https://doi.org/10.53819/81018102t4057>

The study found a non-significant relationship among both director salary and listed company profitability, a positive link of executive fees and financial success, and a non-significant but negative link between market capitalization and performance. Accounting-based measurements (ROE) and descriptive research technique were used to assess financial performance in the study. The present study bridged the gap between accounting-based financial performance measurement (ROA) and research design being causal.

2.2.4 Executive Shares Option Plan (ESOPs) and Company Financial Performance

Yamina and Mohamed (2017) investigated the impact of company performance on executive compensation in France. The purpose of the study was to model the executive compensation in France. The study finding established that the relationship between stock options and financial performance was not significant. The study focused only on a sample of 90 French companies included in the SBF 120 index over a period of one year. Second, the research was conducted in France, a developed nation. A one-year time frame is insufficient to provide substantial proof of the results. The new study closed the gap by extending the study time in a growing nation like Kenya, as well as factoring in all of the economy's listed businesses on the Nairobi Securities Exchange.

Lutta (2016) studied CEO cash compensation and company performance: An empirical study from emerging markets established that CEO cash compensation is positively related to company size. The bigger the company, the higher the compensation which is not linked to any corporate financial performance. The study examined companies listed on six emerging countries financial markets. The research looked at stock-based plans in developing nations by stock option program. Executive end up sharing schemes, which are common in Kenyan listed businesses, were utilised in this research.

In Scandinavia, Kazan (2016) investigated the influence of CEO salary on firm performance. The research looked at firms in the northern portion of Europe, such as those in Norway, Sweden, Denmark, and Finland, that had a space on Forbes in 2016, to see how CEO salary affected company success. The research was conducted outside of Africa in wealthy nations. The current research was conducted in Kenya, a developing nation in Africa. The research will employ executive share-based programs launched by listed businesses in Kenya as examples of executive share option plans (ESOPs).

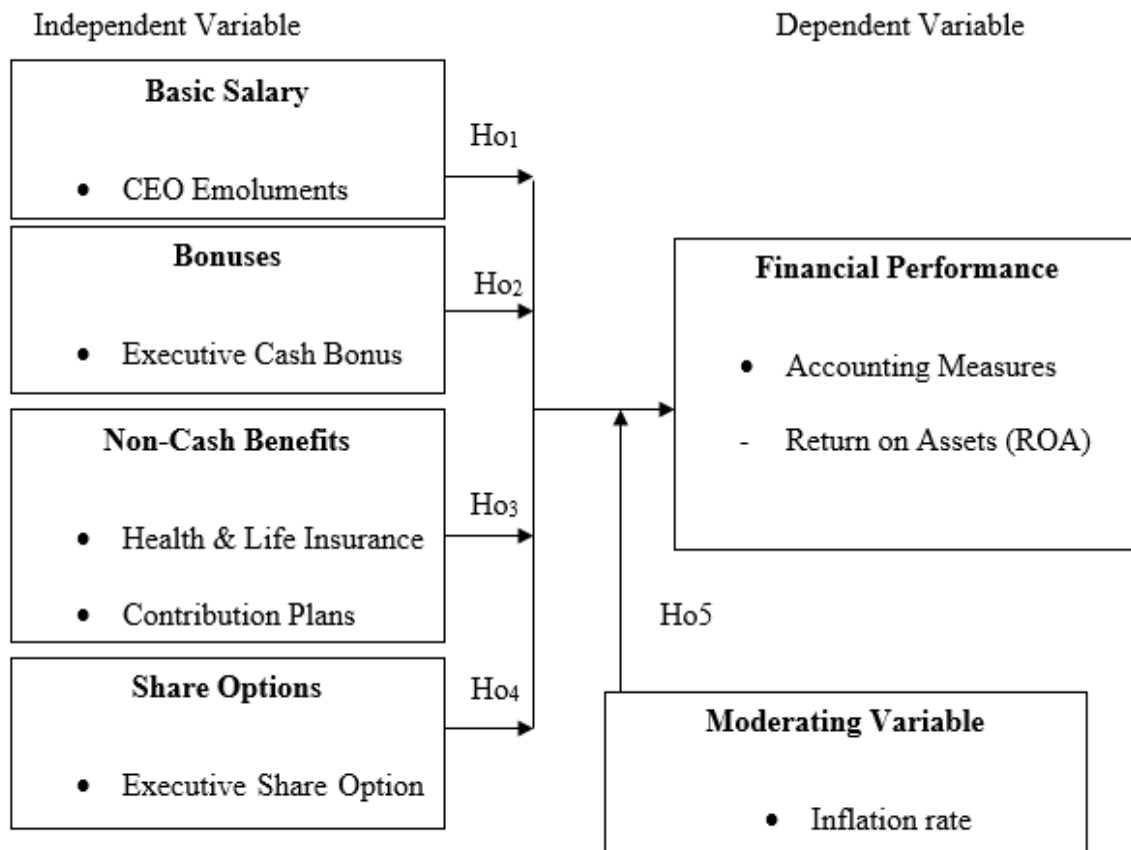
2.2.5 Rate of inflation and Company Financial Performance

Kyalo (2015) looked on the link between CEO salary and financial performance in Kenya's commercial state-owned energy firms. The research focused on the factors that drive CEO remuneration and to what extent they improve corporate financial performance and, as a result, company value. Inflation was one of the factors on CEO compensation consideration. Research findings didn't establish financial performance and inflation relationship. Inflation in this study established financial performance and inflation relationship, in addition inflation will moderate independent and dependent variables of this study.

Busaule (2014) sought to determine the relationship between financial performance and executive compensation of Kenya commercial banks. The study considered a relationship between the financial performance as measured by return on equity and director remuneration. The study stated inflation had impact on basic salary, cash bonuses. The study focused on Kenya banking sector and financial performance measured by accounting

measure (ROE); current research study found out inflation influenced listed companies financial performance and CEO compensation. In addition, financial performance and CEO compensation will be moderated by inflation.

2.3 Conceptual Framework



Source: Researcher 2021

Figure 1: Conceptual Framework

3.0 Research Methodology

The study adopted causal research design which examines the relationship between two ideas where there is some kind of influence of one on the other; and a causal relationship, where one causes changes to occur in the other. The design describes cause and effect relationship. Cause being the independent variable and the affected variable being dependent variable. The study used positivist research philosophy, which claims that the social world can be understood in an objective way. In this research philosophy, the scientist is an objective analyst and, based on it, dissociates himself from personal values and works independently. Interpretivist research philosophy is an opposite of Positivist research philosophy in that the researcher and his informants are interdependent and mutually interactive with each other. Pragmatist research philosophy deals with the facts.

The panel regression model was used to test the investigation hypotheses in this study. The executive compensation system was specified by an independent variable and consisted of a base pay, bonuses, non-cash perks, and an executive share option plan. The ROA was used to assess the financial sustainability of publicly traded companies. The following is the regression model for the effect of executive pay cash payments:

Model of Direct Effect

$$ROA_t = \beta_0 + \beta_{1it}BS + \beta_{2it}CB + \beta_{3it}NCB + \beta_{4it}SO + \varepsilon$$

Where:

ROA = Return on Assets

BS = Basic salary

CB = Cash Bonuses

NCB = Non-cash Benefits

SO = Share Options

ε = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Beta Co-efficient

β_0 = Constant Term

i is the number of listed companies (65 listed companies)

t is time. i.e., year 2014, 2015, 2016, 2017, 2018 and 2019

This study used 95% confidence level to test the significance of the model variable at P-values =0.05. If the P-value will be less than 0.05, the coefficient will be statistically significant. If the P-value will be less than 0.05, the researcher will reject the null hypothesis.

This study targeted all listed firms on Kenya's Nairobi Securities Exchange. During the research period, however, certain financial organizations were listed while others were suspended. The sample size for the study was made up of 38 businesses from the 65 registered in NSE, Kenya as of December 2019. Secondary data was acquired from accounting information (declaration of profitability and financial statement) of publicly traded corporations during a six-year period for this research (2014 to 2019). Measures of dispersion (range variance and standard deviation), as well as measures of central tendency, were used to assess quantitative data (median and mean). Inferential statistics such as correlation, regression, and analysis of variance were used to draw inferences about the relationships between dependent and independent variables and test hypotheses. For data analysis and display of study results, Stata and E-view 8 statistical packages were utilized.

4.0 Findings and Discussion

4.1 Descriptive Statistics

The type of the data collected and the techniques used to analyze it have a big impact on the findings of the research data description statistics are shown in Table 1.

Table 1: Descriptive Statistics Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Basic	190	458,613.3	.9260298	358,458	828,831.7
Bonus	190	131,346	2.140058	0	812,920.7
Noncash	190	176,967.5	2.030889	0	747,163.1
ShareOption	190	2.69902	3.255296	0	8.992352
Inflation	190	5.976	1.187148	4.69	7.99
ROA	190	.1384973	.9460812	-.39	9.65899

Source: Study Data (2021)

The average annual basic pay for the study period was Kes 458,613, with 0.926 standard deviation. As per Table 1 the gap between the highest and lowest basic pay in the time under consideration demonstrates a considerable fluctuation in the CEO basic pay, as indicated by the standard deviation. The annual bonuses had a mean of Kes. 131,346 with a maximum bonus of Kes. 812,920.7 and minimum of 0. This was attributed to the fact that some companies did not issue any bonuses during the five-year period. The average non cash benefits during the study period was Kes. 176,967.5 with a maximum value of Kes. 747,163.1 and minimum of zero which could also be attributed to the fact that some of the companies did not provide non cash benefits during the period under study. Share option had a minimum of zero and a high of 8.992352 throughout the period, with a standard deviation of 3.255296. The large standard deviation indicates that stock options on the Nairobi Securities Exchange are very volatile.

The annual inflation during the period had a mean 5.976 with a standard deviation of 1.187148. The maximum annual inflation during the period was 7.99 and minimum inflation during the period was 4.69. The large difference between the greatest and lowest annual inflation indicates that the inflation rate fluctuated more over the research period. With a standard deviation of 0.9460812, the Return on Assets (ROA) had a mean of 0.1384973. The large standard deviation, which is even higher than the mean, indicates that the ROA is quite volatile, as indicated by the greatest value of 9.65899 and the smallest value of (-0.39) over the research period.

4.2 Inferential Analysis

Correlation Analysis

The link between the study's independent and dependent variables was tested using the Karl Pearson correlation matrix. The results of the correlation study are shown in Table 2.

Table 2: Correlation Analysis Results

	ROA	Basic	Bonus	Non cash	Share option	Inflation
ROA	1.0000					
Basic	0.4757	1.0000				
Bonus	0.3533	0.0371	1.0000			
Noncash	0.2951	0.2084	0.0075	1.0000		
ShareOption	0.3288	0.1225	0.0152	0.2871	1.0000	
Inflation	-0.3483	-0.0122	-0.0016	-0.0413	-0.1169	1.0000

Source: Study Data (2021)

From the findings illustrated in Table 2, Basic Pay, Bonuses, Non-Cash Benefits and share options have a positive correlation with company financial performance as measured using the ROA. Equally, basic pay has the highest positive correlation with company performance as measured using ROA. The high correlation between Basic Pay and ROA is consistent with empirical work of Yamine and Mohammed (2017) and Ismail, Yabai and Hahn (2014) who determined a positive correlation between basic pay and company financial performance. Further, the finding contradicts with the empirical studies by Kyalo (2015) and Kazan (2016) whose findings were executive basic salary has a negative relationship with financial performance. Inflation has a negative correlation with company performance as measured using the ROA. This indicates that increased inflation has a negative relation with company financial performance at the Nairobi Securities Exchange.

Regression Analysis

This section summarises results of the research in relation to the goals. Multiple Regression was used to examine the statistical significance of the predicted associations as presented in Table 3.

Table 3: Multiple regression results

	Coef.	Std. Err.	T	P t
Executive Basic Salary	1.9121132	0.850650	2.248	0.027
Executive Bonus	0.3769281	0.357401	1.055	0.000
Executive Non-cash Benefits	0.0924717	0.038784	2.384	0.005
Executive Share Option	0.0761201	0.021689	3.510	0.059
Constant	0.2111930	0.363004	0.582	0.045

Number of obs = 190
 F (4, 185) = 92.31
 Prob > F = 0.02892
 R-squared = 0.7645
 Adj R-squared = 0.7441

Source: Research Data, 2021

According to Table 3, the adjusted R squared is 0.7441. This means that executive remuneration (basic salary, bonus, non-cash perks, and stock options) accounted for 74.41 percent of the variance in financial performance. This suggests that a mix of factors may fully explain financial performance variance. The F statistic was 92.31, and the p value was 0.02892, which is less than 0.05. This suggests that CEO remuneration has a large impact on financial success and is a big contributor to changes in financial performance.

4.3 Hypotheses Testing

Test of Hypothesis One

A null hypothesis (H_{01}) that basic compensation has no significant influence on financial performance was tested to determine the link between executive basic salary and financial performance. The p-value of executive basic wage was 0.027, according to Table 3. This is less than the 0.05 threshold of significance. This reveals a statistically significant link between basic compensation and financial success for executives. As a result, the null hypothesis was rejected, and it was determined that basic pay affects financial performance. These findings also show that a one-unit increase in basic wage increases financial performance by 1.9121132. The results are in line with Yamine and Mohammed (2017) and Ismail, Yabai, and Hahn (2017) empirical studies (2014). Furthermore, the result contradicts the conclusions of empirical investigations by Kyalo (2015) and Kazan (2016), which found that executive basic pay has a negative negligible association with financial success.

Test of Hypothesis Two

A null hypothesis (H_{02}) that executive bonus has no meaningful influence on financial performance was tested to determine the link between executive bonus and financial success. The p-value of the executive bonus was 0.000, according to Table 3. This is less than the 0.05 threshold of significance. This suggests that the executive bonus and financial performance have a statistically significant link. As a result, the null hypothesis was rejected, and it was determined that executive bonuses had a financial impact. These findings also show that a 0.3769281 rise in executive bonus is accountable for an improvement in financial performance. The results are in line with Yamine and Mohammed (2017) and Lutta's empirical studies (2016).

Test of Hypothesis Three

A null hypothesis (H_{03}) that executive non cash benefits have no meaningful influence on financial performance was tested to determine the association between executive non cash perks and financial performance. The p-value of executive bonus was 0.005, according to Table 3. This is less than the 0.05 threshold of significance. This suggests that there is a statistically significant link between non-cash executive perks and financial success. As a result, the null hypothesis was rejected, and it was determined that non-cash benefits had a considerable impact on the financial performance of NSE-listed companies. These findings also show that a 0.0924717 rise in non-cash benefit is accountable for a 0.0924717 improvement in financial performance. Erick, Kefah, and Nyaoga (2014), as well as Mutuma (2014), have found similar results (2016).

Test of Hypothesis four

A null hypothesis (H_{04}) that executive share option benefits have no meaningful influence on financial performance was tested to determine the association between executive share options and financial performance. The p-value of executive bonus was 0.059, according to Table 3. This is higher than the 0.05 significance threshold. This suggests that the association between executive stock options and financial success is statistically negligible. As a result, the analysis fails to reject the null hypothesis, leading to the conclusion that CEO share option have no meaningful impact on listed corporates financial performance. These findings too show that a 0.0761201 rise in non-cash benefit is accountable for a 0.0761201 improvement in financial performance. The results are in line with Kazan's (2016) and Lutta's (2016) empirical studies (2016).

Test of hypothesis five

To investigate this hypothesis, the researcher used Whisman and McClelland's two-step technique (2005). The first step was to make inflation one of the independent variables. Table 4 shows the results of the regression.

Table 4: Inflation Rate as an independent variable

	Coeff.	Std. Err.	T	P t
Executive Basic Salary	0.124771	0.062910	1.983	0.048
Executive Bonus	0.145786	0.035740	4.079	0.008
Executive Non-cash Benefits	0.099341	0.041931	2.369	0.018
Executive Share Option	0.010879	0.047721	0.228	0.808
Inflation	0.043985	0.042411	1.037	0.301
Constant	3.193134	3.812346	0.838	0.435
R squared 0.08813				

Source: Research Data, 2021

Step one, as shown in Table 4, included using inflation rate as an independent variable. The R squared of 0.8813 suggests that the explanatory factors may explain 88.13 percent of the variations in the dependent variable. With a p value of 0.301, which is more than 0.05, the inflation coefficient was negligible. Where the moderator variable (in this case inflation) is insignificant, the null hypothesis that inflation is an explanatory variable is rejected, while the alternative hypothesis that inflation is a moderator variable is not rejected, according to MacKinnon, Lockwood, Hoffman, West and Sheets (2002).

Table 5: Inflation as a moderator of the relationship between executive compensation and financial performance

	Coef.	Std. Err.	t	P t
Executive Basic Salary	-1.670457	0.27388	-6.099	0.047
Executive Bonus	0.455697	0.19472	2.340	0.020
Executive Non-cash Benefits	-0.297448	0.13898	-2.140	0.013
Executive Share Option	0.347094	0.14806	2.344	0.719
Inflation	2.718029	0.95322	2.851	0.005
Executive Basic pay*Inflation	0.170988	3.05268	0.056	0.035
Executive Bonus*Inflation	-0.505647	2.16664	0.233	0.020
Executive non cash benefits *Inflation	0.020898	1.54789	0.014	0.029
Executive share Options *Inflation	-0.386146	1.64719	0.234	0.019
Constant	1.670457	6.25639	0.267	0.047
R squared 0.8416				

Source: Research Data, 2021

Model 3.06a is significant with a P-value of 0.0000 and a R squared of 84.16 percent, according to Table 5, while inflation has a P-value of 0.0631 and is therefore negligible at the 0.05 threshold of significance. Similarly, all of the interacting terms' coefficients are less than 0.05 and hence significant. When this scenario is compared to the choice criteria in Table 5, the research rejects the null hypothesis and discovers that inflation plays a role as a moderating variable in the association between executive salary and financial success.

5.0 Conclusions

The research indicated that executives remuneration had varying impacts on listed firms financial performance in the Nairobi Securities Exchange based on the results. To begin with, the research discovered that basic pay had an impact on financial performance. These findings also show that a one unit increase in basic compensation improved the financial performance of an NSE-listed company. This shows that there is a statistically significant link between executive basic compensation and financial success of NSE-listed companies. As a result, boosting executive basic pay encourages executives to make better choices that improve the financial performance of publicly traded companies.

Second, the study discovered a link between executive bonuses and the financial performance of NSE-listed companies. The findings show that executive bonuses and financial performance have a statistically significant relationship. This demonstrates that when executive managers are promised bonuses, their interests are aligned with the interests of the shareholders. They make decisions that improve the performance of the high-net-worth companies for which they work. Third, the research looked at the link between non-cash executive perks and financial success. These findings suggest that increasing non-cash benefits is linked to improved financial success. Non-cash perks also have a statistically significant link with financial

success, indicating that non-cash benefits incentivize top managers to make the best choices for their companies.

According to the findings, there is a link between Executive Share Option and the financial success of NSE-listed companies. The link between executive stock options and financial success, on the other hand, was statistically negligible. This runs counter to popular belief that when executives are granted stock options, they would make the best choices for the company since they will become owners and profit from share price gain. This may not be true, particularly in the case of the Nairobi Securities Exchange. Finally, the research discovered that inflation has a role in the link between executive salary and financial success as a moderating variable. This suggests that the amount of inflation has an impact on the relationship between CEO salary and financial performance of Nairobi Securities Exchange-listed companies.

6.0 Recommendations

Given the large belief that executive compensation motivates top executives to perform while aligning their interests with those of shareholders, the study's findings show that not all types of executive compensation have a positive and significant impact on listed company financial performance. Basic salary, bonuses, and non-cash incentives, for example, have a statistically significant link with financial performance of listed companies in Kenya, but the impact of share options is statistically negligible. The report provides the following policy suggestions to the Capital Markets Authority and other policymakers on this premise.

First, it's important for the listed firms to tailor their executive compensation and reward schemes to performance to encourage the top executives to continuously work hard and achieve their performance targets. Notably, achievement of targets by the top executives will enable listed firms to achieve the desired performance. Secondly, there is need to sensitize the shareholders and the company directors, especially in the Nairobi Securities exchange on the need to align their payment to accounting performance measures such as the ROA as these measures are directly linked to shareholder wealth maximization.

Third, the study recommends that there is need to provide medical benefits as well as sponsoring the executive management team in specialized training and development programs. This will improve the health wellbeing of top management as well as polish their skills and proficiency in policy implementation, investment decisions and efficiency resulting into reduced cost of operations and improved performance of the company as a whole.

Finally, unlike common believe, the study concluded that executive share options do not persuade the chief executive officers to improve the company performance as measured using the return on assets. Therefore, it is necessary for the Company's Board of Directors review their policies concerning the executive share option plans. There is need to reduce the excessive emphasis on executive share options as a reward in motivating top management to improve company performance.

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