CHIEF EXECUTIVE OFFICER'S PERFORMANCE AND COMPENSATION: A STUDY OF FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE

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2022

DECLARATION

I, the undersigned, hereby declare that this doctoral thesis is my original work and has not been submitted for a degree course in any other University.

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DEDICATION

I dedicate this thesis to my husband Michael, my children, Michaella and Angelo and to my parents Henry and Dorcas.

ACKNOWLEDGEMENT

"This Thesis would not have been birthed without the immense knowledge and moral support of my supervisor Prof. Peter K'Obonyo. Thanks Prof. for always reminding me to push on and sometimes even suggesting suitable words to use as I wrote this thesis. Much appreciation also goes to my supervisor Dr. Florence Muindi for her common question "where are you?" and suggesting readings to enrich this Thesis.

To the academic and administrative staff at the School of Business, I thank you for your administrative support and the academic staff for their suggestions that helped me improve the direction of this study. I also appreciate my fellow PhD candidates who helped with proofreading of this Thesis.

To Alivitsa and Pamela, thank you for your typing and editing prowess and never tiring of my visits to polish up this thesis. Robert, thanks for your input in analyzing data.

Much thanks go to my family and friends. To my husband, Michael, thank you for your prayers, encouraging words and being there for the children when I had to be away from home for long hours. To my parents and siblings, thank you for being patient with me and bearing with my absence from family functions and not according you ample time.''

LIST OF ABBREVIATIONS AND ACRONYMS

BSC	-	Balanced Scorecard
CEO	-	Chief Executive Officer
CMA	-	Capital Markets Authority
IAS	-	International Accounting Standard
LTIP	-	Long-term Incentive Programme
NSE	-	Nairobi Securities Exchange
SBSC	-	Sustainable Balanced Scorecard
TBL	-	Triple Bottom Line

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ABSTRACT

This study focused on the role of Chief Executive Officers' (CEOs') Performance, Power, Firm Size and CEO's Compensation at the firms listed with the Nairobi Securities Exchange (NSE). Previous research examined the factors influencing CEO compensation revealed a lack of consensus on the explanation of CEO's level of compensation. While most of the studies confirm association between CEO's Performance and Compensation, they measured Performance using financial indicators. The current study investigates association of CEO's Performance and their remuneration but differs from previous ones by expanding the measures of CEO's Performance to include the "balanced scorecard measures of financial indicators, consumer satisfaction, internal processes and learning and growth". Additionally, the study tested the moderating role of CEO's Power and Firm Size in the relationship between CEO's Performance and their remuneration. This study was supported by "Reinforcement Theory, Agency Theory and Expectancy Theory". A conceptual model and four conceptual hypotheses were drawn from literature and provided direction for this study. The study's population consisted of sixty firms listed at the NSE. Descriptive crossectional survey was adopted in the study. Primary data was obtained from members of the board of directors on factors that determine levels of CEO's Compensation using semi structured Likert questionnaire. Secondary data on financial performance was captured from the financial statements of the listed organizations for the period 2016-2018. Descriptive statistics, correlation analysis, linear, multiple and hierarchical regression techniques were applied in analyzing and interpreting the data that was collected. The first hypothesis for the study was that CEO's performance influences CEO's compensation. The research outcomes revealed a significant and positive relationship between CEO's Performance and their Compensation. The second hypothesis tested the moderating effect of power on the association between CEO's performance and their compensation. The study revealed that CEO's power had a significant but negative moderating influence on the association between CEO's Performance and their Compensation. The third hypothesis tested moderating effect of firm size on the association between CEO's performance and remuneration. The results revealed that Firm Size had a significant moderating influence on the association between CEO's Performance and their Compensation. Joint effect of CEO's Performance, Power and Firm Size on their remuneration was also significant. The findings of this study can be of benefit to boards of directors in identifying the performance measures that are important to consider when making decisions on CEO remuneration. It will also help them understand the influence of a powerful CEO with a good performance in the determination of their compensation. Based on this the board can formulate a policy on good governance to distinguish the powers of the CEO from those of the board. Future researchers could consider increasing the span of the study to embrace firms that are not listed at the NSE.

CHAPTER ONE: INTRODUCTION

1.1 Background

The current business environment presents complexities and uncertainties in operations. Businesses are permanently charging due to challenges paused by competitive environment they operate in, increasing costs of operations, complexities in managing employees and adjustments in laws governing the businesses. Organizations have to appreciate the significant place of human resources in effectively tackling the challenges by developing and implementing strategies that work towards enhancing human resource productivity and organizational commitment. Key among the strategies that firms have found useful is the development and implementation of reward strategies that meets both the demands of employees and optimize operational costs for the organizations even as they move towards achieving the set organizational goals (Armstrong, 2010). Of special interest to organizations are the executive employees who are seen to carry the vision, mission and goals of the organization. Special attention is given to the Chief Executive Officers who are charged with driving this agenda and as such the interest in their reward package. In making decisions of CEO's pay levels, firms have found it necessary to design and implement a reward package for the CEOs that would motivate them to enhance the performance of the organization by running the organization at optimal costs and delivering maximum returns to the shareholders. A number of scholars have presented their views on CEO's remuneration that can be summed in two schools of thought. One group of scholars view CEO's pay to be determined by their performance in the firms. They argue that CEO's compensation is linked to organizational

performance indicators like return on investment and market share, which they are rewarded for in furtherance of greater performance. While the other group sees CEO's pay as their ability to extract rent by having power in excess of the board. They argue for CEO's accessibility of rent and the power to bargain held by CEOs in excess of board members and shareholders influences CEO's level of compensation. Previous studies agree that the size of firms also contributes to the determination of CEO's reward levels, proposing that the larger a firm is, the higher the CEO's pay as opposed to smaller firms who offer lower rates of remuneration to their CEOs (Sonenshine et al, 2016).

In this study, organizational/firm performance is used as a proxy for CEO's Performance. According to Reed et al, (2000) organizational performance is described as the capacity of a firm to produce adequate results in line with its set goals. This consists the amount of outcomes generated as compared to the expected outputs, goals and standards. Upadhaya et al, (2014) argued that firms try to manage their performance through the utilization of the balanced scorecard approach. This approach measures performance using several dimensions of financial indicators, corporate social responsibility, customer satisfaction, and commitment of employees. From stakeholder's perspective, organizational performance can also be measured in terms of meeting the demands of various stakeholders like the organization's customers, the staff, the suppliers, government or national agencies who have particular interest on the influence of organizational actions. Differences in CEO's compensation could also be associated to their power in influencing their own reward levels. The position that CEOs occupy in the organization gives them authority power. A major concern in corporate governance is the CEO possessing the ability to direct the strategic options of the board members and the

strategic direction that the organization will adopt (Malekzadeh, 2002). In a situation where a CEO has power in excess of the board, the same may apply to the board's decisions over the CEO's pay structure. Firm Size is another factor that has been seen to drive CEO's compensation. In relation to size, firms can either be small, medium or large. According to (Trigueiros, 2000), firms can be categorized in different sizes based on number of employees in the organization, the sum of assets, total revenue or market capitalization. Kimberly, (1976) further argues that firm size could be defined in terms of its physical capacity, the number of workers available, the input and output of organization or the resources available to it. Hashmi, et al (2020), observed that researchers have considered associations between firm size and firm output and in turn affecting remuneration levels for CEO's, innovation initiatives, change interventions in organizations and inducing complexities in operations. The differences in CEOs compensation levels could be attributed to the various aspects of firm size.

This study was conducted among the firms listed at NSE which has both public and private firms trading in it. There are a total of 60 organizations in different industries and trades. This is a suitable context for making comparisons in CEOs' performance, compensation and firm size. Firms trading at the NSE are required to comply with the regulations set by NSE and CMA. Among the regulations are conditions of disclosure, reporting, observing ethical conduct to mention but a few. This allows for readily available data on firms' performance, size and CEO's pay.

This research was founded on the Reinforcement Theory, Agency Theory and Expectancy Theory. Reinforcement Theory proposed by Skinner (1953), suggests that the behavior of individuals in an organization is largely instrumental. Such that people

act on their surrounding as well as deliberately get into and out of varying situations thus, the behavior of employees is often instrumental in generating desired outcomes. When employees receive desired outcomes after engaging in specific forms of behavior, those behavior patterns are likely to recur in future. In light of this study, the CEO would make deliberate moves to grow an organization depending on the outcomes they receive from the organization in form of rewards. Conversely, "Agency Theory" is based on the associations that exist among a principal and an agent, where the former allocates their responsibility to a new individual; the agent, to execute their responsibilities for them. The principal hires an agent to act for them (Jensen & Meckling, 1976). This theory argued for delegation of responsibility to the agent, whom they expect to strategically drive the organization to fulfill their interests. The theory further proposes that board of directors will tend to offer the CEO compensation levels that will drive the CEO's actions towards meeting shareholders' interests (Elsenhardt, 1989). The Expectancy Theory suggested by Vroom (1964 argues that employees weigh the various work behavior to engage in a rational basis and then choose to engage in those behaviors that they hope will elicit valued work related rewards. As such, CEO's performance influences the level of rewards that the firms offer to them. The subsequent segment provides definitions of key research variables and describes the context of the study.

1.1.1 CEO's Performance

Majority of researchers associates CEO's Performance to organizational performance and defines it in terms of the purpose for which the organization exists thus, to achieve a common goal by the utilization of resources available to it. These may include financial capital, physical assets and employee competencies (Barney, 2002; Jensen & Meckling,

1976; Simon, 1976; Alchian & Demsetz, 1972). Two key approaches exist that describe the theory of firms. They present varying views concerning performance of organizations (Owen, 2006; Brown & Fraser, 2006). One of the views is that of the shareholder theory, which proposes that shareholders own the firm and tend to measure the performance of the organization in terms of the returns declared to them (Porter, 1980). The other approach is the stakeholder theory which emerged in the 1990's and has continued to grow. The stakeholder's approach expands the responsibilities of a firm beyond those of shareholders and extends the responsibilities to other stakeholders like government agencies, staff, organizational customers and suppliers among others (Brown & Fraser, 2006; Post et al, 2002; Reich, 1998). This approach measures organizational performance in terms of the various interests they have on the influence of organizational actions to them.

The performance of CEO's can be assessed through the use of "return on equity (ROE) considered as net income divided by total equity, which is a good measure of efficiency (Tariq, 2010). As proposed by Wade et al, (1997), performance of public owned firms can be categorized into 3 thus financial returns on investment and or profitability, gain from stock market and 'beta'. Beta measures the explosive nature of a firm's stock price in connection with other marketplace driven factors. Further they argued that high financial returns indicate that the decisions made by management have been effective in controlling revenue and costs through optimal utilization of organizational resources to create value. Market returns represent viewpoints of potential shareholders on organizational abilities to generate wealth. Company 'beta' is also a measure of organizational performance (Brealey & Meyers 1988). It is a measure of an

organization's stock price volatility to other marketplace drivers. Such that, a soaring beta whether positively or negatively inclined implies that adjustments on organization's stock price are way above adjustments in the market in general. Epstein and Roy (2005) argue that in the earlier period, scholars put propositions of various management approaches that hasten the development of key success measures to direct future organizational decisions. The managerial approaches are mainly based on identifying strategic objectives of the organization, main performance indicators encompassing a wide variety of financial and non-financial indicators of performance. The balanced score card has received tremendous attention from researchers and consultants as an effective approach in designing strategic/performance management systems.

Measuring organizational performance is difficult especially when performance aspects keep shifting (Hubbard, 2006). The Balanced Scorecard advanced by Kaplan & Norton (1992), has gained universal acceptance over the years in measuring organizational performance. It captures the financial, customer satisfaction, internal processes and learning & development aspects of firm performance, giving a holistic view of performance. Another approach for measuring organizational performance that has been recently proposed is the Sustainable Balance Scorecard which is an improvement of the previous approach. The SBSC approach was developed as a solution to questions of the impact of organizational activities to sustainable development. This approach defines a successful organization as one that can sustain its business by satisfying the owners' interests exclusive of negatively affecting the capacity of satisfy their future interests (Hockerts, 1999). The SBSC covers six different arenas in performance measurement thus inner and outer, short-range and long-standing, environment, socio-economic and a

range of other stakeholder dimensions (Hubbard, 2006). However, just like the TLB its measures may not be universally applicable due to the unique characteristics of social environmental context that industries or individual firms operate. The study adopted the Balance Scorecard proposal in measuring organizational performance and thus CEO's performance.

1.1.2 CEO's Power

Fong (2004) defines power as an individual's ability to exert authority on others. Steer et al, (1996) "the description of power in most cases involves the capacity to influence". Pfeffer (1997) argues that several attempts have been made to define power but they converge that power has to do the exercising influence and control over others. According to Adams (2005), when CEOs have power they can exercise control over key decisions especially if that power extents over the board members. Pfeffer (1992) further suggests that the CEO's draw their power formally or informally. They derive their power from different bases, one being structural power which they possess by virtue of the position they hold. The second kind of power is ownership power which is based on the shares or percentage of ownership in the organization. Thirdly, they may have expert power derived from expertise in specialized fields and lastly they could have referent power which arises from individual's ability to inspire and influence others (Finkelstein, 1992).

According to Rechner & Dalton (1991), CEOs could derive power from duality thus, doubling up as CEO and chairperson of the board. By virtue of their position in the organization, CEO's have power, but some CEO's are more powerful than their counterparts. Duality provides the CEO extra power over the board in setting meeting

agendas, board composition, and influence over remuneration committee, hence pay decisions (Elhagrasey, et al, 1999).

1.1.3 Firm Size

Literature indicates that size, age and reputation are aspects of a firm that may drive their level of performance (Ferreira, 2008). Firm size was of interest to this study in relation to its association to organizational performance. Theoritical and empirical studies reviewed viewed firm size in form of the number of human resources available in the firm, total revenue and sales (Trigiueros, 2000). Sales/market capitalization was suggested by Baptista, (2010), as a measure of firm size. Other measures of firm size as suggested by Kimberly, (19917) include physical capital, human capital, firm inputs and outputs. Size of a firm is a key influencer of the CEO's pay level. It is seen to have positive significant effect on remuneration (Fenkelstein & Habrick, 1989). CEOs managing larger firms are weighed to be better performers than their counterparts who manage small firms (Gabaix & Lander, 2008). CEO's compensation increases proportionately with increase in firm size. This could be attributed to the complexities in operations that come with growth in size.

1.1.4 CEO's Compensation

Reward/compensation included all forms of pay that employees receive by their association to the employer in performance on the job contracts (Armstrong, 2010). Rewards would either be financial or non-financial in nature. Rewards therefore consists of various components like salaries, incentives and benefits (Elling, 2002). Executive rewards are usually designed in a manner that highly associates rewards to meeting overall organizational goals and performance. Incentives such as cash bonuses are

offered in line with the achievement of longer term goals and not short term achievements (Sigler, 2011). CEO's compensation has grown tremendously as compared to that of other employees. Differing opinions have been proposed in explaining the exponential growth in CEO's pay with some proposing that it's a result of competition for scarce skills that can grow the value of shareholders while others are of the opinion that it's a result of changes in the socio-political environment that provides CEO's power to determine their pay levels. Remuneration committees in management boards are mandated to make decisions and advise the board on the right remuneration levels to offer CEO's as part of their duties in corporate governance.

According to Farmer, (2008), CEO's receive a constant monthly basic salary which is not variable on performance. They are also offered incentive pay which is pegged on their performance levels like cash bonuses declared at the end of the year. These are geared towards motivating the CEO's to increase performance of the organization. CEO's are also offered "stock options" which are used in a majority of organizations as forms of incentives for CEO's to drive their behavior towards achieving the interest of shareholders. This could either be qualified or non-qualified stock options. The stock options limits CEO's appetite for risk by encouraging them to increase organizational risk when they allow profitable but otherwise risky projects instead of shunning them. Restricted stock ownership is also part of the CEO's remuneration package and helps in satisfying both the interest of CEO's and shareholders. CEO's may also receive golder parachutes, a handsome exit package. They may also receive benefits for retirement, pensions, life insurance, medical cover, vehicle and allowance, club membership among others. Farmer (2008) sums up the CEO's pay package components in the table below.

Table 1.1: Components of CEO'S compensation

Compensation component	Alternative terminology
Standard pay	1. Annual salary 2. Base pay
Short-term incentive (ST)	1. Annual performance bonus 2. Bonus
Delayed cash bonus	1. Deferred bonus
Executive share option (ESO)	1. Share options 2. Stock options 3. Time-vested options 4. Performance options
constrained stock	1. Time-vested restricted stock 2. Performance share plan (PSP) 3. Long-term incentive plan (LTIP)
Inclusive employee share plan	1. Save as you earn (SAYE) 2. Share save scheme
Benefits in kind	1. Perquisites 2. Benefits
Retirement benefit plan	1. Pension

Source: Farmer, M. (2008). Chief Executive Compensation and Company Performance

If CEOs are expected to behave in favour of shareholders' interests by making quality decisions to drive organizational performance, they should be able to see a link between their effort and organizational performance that represents the CEO's performance. Firms should link the CEO's compensation to their performance as a motivating factor for improved performance in the organization.

1.1.5 Listed Firms at Nairobi Securities Exchange

Research was conducted among listed firms at the NSE in the year 2017/2018. The NSE handbook 2017/2018 (Appendix 2) classifies the sectors that the firms operate into 8 segments including; agriculture, commercial and services, accessories and automobile, construction and allied, insurance, investment, banking, and manufacturing and allied

with their total number being 65 at the time of the study. The Capital Markets Authority (CMA) provides statutory requirements for NSE firms in terms of public offers, listing and disclosure. The firms are required to make available annual audited financial statements complying with International Accounting Standards (IAS) (CMA Manual 2002). These statements include the firm's net income and total assets which is relevant for this study to work out the "return on assets" which represents a measure of organizational financial performance. They also provide value of total sales for a firm which will help in measuring size of firm.

CMA also provides guidelines or regulates practices to govern corporations among publicly trading organizations in Kenya which firm's directors need to undertake or commit themselves to adopt as part of obligations for continued trading and the degree to which they comply with the requirements forms an important fraction of disclosure obligation in corporate annual reports. Among the guidelines are the requirements for listed organizations be overseen by effective boards whose responsibilities encompass provision strategic guidance, leadership and control of company not forgetting being accountable to the organization's shareholders. CMA also requires the remuneration of executive directors to be designed to reflect a competitive structure and aligned to organizational performance. Additionally, the companies should put in place prescribed and clear actions that should be taken concerning directors' remuneration that need the approval of shareholders (Capital Markets Act Cap. 485A). These provisions lay a ground to meet meeting the objectives of the current study by ensuring availability of information of CEO compensation by the companies and having board of directors who

provide guidance to the companies and such can inform the study on the powers that the CEO's hold in the companies.

1.2 Research Problem

According to Ozkan (2011), a significant factor that has been seen to have the potential of managing differences in the needs of executives and shareholders of organizations is the compensation package of CEO's. The exponential growth in CEO's remuneration has sparked renewed attention to derive more knowledge on the determinants of CEO's compensation. In this debate, there are those who propose that an increase is attributed to increased performance while others hold the view that increase is as a result of the CEO's having power to extract rent due to weak boards. The debate on determinants of CEO's remuneration is far from conclusion with scholars and policy makers not reaching consensus. A wide variety of factors that determine CEO's remuneration have been proposed by researchers but still revealing contradictory and mixed conclusions (Elhagrasy& Harison, 1999). This study, contributes to this debate by examining performance, power and firm size drivers of compensation.

CEO's remuneration has been considered to be largely driven by organizational performance based on existing literature and propose that CEO's remuneration be pegged on the gains generated for the organization. Past research by Buigut, et al, (2014); Chalmer et al, (2006); Kubo, (2001); Fenkelstein, Hambrick, (1989), indicate that organizational performance positively relates to CEO remuneration. Additionally, Ozkan (2007) observed in his study that in UK context, organizational performance has been found to positively affect CEO's compensation and this applies more with the cash forms of compensation. While other studies like, Tarus, et al, (2014); Fleming & Stellios,

(2002); Izan et al, (1998); Jensen & Murphy (1990), showed weak or negative connection among organizational performance and CEO's pay. While many studies have been conducted linking CEO's pay to their performance, the results of the studies significantly differ with some revealing positive associations and other negative associations. Besides, the studies largely measure the performance of CEOs focusing on the financial aspects of performance. Aduda (2011) conducted research on the link among the performance of organizations and level of top managers compensation for the banks that trade in NSE and results revealed that measures of accounting of for the performance of an organization are not important factors in influencing the compensation for executives but instead organization size is a major criterion in the determination of CEO's remuneration. The studies limited themselves on the Director's pay in particular industries thus, insurance and banking. This study measures CEO's performance using financial, operational and market aspects. Epstein & Roy (2005, in their study that sought to evaluate and monitor CEO's performance indicating that even though there exists growth in organizations applying non-financial indices to check effectiveness of CEO's, their findings confirmed that CEOs are mainly assessed based on financial indicators of performance thereby revealing contradicting views of corporate performance. The current study evaluates CEO's performance using aspects of the BSC. The study contributes to new knowledge in explaining the association between CEO's remuneration and performance by including internal processes, customer satisfaction, learning and development to financial measures of performance so as to comprehensively measure CEO's performance.

According to Bebchuck & Fried (2004) the raise in CEO's remuneration could be attributed CEO's ability to extract rent from firm owners through manipulating the board or influencing the appointment of compensation committees that accommodate their needs. Conversely, Hermalin (2005) opposes this previous view and instead attributes the increase in CEO pay to be reflective of strict corporate governance practice. CEO's pays rise in order to cover them for the bigger risk of being exited. Other scholars point out that the role of CEO's has transformed in the past and today's CEOs are more often than before headhunted from external and competing organizations. (Frydman, 2005; and Murphy & Zabojnik, 2004). Going by Shah, et al, (2009) argument, an essential element that has attracted attention in elucidating the connection of CEO's performance to CEO's remuneration is distribution of power. Cyert et al, (2000) found that, higher compensation levels offered to CEO's is associated to CEO's owning or acquiring larger portions of the organization. Conversely, Sapp (2007) found out that CEO's compensation tends to decline even as shareholdings of the CEO increase. The same applies to Khan, et al, (2005), who found when CEO's own a large share on the firm; it results to significant decline in level of their compensation. Wade, Porac & Pollock (1997), conducted a study to investigate justification for shareholder practices by compensation committees of U.S corporations. They examined the influence of composition of ownership, CEO remuneration and performance of an organization on application of outside rationale, opinion of shareholders and discussion of company performance to validate reward practices. Their study revealed that when firms have a large percentage and active external owners, then they tend to validate reward practices using the advice provided by reward consultants to determine reward levels. Malkezadeh

et al, (2002) studied CEO structural and ownership powers to find out the effects of such powers on market reaction to antitakeover charter amendments found that markets require distinguishing power among the board and the CEO. This study however did not consider the effect of such powers in the determination of CEO compensation. The foregoing studies that associate CEO's compensation to their power were largely conducted in the western countries and seemed to imply that CEO's who have power over the boards can influence their levels of pay. The current study is conducted amongst the NSE firms in Kenya and seeks to establish if the CEOs of these firms have power and whether that power has effects on the association between CEO's performance and compensation.

Firm size has also been found to influence CEO's remuneration. Research by Brick et al, (2005) revealed close negative relation among CEO's performance and their remuneration. Studies by Hijazi & Bhatti (2007); Tosi et al, (2000); Ramaswamy et al, (2000), indicate that size of a firm is statistically significant in driving CEO's remuneration when viewed in terms of total assets. However, Lambert and colleagues (1991) and Boyd, (1994), revealed a weak link among size and CEO remuneration if sales is used to measure size. Parthasarathy et al, (2006), found CEOs of private firms receive close to seven times the total pay of a CEO belonging to public sector firms. Research by Zhou (2000) examined the link among CEO remuneration, firm size and organizational performance. He indicated, when size of a firm grows CEO pay grows and rewards are in line with the performance of organizations. Lambert et al, (1991) established a weak connection among the compensation of executives and the size of an organization as opposed to suggestions by previous researchers and proposed that the

compensation of CEO's do not necessarily shift with adjustments in size of an organization. Boyd (1994) also revealed minimal relationship among CEO's remuneration and organizational size. Further researches utilized "sales, total assets and total number of employees to measure organizational size and found a correlation with CEO's compensation (Decko, 1988; Jonas 1996; Magnan et al, 1995). The variations in the results indicate that further research could contribute and provide clarifications to the linkages among firm size and CEO's compensation. General variations in results suggest gaps for further research. Current study utilizes sum of staff to estimate organizational size. Theory of allocation holds that in the labour market executives with great talent will be hired by larger firms and the success of their activities will be greatly rewarded since they oversee a large span of staff.

As noted by Abed et al, (2014), most past studies on compensation of CEOs were done among developed nations but only a small fraction done among developing nations. Literature reveal CEO's performance as a key driver of their remuneration. Most of the studies concluded that there is a positive association between performance and remuneration of CEOs though others found weak and sometimes negative associations. This study holds the position that CEO's performance drives their remuneration but includes non-financial measures of performance in line with the BSC model. The study further proposes that the link among CEO's performance and CEO's compensation is moderated by CEO's power and firm size. CEO's power bases were largely measured by CEO's ownership and duality. The current study expands the measure of CEO's power to include board composition and control of board meetings while the size of the organization is estimated using employee numbers as opposed to total assets used in

previous studies. The research question that the study focuses on answering is; what is the influence of CEO's power and firm size to the association among organizational performance and CEO's compensation?

1.3 Research Objectives

General Objective

The main objective of this study was to establish influence of CEO's Power and Firm Size on the relationship among CEO's Performance and CEO's Compensation.

Specific Objectives

(i) To establish the influence of CEO's Performance on CEO's Compensation

(ii) To determine the effect of CEO's Power on the relationship between CEO's Performance and CEO's Compensation

(iii) To find out the effect of Firm Size on the relationship between CEO's Performance and CEO's Compensation

(iv) To investigate whether the joint effect of CEO's Performance, CEO's Power and Firm Size on CEO's Compensation is greater than their individual effects.

1.4 Value of the Research

The research paid attention to combined effect of organizational performance, CEO power and firm size on revision of compensation for CEOs unlike other studies which focused on the separate influences of these variables. The study provides insights on the importance of CEO's Performance reflected by organizational performance, CEO's Power and Firm size on revision of compensation of CEOs.

The study affirms the propositions of Reinforcement, Agency and Expectancy theories which suggest that employees' performance and actions are driven by the rewards they receive. As such, board of directors can consider using compensation to influence future performance of the CEO.

Further, this study is useful to compensation committees for NSE listed firms by identifying the important factors to consider when determining CEO's compensation and the weight to give to the factors. It helps the compensation committees appreciate the benefits the CEO draws to the firm which is reflected in general organizational performance and the link among the performance of organizations is moderated by CEO's power and firm size.

The study also provides insights for practitioner by forging for focus on the power of executives receiving renewed attention from parties interested on CEO remuneration and on managerial appointment. Equally, those occupying managerial positions and would want to grow their career should focus attention on performance and power.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter explored the underpinning theories of the study and expounded on the available literature on the subject of CEO remuneration. In this regard, various theories on CEO's pay were elucidated and the choice of Reinforcement Theory as an analytical framework was explained in details. The literature covered CEO's compensation and organizational performance as proxy for CEO's Performance being the main variables of the study, and attempted to bring to fore the nature of the relationships drawn from pertinent literature and then used to develop the conceptual model.

2.2 Theoretical Foundation

The study used three theories from management research to provide contributions to the ongoing debate on CEO's compensation. The underpinning theories for this study were: Reinforcement Theory, Agency Theory and Expectancy Theory.

2.2.1 Reinforcement Theory

According to Skinner (1953), the behavior of individuals in an organization is largely instrumental. Such that people act on their surrounding as well as deliberately get into and out of varying situations thus, the behavior of employees is often instrumental in generating desired outcomes. When employees receive desired outcomes after engaging in specific forms of behavior, those behavior patterns are likely to recur in future. This position was first posited by Thorndike (1911) and is summarized in "Thorndike's law of effect" which states:

> Of several responses made to the same situation, those which are accompanied or closely followed by satisfaction the animal will, other things being equal, be more firmly connected with the situation, so that when it recurs, they will be more likely to occur. Those which are accompanied or closely followed by discomfort to the animal will, other things being equal, have their connection with that situation weakened, so that when it recurs, they will be less likely to occur. The greater the satisfaction or discomfort, the greater is the strengthening or weakening of the bond.

In other words, the law suggests that behavior which followed by pleasant or desired outcomes, is likely to recur while behaviors followed by unpleasant or undesired outcomes is less likely to recur. It can therefore be argued "that desirable and reinforcing consequences will increase the strength of the preceding behavior and increase its probability of being repeated in future". On the other hand, undesirable or punishing consequences will decrease the strength of the preceding behavior and decrease the probability of being repeated in the future.

Factors that reinforce behavior can either be positive or negative. Positive reinforcers are those events or factors that are used to increase the frequency of a response or behavior and may include satisfactory rewards, supervisor's praise, recognition and so on. Negative reinforcers are those events or factors that when removed will increase the frequency of behavior like noise, criticism of a supervisor and so on.

The consequences of employees' performance are seen to have powerful implications on employee's day to day activities when employees' performance is followed by frequent,

contingent and positive consequences, meaningful and significant improvement seen in future performance (Steers et.al 1996).

In line with the prepositions of the Reinforcement Theory, it can be argued that the performance of CEOs can be reinforced by the kind and levels of rewards offered to them. If CEOs pursue their rewards as commensurate to their levels of performance in the organization, they are likely to exert more effort in improving the performance of an organization, otherwise if their performance is not rewarded appropriately, then they will minimize their efforts towards increasing organizational performance.

2.2.2 "Agency Theory"

"According to Abed et al. (2004) it is through organizational practices and theoretical arguments that discussions on determinants of CEO remuneration are far from ending. However, although various theoretical positions proposed to elucidate remuneration, this are of study is still largely dominated by the "agency theory". Key concern of "agency theory" has to do with associations that are likened to the nature of relationships that exist between an agent and a principle who contracts them to work for them. However, it is expected that between the agent and the principal their needs will defer (Eisenhardt, 1989). The theory seeks to provide solutions to the conflicts that may emerge in an agency relationship. The initial conflict that may arise is a situation where the needs of the principal and the agent do not merge and another problem is the difficulty that the principal is likely to face in trying to follow up what the contracted individual is up to. Thus, the principal is unable to check if the agent has acted in an acceptable manner".

Agency theory proposes that:

> The owners of a firm delegate authority to make strategic decisions on their behalf to an agent: the CEO. Agency theory highlights the existence of an agency problem: a CEO and the firm's shareholders often have differing interest such that the CEO may make moves that are in her best interests even if they hurt the firm (Jensen & Mackling 1976).
>
> The shareholders' main watchdog is the board, whose job includes monitoring the CEO and managing the CEO's compensation package. Ideally, the board will craft a compensation package that aligns the CEO's goals with those of the shareholders (Elsenhardt, 1989). Many boards for example emphasize stock options and other forms of contingent compensation. By drawing a connection between the CEO's pay and firm performance, the board strives to motivate the CEO to pursue courses of action that maximize shareholder returns. In crafting a compensation package, the board should consider not only the overall value but also the mix of the pay elements in the compensation package. Rather than determining how much to pay executives, the central legitimizing issue in the agency approach is how to pay them (Barkema, Geroski, and Schwalbach, 1997; Jensen & Murphy, 1990).

Matching the needs of the agent, CEO, with the principals, shareholders, needs satisfaction is a way out of "principal-agent problem" using performance of an organization to determine CEO's remuneration (Gunasekaragea & Wilkinson, 2002). Core et al, (2003) saw determination of CEO's compensation as a principal agent relationship. He argues that CEO's compensation contracts are designed by boards in

such a way that it drives the CEO to behave and take actions that would meet the needs satisfaction of shareholders. Berle and Means, (1932) argue that the "principal agent problem" that exists among firm executives and shareholders has been an area of interest due to the distinction of ownership of organizations from control of organizations by company boards at the turn of 20th century. They hold that when CEO's have self-interests, and shareholders are powerless in perfectly checking their behavior, they will tend to satisfy their needs instead of the needs of shareholders. Shareholders hope that CEOs will strive to meet their needs. However, there is a likelihood that the CEO may opt to satisfy individual needs and not the needs of shareholders. The problem can be resolved by matching the needs satisfaction of the CEO with meeting the needs of shareholders through associating CEO's Compensation with performance of the organization (Khanna, 2016).

When CEOs can closely associate their compensation to organizational performance, they are likely to act in the best interest of the organization by increasing return to the stakeholders through increased organizational performance.

2.2.3 "Expectancy Theory"

"Expectancy theory" formulated by Vroom (1964) was the first one to systematically explain the process by which employees' behavior is driven in work setting. This theory assumes that people consciously enter into and rationally select the behavior to adopt at work. The theory argues that employees weigh the various work behavior to engage in a rational basis and then choose to engage in those behaviors that they hope will elicit valued work-related rewards. John (1992) supports this theory by further explaining that employees will choose to exert effort to work that they consider to be attractive and

whose expectations they believe they can meet. He further alludes to the fact that the extent to which the employee perceives that the accomplishment of certain work will elicit desired outcomes defines the level of attractiveness to that work, where desired work-related outcomes may include; satisfactory pay, job satisfaction, team work, job security among others.

CEOs expect that their effort in driving organizational performance should be linked to the rewards they receive. CEO's effort is seen in terms of the quality of decisions they make in developing and implementing strategies for the achievement of organizational goals. If these efforts are not rewarded appropriately, they are likely to refrain from exerting maximum effort in the future.

2.3 CEO's Performance and Compensation

As noted by Shah & Javed (2009) performance of an organization is deemed to perhaps be the highest determining factor of CEO remuneration. CEO's remuneration is linked to the organizational profit. Increase in CEO's performance has strong association to their remuneration as suggested by Fenkenlstein & Harmbrick (1989). Shareholders may not have knowledge of the behavior that drives their value upwards. The board can utilize incentives in encouraging the CEO to maximize the value of shareholders. The effective design of CEO's remuneration package including provision for ownership can motivate the CEO's to enhance performance. As revealed by Chalmers and Colleagues (2006) ROA is strongly related to every element of CEO's compensation and that CEO's bonuses are associated with yearly gains from market trading.

As agued by Farmer (2008) literature on CEO compensation has considerably increased in the last half decade and encompasses an array of fields including "accounting,

economics, law and organizational strategy". Healy (1985) in his studies considered the link among "accounting based compensation incentives and manipulation of earnings". Baimen & Verrechchia (1995) also accountant, explored the relative usefulness of applying accounting indices and market indices in determining compensation. As proposed by Wade et.al; (1997) the amount of compensation a CEO receives is a major portion of present debate on "pay-for-performance". Another portion considers t the actual performance of the CEO. "The principal-agent problem is partially resolved using CEO remuneration to merge CEO needs to shareholder's needs (Jensen & Meckling, 1976). Holmstrom (1982) argue that in principle, the compensation of CEO's should be pegged on the most informative indicators in terms of the CEO taking action that maximizes worth of shareholders. Since the actual position is that shareholders are not likely to understand the particular behaviour that maximize value, the incentive forms of compensation offered to CEO's should be those that help the principals achieve their ultimate objective of shareholder value maximization. Through the effective designing and provision of ownership stake to a firm, compensation offered to CEO's that are linked to equity, creates a motivating force for the CEOs to pursue directions that are beneficial to shareholders". Most favorable contracts help balance CEO incentive awards with variations in rewards for CEO's who seek to manage negative reactions in their pay.

Previous literature generally shows a major link amid organizational performance and CEO's compensation where performance of the organization is weighed through ROA and ROE (Finkelstein Hambrick, 1989 and Kobo, 2001). They argue that firm profitability is a superior determinant of CEO remuneration. According to Guest (2009) a positive association exists amid "board size" and CEO remuneration. Board members are

an important source on internal checks in allocating CEO's compensation. They also have the responsibility in deciding the succession of the CEO and future projects of the organization (Rahaja, 2005). Core et al, (1999) argue that CEO remuneration is influenced by "a number of factors including firm performance, firm size, complexity of firm, growth opportunities and board structure". In connection to the links among pay and performance, Jensen & Murphy (1990) found high association amid "cash compensation and firm performance measured by shareholder wealth".

Research by Rose and Joskow (1994) found "that past performance influences not only cash compensation, but also total compensation. In line with Jensen and Murphy, they find that the lagged performance effect decays considerably over two to three years. They used not only market-based measures of performance, but also accounting measures. For stock return, they find that 1-year lagged return has at the least the same impact on current compensation than current return, but that further lags have a small effect on compensation. For accounting returns, they find that the returns effect compensation decays almost proportionally over time." Other studies show association amid organization performance and CEO remuneration (Fleming and Stellio 2002; Izan et al, 1998; Defina et al., 1994). Still, Tosi et al, (2002) revealed a poor association amid CEO remuneration and organizational outcomes.

The foregoing literature clearly indicates an association among CEO's Performance and Compensation with some finding positive associations and others indicating negative associations. These contradictions provide grounds for further investigations which this study address. Besides, the empirical studies reviewed relied on financial measures of organizational performance as opposed to a holistic approach. The current study adopts

the BSC approach in measuring organizational performance and thus CEO's Performance to include not only financial aspects but also the Internal Processes, Customer Satisfaction and Learning and Growth.

2.4 CEO's Performance, Power and Compensation

"According to literature, in a situation where the members of a board have a week power, the CEO will possess greater power in influencing the amount and components of their compensation. This leads to the CEO being overly paid and can get away with levels poor performance and as such minimizing the connection amid CEO'S compensation and organizational performance (Bebchuk & Fried, 2005 and Bertand & Sendhil, 2003). Bebchuck & Fried (2008) further propose design and implementation of CEO compensation is broken by governance failures, where CEOs are overpaid since they possess power in excess of the board members. The board is charged by shareholders with the responsibilities of monitoring organizational executives and also has an influence in designing and implementing the CEO's compensation. In some cases, the independent directors and consultants who are brought on board to give advice to the board of directors have minimal or completely lack attention in protecting shareholder interests. It grants CEOs power for effectively manipulating their own remuneration and hence distorting CEO compensation contract".

According to Sigler (2011) "when corporate governance of an organization is seen to be weak, the CEO's will possess the power to manipulate the amount and composition of their own compensation packages. This may give way to the CEO's being overpaid and covered against an organization poor performance thereby weakening the association among CEO's performance and compensation. When CEO's have power over their

associated board of directors, they tend to be overpaid. Board members have the mandate to monitor CEOs on behalf of shareholders and they equally have significant influence over the CEO's compensation committees".

Tariq (2010) observes that "a lot of literature works links CEO's compensation to board members. Boyd (1994) argues that board members are a significant factor in deciding CEO'S compensation levels through the use of internal control mechanism. Members of boards have the responsibility of controlling the future projects of an organization and in making decisions on CEO's succession (Raheja, 2005). Board members are expected to represent organizations shareholders and protect their interests. According to Guest (2009) compensation of CEO's rises as board size expands. Core et al. (1999) concurs with this proposal and asserts that indeed larger boards offer higher compensation to CEO's. They justify their argument by saying that if an organization requires external resources for its operations like meeting its budget or externally sourced funding, and then it implies that the board should be large. Besides, when the processes of governing the organization are complex, it will demand for more knowledgeable thus adding up to reasons of need for the expansion in the number of board members (Dalton et al. 1999). However, Jensen (1993) provides a counter argument to these proposals by suggesting that smaller boards provide more advantages. In his view, larger boards of directors tend to be ineffective in the sense that they can be effortlessly swayed with CEO. Lipton and Lorsch (1992) argue with that where the board is large, the members hardly reject the policies proposed by the CEO or even objectively evaluate their performances instead they might protect the CEO'S from reports of poor organizational performance".

Shah & Jared (2009) argue "that in recent researches, power of the CEO has attracted considerable interest. The balance of power among organizations, shareholders and CEOs is deemed as a significant cause to the explanation of their relationship. Agency theory explains that the power balance amid shareholders and CEOs builds a driving force in CEO remuneration determination. As explained by agency theorists, CEO compensation is a matter of principal-agent relationship. Fong (2004) asserts that a major agency problem facing shareholders of organizations is that of moral hazard in which CEO's may manipulate the use of organizational resource to achieve their own individual interests. Fenkelstein & Hambrick (1989) also argue that the power balance among the CEO's and their associated members of board form a strong force that influences CEO remuneration. CEO's ownership or shareholding is a major power driver for the CEO to exercise control on remuneration (Salancik & Pfeffer, 1980). This implies that CEO's will attempt to get more power by having ownership in the organization through acquisition of stock options. However, in as much as CEO's may utilize the power acquire to maximize their own profit without regard for the shareholders interest in some cases they might actually use their power in direction that will increase organization performance since the CEO's personality traits also influences how they use their power. As argued by Adams & Jacobsen (1964), individuals, CEO's who feel that they are being overpaid, will find ways of increasing their effort to produce more quality work so as to justify their high levels of compensation. Mc Eachern (1975) observes that the structural ownership of business organizations will determine the extent to which the organizations are controlled by the CEO's or by shareholders. Fong (2004) further argues that when CEO's have power, they will not develop a feeling of inequity. But overpaid CEO'S

react to inequity if their power is low and they will possibly enhance organizational performance unlike CEOs with high power. This indicates that CEO's whose compensation needs are being met will strive to acquire more power and will enhance their effort to increase organizational performance in turn win shareholder's trust".

Increase in CEO's compensation is attributed to stricter corporate governance, larger number of shareholders and improved monitoring role by boards over the CEO'S actions. Hermalin (2005) propose that increase in monitoring intensity negatively influences the stability of the CEO's job and as such, firms respond by increasing the CEO's compensation levels. Critics of the managerial power theory to the explanation of increase in CEO's compensation argue that it has fallen short of providing explanations to steady growth in CEO compensation since 1970's. For them scanty studies exist that confirm the proposition of "corporate governance" destabilizing in the recent past. In fact several indications suggest that effectiveness of corporate governance has significantly been enhanced (Holmstom & Kaplan 2001; Hermalin 2005).

As argued by Collingwood (2009) "CEOs by nature of their position act to meaningfully increase firm value and that they are in a unique position that may provide them the opportunity to extract 'rents'. Shleifer & Vishny (1989) further argues for managers being able to gain ground by making investments that are in line with their needs satisfaction making it difficult for shareholders to replace them. Bebchuk & Fried (2004) also propose that CEO's can effortlessly have control over their boards and in effect set their own pay which is determined more by managerial power. They adopt a managerial power approach in explaining relationships between power and pay. The approach proposes for "sensitivity of pay to performance" being higher or lesser in organizations in

which managers possess adequate authority. The approach further argues that authority of managers broadens in situations where board authority is low, or when the percentage of institutional shareholders is small and lastly when the anti-takeover contracts provide a shield to managers. Although CEOs are regarded as the most powerful actors in their organizations, some CEOs are more powerful than others. CEO's may pose formal power by virtue of also being "board chair" (Harrison et al, 1988). If this holds, then the CEO would have power in excess of the board with responsibilities including "agenda control, director compensation, and committee appointments and equally enjoy the freedom of not sharing power with other top executives". CEO's also have informal power which they derive from a number of factors and situations including differences in political savvy, CEO's stock ownership (Allen, 1981), high percentage of external stock ownership (Hambrick & Finkelstein, 1995), CEO's occupancy and the fraction of board members installed after the CEO. CEOs with strong power will be more successful in controlling both the process and outcome of the determination of CEO's compensation".

According to French and Raven (1968) "leaders draw their power from five major bases. Thus legitimate, reward, coercive, expert and referent basis. In line with our study the reward poser that leaders may possess is of major interest. This is the power that a leader possess by virtue of having control over the rewards that someone else desires or needs. In this case, board of directors have the power to influence the level of rewards that CEOs receive. Such that, if the CEO can find ways of swaying the power of the board, then they are likely to influence their own reward levels".

CEO's compensation tends to escalate with a comparatively powerless board that lack influence over the CEO. As found by Core, Holthausen & Larcker (1999) CEO

remuneration is greater in situations where first, there is higher proliferation of "board members" hence making difficult for members to organize and collude in support of the CEO. Secondly, existence of broad external directors installed after CEO, may arouse a feeling of appreciation or "I owe you" towards CEO. Thirdly, external directors serving on more than one board, causes them not to pay keen attention on their monitoring role over the CEO. CEO doubling up as "board chair" escalates their rewards by 20-40 percent (Cyert et al, 2002; Core Holthausen & Larcker, 1999).

According to Fenkelstein & Hambrick (1989) "a major source of power that CEO'S have in influencing their compensation comes from their ownership or shareholdings. CEOs strive to gain higher power through acquisition of more stock options hence claiming ownership to the organization. CEO's power is also attributed to the formal position given to them by the shareholders to make higher level decisions. CEO duality is considered to be another source of their power. This basically implies that the organization's CEO doubles up as the chairperson of "board of directors" (Rechner & Datlon, 1991). As established by Fong (2004) CEOs with high power don't necessarily respond toward reward inequity. However, overly paid CEOs react to inequity when they feel they are powerless and will be motivated increase firm performance. This implies that CEO's will strive to acquire power when their compensation needs are satisfied and will work even harder to enhance organizational performance in order to gain confidence of shareholders".

The existence of a large percentage of external shareholders will lead to tighter monitoring of the CEO's actions and in turn result in the reduction of the CEO's control over their compensation (Sheifer & Vishny, 1986). In agreement to this examination,

Cyert, Kang & Kumar (2002) "found a negative link amid shareholders who own a large fraction of the organization and CEO reward equity. Enhancing the ownership percentage of the external shareholder may reduce the level of other components of compensation. As found by Bertrand and Mullainathan (2002) CEOs in organizations with a small percentage of external shareholder tend explain high CEO's pay levels from a "luck-based" pay perspective. That is, CEO's compensation is largely attributed to rise in profits which are mainly generated by external factors as opposed to executives' efforts. Additionally, they revealed high connections among firms with small percentage of external shareholders and increased option-based forms of rewards by a larger percentage than the cash components of compensation. Similarly, Benz, Kucher & Stutzer (2002) argued for a larger number of shareholders leading to a significantly lesser percentage of option granted to top managers".

The view of rent extraction proposes that where corporate governance is weak and boards are compromised, the CEO's will acquire the authority to direct decisions on their rewards and in turn leads to unjustified increases to CEO reward levels. This is presented in managerial power theory of Bebchuk & Fried (2004). This theory holds that a large portion of rent that CEO's extract from organization are through elements of compensation that are less obviously visible or are not easy to value like stock options, perquisites, pension and time-off with pay. In equilibrium markets, rent extraction thrives since firing CEO's is costly and equally replacing them may also extract rents (Kuhnen & Zwiebel, 2009). When the percentage of institutional shareholders is high, it leads to in tighter observation and inspection of CEO activities and the board. Hartzell and Starks (2002) found an inverse association among higher concentration of

institutional ownership and executive compensation likewise compensation is prone to be tied to performance.

The empirical studies reviewed above indicate that CEO's Power influences levels of compensation and that when CEO's have power they are likely to extract more rent from the organizations. Compensation committees in organizations boards should therefore consider checking the power of CEOs to manage rent extraction. The current study seeks to investigate the influence of CEOs on the relationship among CEO's performance and compensation.

2.5 CEO's Performance, Firm Size and Compensation

Previous researches generally indicate a strong association among size of a firm and CEO rewards. CEO compensation has tight connection to organizational size when size is measured by sales and it is loosely linked to profits (McGuire & Colleagues, 1962). This kind of association indicates that increases in sales will lead to CEOS being paid more than increases in profits. As such the CEO will work harder towards maximizing sales as opposed to maximizing profit. Hijazi & Bhatti (2007) also revealed that organization size affects the complexity of jobs and organization's ability to pay leads to influence of decisions on CEO remuneration. "However, the foregoing arguments were contradicted by Lewellen & Huntsman (1970) revealed high link amid CEO remuneration and organizational profits rather than sales levels. This he justified by arguing that business organization's ultimate purpose is to maximize profits and deliver a return to shareholders This implies that CEO's who contribute efficiently to profit maximization would be rewarded with high compensation. Other studies show high association for

larger organizations and CEO's holding higher quality skills, qualifications and diverse characteristics and be compensated in view of the same (Chalmers et al, 2006).

Frydman & Jenter (2015) argue that an increasing literature links increase in CEO's compensation to increase in firm sizes and scale effects. Larger firms' value more talented CEO'S and are willing to offer higher levels of compensations so as to match the efficient labour market of competent CEO's. This is encouraged because small improvements in CEO's talents may translate to high increase in "value of the firm" conversely leading to enhancement in compensation brought about by the large scale of operations that the CEO is in charge of (Himmelberg & Hubbard, 2000). Using the assumptions on the availability of CEO talent, Gabaix & Landier (2003) showed that CEO remuneration should grow alongside size of organization and vice versa. As such they hold the view that CEO remuneration growth as recently witnessed, were largely attributed to growth in market capitalization in the same period".

As noted by "Elhagrasey et al, (1999) organizational outcomes and size hold as most consistent factors that influence CEO's compensation as found in previous studies. Large firms provide higher CEO compensation and justify it by greater responsibility the CEO holds, greater complexity in the CEO's job, larger scale of operations in the firm and equivalently higher compensation offered to CEOs in other large competing firms. Equally, more profitable firms offer their CEO's higher compensation and they justify it as a reward for the CEO's strong managerial performance. When firms post higher profits, the CEO's task to legitimize their compensation increment is rather straight forward. However, when organizations are smaller or organizational performance is poorer it would be an uphill task to legitimize compensation increases".

According to "Frydman & Jenter (2005) there are theories which propose that changes in firm characteristics like technologies, products, market size also act as a major factor that influences CEO's effort, talent and organizational value and this in turn affects the level of CEO's compensation. Increase in organizational size is prone to result in enhancement of CEO's effort, thereby result to a rise in CEO's incentive compensation (Himmerlberg & Hubbard, 2000; Baker & Hall, 2004). In opposition to the "managerial power approach" to explain CEO remuneration, Frydman & Jenter (2005) observe that there is growth in literature at associate CEO's compensation increase to increased demand for CEO's scarce talent. They further proposed for in CEO rise in remuneration being attributed to growth in firm size which expands the scale of operations Such that highly talented CEOs are of more value to large firms and so larger firms should be ready to offer hefty rewards to CEO to much capabilities of the CEO and win the war for talent in a competitive market (Rosen, 1982). Gabaix & Landier (2008) and Tervion (2008) concur with this line of thought by proposing that CEO talent has an incremental power on organizational outcome. CEO compensation should change proportionately with changes in firm size. They use this to expound on continuous growth in CEO's average compensation between the year 1980 and 2003 which also recorded a similar growth in average market capitalization. According to Gayle & Miller (2009), moral hazard problems are usually higher in larger organizations leading to higher CEO incentives as the organization grow in size".

Firm size receives interest in most of preceding research on CEO remuneration. It is assumed that large firms will have muscle to reward CEO highly because of their large volume in business causing greater gains (Core et al; 1999; Murphy 1999; Ramaswamy

et al, 2000; Talmor and Wallace 2001; Ghosh 2003). Core et.al; (1999); Talmor and Wallace (2001); Gosh (2003) concluded that the size of an organization is an important factor in determining CEO'S compensation.

Literature and academic works indicate high association amid firm size and CEO remuneration. As revealed by Roberts (1959) and McGuire (1962) CEO remuneration is strongly connected to organizational size when weighed using total sales yet the association weakens if size is weighed using organizational profits. This can be interpreted to mean that growth in sales will trigger CEO's rise in compensation as opposed to increased profit. Similarly, Hijazi & Bhatti (2007) concluded from their study that organizational size highly associates to complexity in the CEO job and the employer's ability to pay. Other studies still indicated that organizational size is given high consideration in determining CEO reward especially when organizational size is weighed using "total assets" (Finkelstein & Hambrick, 1989; Ciscel, 1994; Chalmers et al, 2006). Larger organizations by their nature would tend to look out for CEOs who possess high quality decision making skills, experience, and training and as such would be forced to offer such CEO'S higher levels of compensation.

Lambert et al, (1991) revealed a weak connection among compensation for executives and organizational size. This goes against suggestions by initial researches and instead concluded that adjustments in size don't necessarily influence CEO remuneration. Boyd (1994) revealed that the connection among CEO remuneration to organizational size is loose especially if organizational size is weighed using net sales. Still other researchers measured firm size using sales and found a tight association among organizational size and CEO remuneration (Jones 1996; Magnan et al, 1995; Deckop, 1988). Variations in

outcome of studies examining connection among organizational size and CEO remuneration suggest that further research could provide more clarification concerning this association. Organizational size and profitability are deemed to be the key drivers consistently moving CEO reward decisions as shown in previous research. Large firms usually justify the high rewards offered to CEO by citing the immense responsibilities that the CEO has, the wide span of operations, complexities that come with the CEO's job and achieving external equity by matching high levels of CEO's compensation as offered by other firms. Higher compensation in firms with higher gains can be justified as payment towards strong managerial outcomes. In large, profitable firms, the CEO's task in legitimizing high compensation is relatively straightforward (Elhagrasey, et al, 1999)

The literature reviewed revealed that Firm Size drives CEO's compensation. They generally agree that larger firms seem to take over higher pay packages to their CEO's as compared to smaller firms. A majority of the studies reviewed measure organization size using total sales. The current study however measure organization size using total number of employees to reveal any variances. The study holds the assumption that larger firms will offer more pay to their CEO's due to the complexities in operations that come with growth in organizations. In this study, Firm Size is used as a moderator and it is proposed that the size of an organization can either strengthen or weaken the association among CEO's Performance and Compensation.

2.6 CEO's Performance, Power, Firm Size and Compensation

Early research by neoclassical economists and managerialists that focused on CEO's, proposed that organizational performance and firm size as the key driver of CEO remuneration. Economists largely propose for CEO remuneration being matched to

organizational gains to achieve organizations goal of maximizing shareholder value (Lewellen & Huntsman, 1970; Prasad, 1974) while the managerialists championed by Berle & Means (1932) who argued that highly dispersing CEO's stock ownership leads to reduced shareholder influence and moves corporate control to management and that instead managers prefer firm size as an indicator of organizational health since size is more stable than profits (Baumol, 1959). Later research viewed CEO's power as determinant of CEO remuneration based on tenets CEO'S actually influencing their own levels of compensation (Allen, 1981; Fenkelstein & Hambrick, 1989; Westphal and Zajac, 1995; Hill & Phan, 1991).

Shal et al, (2009) in trying to determine the elements which drive CEO remuneration levels indicated that remuneration relies on organizational performance, firm size and "corporate governance". Parthasarathy et al, (2006), research on connections among compensation for executive, fir outcomes and "corporate governance" sought to investigate the movers of CEO's remuneration among Indian firms. They found that organizational size had an important influence on CEO remuneration and that CEOs whose firm's recorded high performance received higher compensation than their counterparts whose firms recorded low levels of performance. Abed et al, (2014), also conducted research that paid attention to influencers of CEO remuneration in developing countries paying specific attention to Jordan. The study results indicated that CEO remuneration highly associates with organizational size and "CEO tenure". They further found out that decision by 'board of directors' concerning CEO remuneration is affected if the CEO is present in the board.

Berkema & Mejia (1998) identified the determinants of CEO's levels of compensation. First, they suggest that forces in the market play a foremost function in pushing decisions of CEO remuneration levels. Secondly, they propose that the ownership structure of organizations may affect CEO's compensation. This they support by arguing that organizations with large shareholders tend to influence the compensation offered to CEO's. A third influencer of CEO remuneration is the compensation committees who have responsibility to design CEO reward package. The compensation committee members large come from outside the organization and as such are able to separate CEO's control and stakeholders which resolves the "agency problem".

Performance of an organization is highly dependent on the core competencies that it possesses, its products quality, characteristics of its employees, its stage of growth and sometimes just on luck (Chang, Dasgupta & Hilary, 2010). Elhagrasey, et al, (1999) asserts that although CEO's exert strong influences over their compensation, the more powerful CEOs are successful in controlling the process and outcome of compensation determination. Organizational size has been demonstrated to move CEO remuneration (Finkelstein & Hambrick, 1989). The best CEOs are considered to be those who drive bigger organizations, since this enhances their influence and monetary gains (Gabaix & Landier, 2008). They hold the view that CEO's equilibrium compensation raises with escalation in size and expansion of size of the general economy that the organization operates in.

Empirical studies reviewed reveal a number of factors that influence the level of CEO's compensation. The performance of CEO's seems to take centre stage as a key driver of CEO's compensation. The study therefore considers CEO's Performance as the main

determinant of compensation and also chooses to investigate the influence of CEO's Power and Firm Size on the association among CEO's Performance and Compensation. In line with the fourth objective of the study, the study seeks to investigate the joint effect of the three (3) factors of CEO's Compensation levels. No studies have been done on the joint effects of CEO's Performance, CEO's Power, Firm Size and CEO's Compensation. As such this provides a gap in knowledge which the current study seeks to fill.

AUTHOR	AREAS OF RESEACH INTEREST	RESEARCH TECHNIQUES APPLID	CONCLUSIONS	IDENTIFIED RESEARCH GAPS	INTERESTS OF PRESENT RESEARCH
Sonenshine et al, (2016)	Pre and post Financial Crisis factors that influence CEO Compensation	Average change in "CEO pay after 2008 financial crisis" covering the period of 2003 to 2012.	Post crisis CEO compensation was highly linked to organizational performance but loosely associated to other factors like firm size.	The study was done among US firms and only measured organizational performance in terms of stock market performance.	The current study is done within Kenyan firms listed at the NSE and organizational performance is captured using the elements of the balance score card.
Khanna (2016)	Factors that determine CEO's Compensation; Firm Size and Organizational Performance	Hypothesis were tested using "random effect generalized least squares regression analysis".	Firm size and organizational performance positively influence CEO's compensation.	The study focused on Indian companies and did not capture CEO power as a factor that determines CEO's compensation.	This study explored the influencers of CEO remuneration in Kenyan context including organizational performance, firm size and CEO power.
Abed, et al, (2014)	The factors that determine CEO's Compensation among Jordanian Industrial Corporations	Applied regression analysis to analyze data from the sampled firms	Organizational performance, size and CEO's tenure significantly influence CEO's compensation	The study focused on Jordanian industrial corporations which may have characteristics that may not be generalized for other firm types	The current study was done among firms listed at the NSE which incorporates firms of varied characteristics including industrial, financial, agricultural and service firms.
Tarus, et al, (2014)	Examine the influence of remuneration of	Adopted a casual research design. Scope covered	No significant relation between executive	Focused only on insurance industry and	The current study's context is the NSE which has a browse of

	executives on performance of insurance firms in Kenya.	insurances firms in Kenya. Measured firm performance using capital adequacy, underwriting ratios and solvency margins Regression Analysis of executive remuneration and performance ratios.	compensation and financial performance	measured performance by financial ratios	firms in various industries and "performance is measured using accounting, operational and market based measures".
Aduda (2011)	The link among compensation of executives in the Banking industry of Kenya	Adopted a causal research design. The scope covered 9 commercial banks listed in NSE. Measured firm performance using Regression Analysis	Non-significant link among "executive compensation and financial performance"	Focused on the banking industry and considered only financial measures for firm performance.	The current study's context is the NSE which has a browse of firms in various industries and "performance is measured using accounting, operational and market based measures".
Tariq (2010)	"CEO compensation: Relationship with performance and influence of board of directors"	Data was analyzed using "regression analysis" to determine the influence of organizational performance and board size on CEO's pay scale	Relationship among CEO's pay and organizational performance is negative and insignificant and there is no connection between "size of board" and CEO remuneration	The study did not capture the "effect of firm size and CEO's power" on the as determinants of CEO's compensation	The current study captures "firm size and CEO's power" as moderators of the link among of organizational performance on CEO remuneration

Zhou (2000)	Relationships among CEO's "pay, firm size and corporate performance" among listed firms in Canada.	Scope covered 755 Canadian firms. Measured firm size using total sales and corporate performance using ROA, ROE and RTS. Semi-elasticity specification	CEO pay grows as firm size grows and is linked to the outcome of a company	Focused on the Canadian listed firms, performance was measured using only accounting indices and did not consider CEO's power as a pay determinant.	Considers organizational performance as the key determinant of pay but moderated by CEO's power and firm size for listed firms in Kenya.
Parthasarathy et al, (2006)	"Executive compensation, firm performance and governance"	"Data was analyzed using linear regression" model to explain the proportion of incentives constituting CEO compensation for Indian firms	Firms that record high levels of performance offer their CEO's higher compensation packages and receive a high percentage of the components of their compensation in form of incentives	This study narrowly paid attention to the effect of firm performance and governance as determinants of CEO's compensation	The current study investigates the "moderating effect" of CEO'S power and firm size on the link among organizational performance and CEO's compensation
Esptein & Roy (2005)	The study focused on describing the application of non-financial measures that the board uses to evaluate CEO's performance	The propositions were tested using frequencies and relative percentages of the firms that used different performance evaluation criteria for the CEO's	They found that many companies now use non-financial indices but CEOs are mainly evaluated on financial criteria.	The study only focused on the association amid CEO's performance and pay but ignored the influence of factors such as "CEO's power and firm size".	The current study agrees that organizational performance which is an indicator of CEO's performance has an "effect on" CEO remuneration but the relationship is moderated by CEO's power and firm size.
Tosi & Silva (2004)	"Determinants of the effectiveness	The population covered members	CEOs' influence and the anonymity of	Only considered CEOs' power as	Expands measure of

	of the CEO evaluation process"	of Compensation Association. Measured CEO power by tenure, duality and board meeting control. Hypotheses tested using regression analysis	their evaluation are related.	the main determinant of compensation	CEO power to include not only duality, tenure, and board meeting control but also "board size" and number of external board members. The current study also considers "firm size" and outcomes as determinants of pay
Bebchuk & Fried (2003)	"Executive compensation as an Agency problem"	Conceptual paper	*not empirically tested	* Concluded that the power that executives have can be used to drive the design of executive compensation	Apart from power, firm size and performance also "affects the design of executive compensation"
Elhagrasey, Harrison & Buchholz (1999)	Politics of CEO Compensation in relation to power	Examined CEO's compensation among manufacturing firms in American. CEO power measured by duality and tenure. Hypotheses tested using regression model.	CEO power has positive effect on compensation	The scope only covered large manufacturing firms in America and measured power by duality and tenure.	Expands scope to include service firms in NSE, Kenya. CEO power weighed by duality, "board size,% of non-executive members" of the board
Malekzadeh (2002)	CEO's power versus the "monitoring	Regression Analysis	Results indicated that markets react negatively to	Focused on firms that had proposed anti-take over and	The current study re-examines the sources of CEO's power and

	power of the board of directors" and market reactions		amendments when either the CEO or the board share ownership increases.	market reactions to power amendments. The study did not capture the result of power structures on CEO pay.	their influence on pay determination.
Wade, Porac & Pollock (1997)	They examined the influence of "ownership structure, CEO's pay and organizational performance" on the application of external "validations, shareholder alignment statements" and discussion of company performance to legitimize reward levels	Scope covered a "sample of U.S corporations". They measured firm performance using ROE. "T-tests on company size, beta, diversification, and profitability". Justification measurements were based on computer –aided text analysis.	Results indicated that if organizations have a high percentage of active external "board members", they are most often than not likely to justify "their compensation practices by citing the role of compensation consultants as advisors in the compensation-setting process. They are also more likely to discuss the alignment of managerial and shareholder interests and to downplay a company's accounting returns".	The study only focused on "ownership structure and firm performance" as factors that influence CEO's pay	The current study expands the factors that determine CEO's compensation to include firm size and CEO power as moderating variable.

2.7 Conceptual Framework

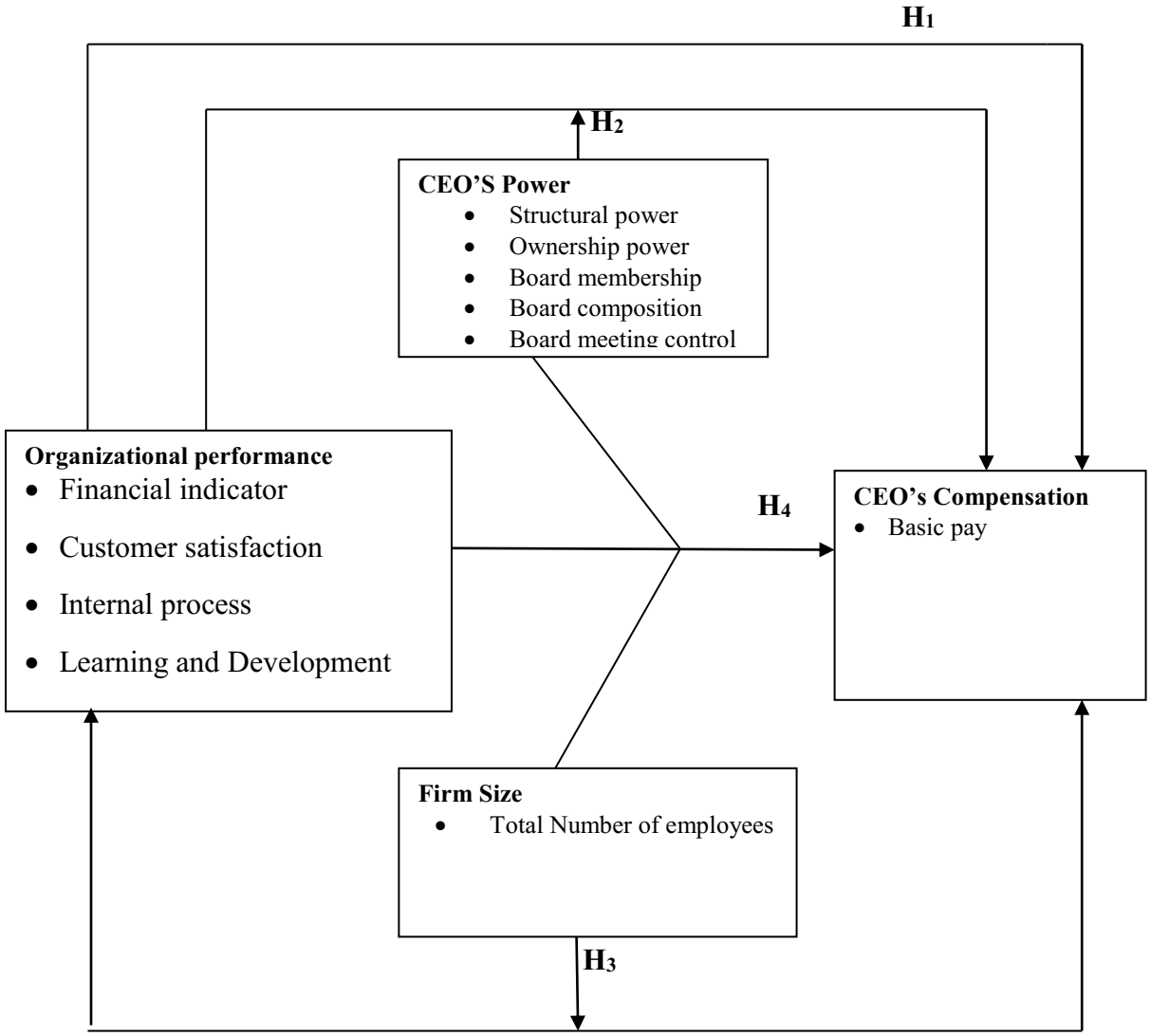
The conceptual model of this study considered how CEO's Performance, Power and Firm Size influence the determination of CEO's Compensation. First it showed that CEO's Performance is the main factor that firms consider in making CEO's compensation decision. CEO's Performance is measured on the basis of balanced score card elements encompassing financial measures, customer satisfaction, internal processes success, learning and growth strategies. This is tested with hypothesis 1. Secondly, CEO's Compensation consists of salaries, bonuses and long-term incentive pay (LTIP's). It indicates that association among organizational performance and CEO remuneration is moderated by CEO Power and Firm Size. It advances an argument that in as much as CEO's Performance is a key consideration for determining CEO remuneration, when the CEO has muscle of directing their own compensation, then the connection among performance of organizations and CEO remuneration is strengthened. In the current study CEO power is determined by structure, ownership, board membership, board composition and having control over board meetings, tested by hypothesis 2.

Thirdly, it also argues a case for firm size moderating the association among CEO's performance and compensation. The firm size, firms' industry or sector and whether its public owned or private owned firm may either strengthen or weaken the association among performance of organizations and CEO's compensation, tested by hypothesis 3. Lastly, it advances an argument that the effects of CEO's Performance, CEO's Power and Firm Size when jointly considered will be greater than their own individual effects when making CEO's Compensation decisions. This is tested by hypothesis 4.

"Corporate governance" concerns today, is highly dominated by CEO power to affect the "board decisions" and "direct the strategy" of the organization. (Malekzadeh, 2002). Finkelstein (1992) proposed that although CEO may have the power to appoint the board members, to control board's agenda and to influence the "amount and type of information the directors receive varies from one organization to another", the CEO's formal and informal power are indisputable. Firm size is a factor that has been considered to influence CEO's performance and as such CEO's compensation. Baptista (2010) says that organizational size can be measured using sales, "total assets". However, sales is the index that is consistently applied in a majority compensation studies.

CEO's Performance acts as a major driver of CEO compensation. But the relationship is moderated by CEO's Power and Firm Size.

Figure 2.1: Conceptual Model



2.8 Conceptual Hypotheses

H_1 CEO's Performance has influence on compensation.

H_2 The influence of CEO's Performance on Compensation is moderated by CEO's Power.

H_3 The influence of CEO's Performance on Compensation is moderated by Firm Size.

H_4 The joint effect of CEO's Performance, CEO's Power and Firm Size is greater than the effect of CEO's Performance on Compensation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter expounds on the research methodology that was applied in the study. The subsequent sections elaborates the philosophy of research, the "research design", the target "population" of study, "data collection" procedures, "operationalization of variables", validity and "reliability tests", "data analysis" and presentation.

3.2 Research Philosophy

The two main philosophical traditions that guide research in "social science" are positivism and social "phenomenology" ((Saunders, Lewis & Thornhil, 2007). Proponents of phenomenology maintain that reality does not exist but it is an imagination. They further argue that knowledge is subjectively acquired and that human beings shape the world through their own experiences. According to Amedo (2009), phenomenology focuses on what things mean rather than what they really are. It is more concerned with the notion that human experience is an important source of data as opposed to the notion that true research or investigations depend on merely measuring the reality of physical phenomena. Phenomenological paradigm is viewed as qualitative since knowledge is considered as subjective, based on experience, personal knowledge and interpretation of the individual.

Positivism tends to rely more on quantitative techniques for measuring variables and data analysis. It is anchored on real facts, objectivity and neutrality of the researcher, measurement and validity of findings (Cooper & Schindler, 2006). The tenets of positivism are particularly based on empiricism and theory, that is, all knowledge based

on facts rely on positive information acquired from observable experiences which are supported by theoretical underpinning. It assumes that the observer is independent from the observed. Positivists argue that knowledge about reality can only be discovered through self-observation and measurement and that the relationship between human beings and society is determined by laws of cause and effect, thus explaining patterns of human behavior (Smith et al, 1991). In light of this background, "the current study adopted the positivist approach as the basis for the methodology and procedures used in this study. This approach allowed use of quantitative data to test the research hypotheses drawn from the conceptual research objectives". Positivist approach was adopted because actual data was collected for a particular period of time thus, 2016/2017 and 207/2018 to capture CEO's Performance and Compensation levels for firms listed at NSE in order to test the study hypothesis.

3.3 Research Design

"The research design that was adopted was "descriptive cross-sectional" design, which involved identification and description of phenomena or characteristics linked with a subject population (who, what, when, where, and how of a topic). The approach helped to reveal the strength or magnitude of the association between the predictor and dependent variables.

A descriptive cross-sectional design enabled the researcher to establish any relationships between and among CEO's Performance, CEO's Power, Firm Size and Compensation of firms listed in NSE. Questions for measuring CEO's Performance and CEO's Power were carefully selected, arranged and accurately asked of each board member. Cross-sectional studies are conducted once or at one point in time (Cooper & Schindler, 2008).

Data to measure organizational performance was collected for the period 2016/2017 and 2017/2018. The design was chosen considering the type of data and the analysis that is carried out. Data on financial performance was obtained from financial reports filed with capital markets authority (CMA). Data on firm size was also collected from the same source".

3.4 Target Population

"The applicable population of the study encompassed all listed organizations at NSE. According to the NSE Handbook **2016**, the total number of companies listed at the browse was **65**. This study was therefore a "census survey" of all listed companies shown in appendix III. Sectors of the firms listed at the browse include the Agricultural, Automobiles and Accessories, Banking, Commercial and Services, Construction and Allied, Insurance, Investment, Investment services, Manufacturing and Allied, Telecommunication and Technology and Real Estate Investment Trust sectors".

3.5 Data Collection

"Both primary and secondary data were collected and used in the test of hypotheses. Primary data was collected on the non-financial aspects of CEO's Performance and CEO's Power through a semi-structured questionnaire. The questionnaire was administered by the researcher to the firms' directors with assistance from the company secretaries who are also the secretaries to the boards". Questionnaires were administered to at least two directors who had served in the board for two or more years for each firm. The questionnaire was structured on "Likert-type statements anchored on five-point rating scale ranging from none (1) to very great (5)". This approach had been applied in earlier related studies such as Kidombo (2007), Ongore (2008) and Chang (2010).

Secondary data was collected on CEO's Compensation capturing basic salaries for the periods 2016/2017 and 2017/2018 while firm size was represented by total number of employees. Organizational financial performance was captured as return on assets (total sales divided by total assets) and was obtained from organizations' financial reports.

The operationalization of the variables is presented in Table 3.1

Table 3.1: Operationalization of Variables

Variable	Indicators	Measurement	Source	Item Questionnaire
CEO's Performance	Financial	• Return on assets (net income divided by total assets)	Kaplan & Norton (1992)	PART II
	Customer Satisfaction	• Increase in number of new clients/ customers • Repeat purchases • Growth in sales • Growth in market share		
	Internal processes	• On-time delivery • Product or service quality • Operating efficiency		
	Learning and development	• Shilling invested in training • New product development • Employee satisfaction • Employee development and retention • Talent diversity		

		• Succession planning		
CEO's Power	Structural power	• CEO duality	Harrison et al, (1998)	PART III
	Ownership power	• Percentage of shares owned by the CEO	Allen, (1981)	
	Board composition	• CEO's influence over the board • "Number of board members appointed during the CEO's tenure	Parthasarathy et al, (2006)	
Firm Size	Number of employees	• Total number of employees	Baptista (2010)	PART I
CEO's Compensation	Total pay	• Basic pay	Farmer (2008)	Secondary data collection form

3.6 Test of Reliability

A measurement approach is considered to be reliable when the values assigned to observations of a similar event, if applied time after time, will give similar value of observation. A measurement's reliability relies on the techniques applied, the skill of the person taking the measures and the instruments used (Ghiselli, Cambel & Zedeck, 1981)

The study tested for reliability in two steps. A questionnaire was developed to cover all the study variables as already operationalized by other studies with acceptable tested reliability levels. The questionnaire was subjected to pilot test using a convenient sample of board of directors in two companies listed at NSE. The Cronbach's Alpha coefficient was applied to check internal consistency of the scales used in the study instrument. George and Mallery (2003) suggested the rule of thumb as follows: if "Alpha > 0.9.

Excellent, > 0.8 Good, > 0.7 Acceptable, > 0.6, Questionable, > 0.5 Poor and < 0.5, Unacceptable". Coefficients above 0.7 were considered acceptable.

3.7 Test of Validity

Validity of a research tool is the degree to which a measure actually measures the true nature of the phenomenon it is supposed to measure (Cook & Campbell, 1979). It is the degree to which the tools truly measure the constructs which it is set out to measure. The questionnaire was subjected to face and content validity test. Face validity was ensured by pre-testing the draft questionnaire to two selected persons who have vast knowledge in research and were members of Boards of Directors. This was to help confirm that the study items would indeed obtain the information that would meet the research objectives. Content validity was determined by pretesting the questionnaire on the board members of sample firms listed in NSE and thereafter modification made for clarity, meaning and relevance.

3.8 Test of Normality

In order to apply "parametric statistics" such as regression and correlation analysis, it is paramount that the "sample data" be "normally distributed" and homogeneous in nature. Since the study used linear and multiple regressions to test the study hypotheses, preliminary tests were done to confirm normality and linearity to ensure the data meets the requirements.

Data normality was determined using Skewness and Kurtosis values, where skewness measures distributions "deviation from symmetry". "Kurtosis measures distribution's

peakedness" (Cooper and Schindler, 2014). Skewness value of zero shows perfect normal distribution.

3.9 Test of Linearity

Linear regression analysis requires that data distribution must be linear, that is, the link among the independent and dependent variable should be in a linear fashion. A scatterplot was applied to test for linearity. The association among the independent variable, organizational performance and the dependent variable, CEO's Compensation was assessed using "Pearson's product moment coefficient (r)" which varies over a range of +1 through to 0 to -1. Where r value of "-1 represents perfect negative" relationship between variables, "0 represent no relationship" and "+1 represents perfect positive" relationship.

3.10 Test of Multicollinearity

Regression analysis requires that study variables should not be correlated. Multicollinearity among variables "was tested using the variance inflation factor (VIF)" method. First, the measure "of tolerance" of the influence of one variable on all other variables was computed using the first step linear regression analysis method. Tolerance is specified as $T=1-R^2$. Such that, when T is less than 0 .1, it is an indication that there might be some multicollinearity whereas when T is less than 0.001 it is an indication that multicollinearity is certainly present. On the other hand, VIF is the inverse of tolerance (thus 1/T). Such that, when VIF is greater than 10, it implies presence of multicollinearity. But "if VIF is greater than 100, then certainly, multicollinearity" exists (Hair et. al., 2008).

3.11 Data Analysis

Data was analyzed using descriptive statistics so as to summarize key features of the variables of interest in the study. "Mean scores" and standard deviations were computed for Likert type questions and results presented in form of tables. Pearson's "Product Moment Correlation" (r) analysis was used to assess the strength and direction of relationships among study variables. "Coefficient of determination (R^2) was used to measure the amount of variation" in CEO's compensation due to the predictor variable(s). The first hypothesis was tested using simple "linear regression" analysis. The second and third hypotheses were tested using stepwise regression analysis while hypothesis 4 was tested using simple "multiple regression analysis". The analytical techniques applied in testing hypotheses are presented in Table 3.2.

Table 3.2: Summary of Statistical Tests for Hypotheses and Interpretation

OBJECTIVE	HYPOTHESIS	ANALYTICAL TECHNIQUE FOR TESTING HYPOTHESIS	MODEL ESTIMATION	INTEPRETATIONS OF REGRESSION OUTPUT
Objective 1 To establish the influence of CEO's Performance on CEO's Compensation	$H_{1:}$ CEO's Performance has an influence on CEO Compensation	Simple linear regression analysis	CEO's Compensation = f(organizational performance) $CC = \beta_0 + \beta_1 OP_1$ CC = CEO's compensation, β_0 = Constant, OP = "Composite index" of Organizational performance "ϵ - Error term"	"Coefficient of determination **(R^2)"** was applied to assess the extent of variation in CEO's compensation due to CEO's Performance. **P-value<0.05** implied influence of CEO's Performance on CEO's Compensation was significant. Accept hypothesis if P<0.05 **F-ratio** was used to assess whether the link among CEO's Performance and CEO's compensation was statistically significant. It was also used to confirm regression model fit. **Beta (β)** indicated that for every unit change in CEO's Performance, CEO's Compensation changed by the standardized beta coefficient value.

				"T-test" was used to check if coefficients were "statistically significant".
Objective 2 To determine the effect of CEO's Power on the relationship between CEO's Performance and CEO's Compensation	H_2 The influence of CEO's Performance on CEO's Compensation is moderated by CEO's Power	"Hierarchical Regression" Analysis	**Step 1:** $CC = \beta_0 + \beta_2 OP + \epsilon$ **Step 2:** $CC= \beta_0 + \beta_1 OP + \beta_2 CP+ \epsilon$ **Step 3:** $CC= \beta_0 + \beta_1 OP + \beta_2 CP + \beta_3 OP*CP+ \epsilon$ CC = CEO's compensation, βo =Constant, OP= Composite index of components of CEO's	"Coefficient of determination **(R^2)** was used to measure" the conditional indirect effect of CEO's Power on the strength of link among CEO's Performance and CEO's compensation. **P-value<0.05** indicated that the moderating influence of CEO's Power on the link among CEO's Performance and CEO's Compensation was significant. Hypothesis was accepted if P<0.05 **F-ratio** was used to show whether the relationship was statistically significant. It was also used to confirm regression model fit.

			Performance, CP =CEO's power, OP*CP=interaction term testing moderating influence of CP on the link among CEO's Performance and CEO's Compensation. "$\beta_1, \beta_2, \beta_3$= Regression Coefficients, ϵ – Error term"	**Beta (β)** indicated that for every unit variation in the predictor variables, the dependent variable will change by the standardized beta coefficient value. **T-test** was used to measure if results were statistically significant.
Objective 3 To find out the effect of Firm Size on the relationship between CEO's Performance and CEO's Compensation	H_3 The influence of CEO's Performance on CEO Compensation is moderated by Firm Size	Hierarchical Regression Analysis	**Step 1:** $CC = \beta_0 + \beta_2 OP + \epsilon$ **Step 2:** $CC= \beta_0 + \beta_1 OP + \beta_2 FS+ \epsilon$ **Step 3:** $CC= \beta_0 + \beta_1 OP + \beta_2 FS$	Coefficient of determination **(R^2)** was used to assess the conditional indirect influence of firm size on the strength of link among CEO's Performance and CEO's compensation. **P-value<0.05** indicates the moderating influence of firm size on the link among CEO's Performance and CEO's compensation was significant.

			$+\beta_3 OP*FS+ \epsilon$ CC = CEO's compensation, βo =Constant, OP= Composite index of components of CEO's Performance, FS = Firm Size, OP*FS=interaction term testing moderating effect of FS on the link among CEO's performance and CEO's compensation. "$\beta_1, \beta_2, \beta_3$= Regression Coefficients, ϵ – Error term"	Hypothesis was accepted if P<0.05 **F-ratio** was used to show whether the relationship is statistically significant. It was also used to confirm regression model fit. **Beta (β)** indicated that for "every unit" variation in predictor variables, the "dependent variable" will change by the standardized beta coefficient value. **T-test** was used to measure if results were statistically significant.
Objective 4 To investigate whether the joint effect of CEO's Performance, CEO's Power and Firm Size	H_4 The joint effect of CEO's Performance, CEO'S Power and Firm Size is greater than their individual	Multiple Regression Analysis	CEO's compensation = f(OP, FS, CP) $CC = \beta_0 + \beta_1 OP_1 + \beta_2 CP_2 + \beta_3 FS_3 + \epsilon$ CC= CEO's compensation,	"Coefficient of determination **(R^2)** was used" to assess how much of the CEO's Compensation variation is explained jointly by variations in CEO's Performance, CEO's Power and Firm Size.

on CEO's Compensation is greater than their individual effects	effects on CEO's Compensation		β_o = Constant, β_1, β_2, β_3, = Regression coefficients, OP= Composite index of components of CEO's Performance, FS= Firm size, CP= CEO'S power. ϵ – Error term	**P-value<0.05** indicates that the joint effect of CEO's Performance, CEO's Power and Firm Size on CEO's Compensation was significant. Hypothesis was accepted if P<0.05 **F-ratio** was used to show whether the relationship between the predictor and dependent variable was significant. It was also used to confirm regression model fit. **Beta (β)** indicated that for every unit variation in the predictor variables, the dependent variable will change by the standardized beta coefficient value. **T-test** was used to assess if results were statistically significant.

"Source: Author"

CHAPTER FOUR: DATA ANALYSIS INTERPRETATIONS AND DISCUSSION

4.1 Introduction

This research sought to investigate the influence of CEO's Power and Firm Size on the relationship between CEO's Performance and CEO's Compensation for firms listed at the Nairobi Securities Exchange. This chapter provides the findings from data analysis and discussions in association to the 4 study objectives. "Both primary and secondary data" were applied to accomplish of this study. "Primary data" was gathered "using a questionnaire" that was administered to the Board members of the listed firms. The questionnaires sought the opinion of the board members on the influence of the performance of an organization in connection to the elements of the balance score card and CEO's power on compensation. "Secondary data" was collected from the financial statements of the listed firms to capture financial performance. Secondary data was further collected on firm size that was captured by "the number of employees".

4.2 Response Rate

The response rate was presented in figure 4.2. All the 65 firms were served with questionnaires. However, responses were obtained from only 42 firms. This represents a 65 percent response rate which is considered representative and satisfactory to draw "conclusions for the study". Although the intention was to randomly collect data from four directors in each firm, in reality, this was not possible. On average, responses were received from at least two directors in each firm. Mugenda & Mugenda (1999) proposed that a 50% response rate is suitable for analysis and reporting, while 60% is considered as a good response rate, while 70% and above is viewed as excellent response rate. However, due to the sensitive nature of this study, and based on the promise of

confidentiality, the names of the companies from which data was collected are not disclosed.

4.3 Test of Reliability

A reliable instrument is one that would provide consistent, stable or dependable data. To test for reliability the questionnaire was subjected to pilot test on board members of 5 companies and responses tested for reliability using Cronbach's alpha. Alpha coefficient of 0.70 and above is adequate confirmation of internal consistency among the scale items. "Table 4.1 indicates reliability statistics".

Table 4.1: Chronbach Alpha

Study variable	Cronbach alpha Coefficient
CEO's Performance	0.849
CEO's Power	0.88
Firm Size	0.956
CEO's Compensation	0.822
OVERALL	0.745

Table 4.1 shows that CEO's Performance scale has good internal consistency since it has a "Cronbach's alpha" of coefficient 0.849, CEO'S power produced a "Cronbach's alpha" coefficient of 0.88 while that of firm size was 0.956. The overall "Cronbach's alpha" for the variables is 0.745 hence achieving levels of good internal consistency thus meeting reliability requirements for the instruments of data collection.

4.4 Test of Validity

A valid instrument is one that measures what the researcher actually wishes to measure. "A pilot study" was done to ascertain the questionnaires would collect the data as intended by the study. The initial questionnaire was discussed by the supervisors and revised to improve validity of the instrument. In the pilot study, 5 questionnaires were administered to board members of 5 listed companies. The board members were asked to provide suggestions that would help clarify the questionnaire items. Going their advice some items in the initial draft questionnaire were revised and/or restructured. The modified questionnaire was then used to collect data.

4.5 Firm Size

The study gathered information on the number of employees in the listed firms at the NSE. This was intended to be used to measure the size of firm. The results indicated that 9.5% of the firms had less than 10 employees, 33.3% of the firms had between 101 to 500 employees, 19% of the firms had between 501 to 1000 employees, 16.7% of the firms had between 1001 to 2000 employees while 21.4% of the firms had over 2000 employees

This was presented in Table 4.2

Table 4.2 Descriptive statistics for Firm size

		Frequency	Percent
Valid	<=100	4	9.5
	101-500	14	33.3
	501-1000	8	19.0
	1001-2000	7	16.7
	>=2000	9	21.4
	Total	42	100.0

4.6 Descriptive Statistics for CEO's Compensation

The study sought to investigate the percentage change in CEOs Compensation between 2016/2017 and 2017/2018. Findings revealed that the CEOs compensation for 26.2% of the firms changed by less than 1%, it increased between 1-5% for 23.8% of the firms, it increased between 6-10% for 11.9% of the firms and the majority of the increase was over 10% for 38.1% of the firms.

Table 4.3: Descriptive Statistics for CEO'S Compensation

		Frequency	Percent
Valid	<1%	11	26.2
	1-5%	10	23.8
	6-10 %	5	11.9
	>10%	16	38.1
	Total	42	100.0

4.7 CEO's Performance

CEO's Performance was the study's independent variable. To investigate the link among organizational performance visa a vie the other study variables, it was important to seek the board members' opinion on the extent to which they considered CEO's Performance in determining the CEO's Compensation and as such the level of compensation offered to the CEO. CEO's Performance was measured using financial indicators, customer satisfaction, internal processes and learning and growth as adopted from the balance score card. The other three components of CEO's Performance were measured using a 5 point Likert scale where the rating of 1 indicated very large extent and 5 represented not at all. Therefore "a score of ≤1.5 was interpreted to mean" that the indicator was considered to a very large extent, while scores of 1.5 to ≤2.5 indicated that the board

members considered the item to a large "extent and 2.5 to ≤3.5 was interpreted to mean" that the board members moderately considered the item. The mean score of 3.5 to ≤4.5 was interpreted to mean that the board considered the variable to a less extent, while a mean "score of ≥4.5 was interpreted to mean" that the indicator was not considered at all. In terms of the standard deviation, a value of ≤1 was interpreted to mean that the spread of responses from the mean is low, while a value of >1 was interpreted to mean a high spread of responses from the mean. 18 items were used to measure organizational performance in the listed firms. These items were adopted from the balanced score card as used by Kaplan & Norton (1996) that measures organizational performance in 4 dimensions of financial indicators, management of customer relations and growth, internal processes and learning and growth. The board member's opinion relating to the variable under each of the 4 dimensions of CEO's Performance is presented in the following sub-sections.

Financial indicators had a mean of 12.8273% implying that the average change in the financial performance of the firms for the period 2017-2018 increased by 12.8273%. Customer satisfaction had a mean of 2.22 implying that the board members agreed that they considered customer satisfaction to a large extent in determining CEOs compensation. Internal processes had a mean of 1.94 implying that the board members agreed that they considered internal processes to a large extent in determining CEOs compensation. Learning and growth had a mean of 2.1667 also indicating that the board members agreed that they considered learning and growth to a large extent in determining CEOs compensation.

Table 4.4: Descriptive statistics for CEO's Performance

	N	Mean	Std. Deviation
FI	42	12.8273	19.12953
CS	42	2.2200	8.54344
IP	42	2.00	0.8514
LD	42	2.1667	.86351
Valid N (listwise)	42		

4.7.1 Financial Indicators

Financial performance of the firms was measured using percentage change in return on assets which were calculated by dividing profit/loss before tax by total assets. This data was captured from the firm's financial report for the period of 2017-2018. The findings are shown in Table 4.5.

Table 4.5: Respondents' score on financial indicators of CEO's Performance

	N	Mean	Std. Deviation
FI	42	12.8273	19.12953
Valid N (listwise)	42		

The results indicated a mean of 12.82% increase in financial performance.

4.7.2 Management of Customer Satisfaction

Board members were asked to indicate their opinion as to the extent to which they considered management of customer satisfaction in measuring CEO's Performance. Five items were used to measure the board member's opinion on management of customers and the findings are shown in Table 4.6.

Table 4.6: Respondents' score on management of Customer Satisfaction

Management of Customer Satisfaction	N	Mean	Standard deviation
Percentage increase in the number of new customers/clients	42	2.1750	1.03497
Percentage of repeat purchases	42	2.0500	0.84580
Sales volume	42	2.0500	0.87560
Market share	42	2.0500	0.81492
Average Score	42	2.08125	0.8928225

The results in table 4.6 reveal that the average mean score for Management of Customer Satisfaction was 2.08125, showing that the board members considered customer satisfaction to a large extent in measuring firm performance. Percentage increase in the number of new customers/clients, percentage of repeat purchases, sales volume and market share were considered to a large extent with (Mean 2.05, SD 0.8458, SD 0.8756, and SD 0.81492). Number of new customers or clients was considered to a large extent but the board members tended to differ on their opinion to this item (Mean 2.175, SD 1.03497). The results imply that when measuring CEO's Performance, board members highly consider retention of customers or clients, sales volume and market share in equal measure. However, of the three customer satisfaction factors, growth in firm's market share received even greater consideration in measuring CEO's Performance.

4.7.3 Internal Processes

Board members were asked to provide their opinion in the extent to which they considered Internal Processes in measuring CEO's Performance. Four items were used to measure this variable.

Table 4.7: Respondents' score on internal processes

Internal Processes	N	Mean	Standard deviation
My company's On-time Delivery of goods or services has been decreasing	42	1.6500	0.53349
The quality of my company's products have been increasing	42	1.9500	1.03651
My company's operating efficiencies have been increasing in the last five years	42	2.4250	0.98417
Average score	42	2.00	0.8514

The results in Table 4.7 indicate average mean score of 1.9438 on Internal Processes showing that the board members considered it to a large extent in determining CEO's compensation. Cost of control received the highest consideration (Mean 2.00, SD 0.8514), while development of quality products received the lowest score though still of large extent (Mean 1.75, SD 0.58835). Operating efficiencies was also considered to a large extent (Mean 2.425, SD 0.98417). On-time delivery of goods and services was also largely considered though the board members tended to differ in their opinion over this item (Mean 1.65, SD 0.53349).

4.7.4 Learning and Growth

Board members were asked to provide their opinion in the extent to which they considered learning and growth in measuring CEO's Performance. Six items were used to measure this variable.

Table 4.8: Respondents' score on Learning and Growth

Learning and Growth	N	Mean	Standard deviation
Investment in research and development	42	3.1250	0.85297
New product development and growth	42	2.6750	1.09515
Employee satisfaction	42	2.2250	0.65974
Development and retention of key personnel	42	2.3250	0.85896
Building diverse talent	42	2.3500	0.89299
Management succession planning	42	2.5250	1.10911
Average score	42	2.1667	0.91149

Table 4.8 provides the results on the responses.

The "results in table" 4.8 indicate an average "mean score" of 2.1667 on learning and growth. This shows that the board members considered the variable to a large extent in measuring organizational performance. New product development and investment in research were considered to a moderate extent. New product development and growth received differing opinions from board members (Mean, 2.675, SD1.09515), (Mean 3.125, SD 0.85297). Employee satisfaction received more favorable consideration to a large extent (Mean 2.225, SD 0.65974). The results reveal that in measuring organizational performance, board members highly consider employee satisfaction in evaluating learning and growth performance measures of the organization.

4.8 CEO's Power

Board members were asked to provide their opinion on the extent to which the CEO had power. Six (6) items were used to measure this variable.

Table 4.9: Respondents' score on CEO's Power

	CEO'S power bases	N	Mean	Standard deviation
1.	The CEO is also the chair of the board	42	4.7500	0.70711
2.	The CEO of the company owns majority shares of the company	42	3.8000	1.01779
3.	CEO influences the appointment of new board members	42	4.3500	0.48305
4.	The number of times the current board has revised the CEO's compensation upwards	42	3.3000	1.06699
5.	The number of times that the CEO has successfully negotiated with the board for improvements in his/her compensation package	42	3.9500	1.15359
6.	The CEO is an expert in the firms core business	42	4.7000	0.46410
Average score		42	4.141667	0.815438

The results in Table 4.9 provide an average score of 4.141667 on CEO'S power. This indicates that the extent to which the CEO had power was low. On the item of how frequently the CEO chairs the board meetings, the CEOs had no power to at all (Mean 4.7500, SD 0.70711) implying that CEO's duality does not exist among firms listed at the NSE hence limiting the CEO's power. The second indicator used to assess CEO's Power was ownership. The results indicated that the amount of shares owned by the CEO provided them with power to a less extent (Mean 3.800, SD 1.01779). The third statement sought to investigate the extent to which the CEO had power to influence the appointment of new Board members. The results showed that the CEO had power to a less extent to this end (Mean 4.3500, SD 0.48305). Concerning the number of times that

the board had revised CEO's pay, the results indicated that the CEO had power to a moderate extent (Mean 3.3000, SD 1.06699). The fifth measure of the CEO's power was designed to assess the extent to which the CEO had power in terms of being able to negotiate their compensation upwards. The results showed that the CEO had power to a less extent (Mean 3.95000, SD 1.15359). The last item used to assess CEO's Power was the expertise of the CEO. The results revealed that the CEO's expertise did not provide them power at all (Mean 4.7000, SD 0.46410).

4.9 Tests of Normality and Linearity

In order to be able to apply "parametric statistics such as multiple regression and correlation", it is paramount that "the data" applied be distributed normally and homogenies in nature. Since the study used linear and multiple regressions to test the study hypothesis, preliminary tests were done to confirm normality and linearity to ensure it meets the requirements.

4.9.1 Tests of Normality

Initial analysis on the data was done to assess if it fits normal distribution requirements. Data normality was determined using Skewness and Kurtosis values, where skewness is a measure of distributions deviation from symmetry while Kurtosis measures the peakedness of data distribution (Cooper and Schindler, 2014). Skewness value of zero shows perfect normal distribution. As shown in table 4.10, CEO's Compensation, CEO's Performance, CEO's Power and Firm Size did not extremely deviate from normal distribution assumptions and as such meeting the requirements to run regression analysis.

Table 4.10: Results of Tests of Skewness and Kurtosis

Variable	Skewness	Kurtosis
CEO's Compensation	-1.484	1.445
CEO's Performance	0.384	-0.398
CEO's Power	-1.368	2.502
Firm Size	-0.217	-1.043

Normality of data was further tested using Kolmogorov-Smirnov and Shapiro-Wilk statistics. The results in Table 4.11 showed P>.05 for both statistics. For Kolmogorov-Smirnov statistics CEO's Compensation was 0.13, CEO's Performance was 0.138, CEO's Power was 0.213 and Firm Size was 0.205. while for Shapiro-Wilk statistics, CEO's Compensation was 0.697, CEO's Performance was 0.941, CEO's Power was 0.874 and Firm Size was 0.87. This implies that data was distributed normally.

Table 4.11: Results of Kolmogorov Smirnov and Shapiro-Wilk Tests

	Kolmogorov Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CC	.313	41	.670	.697	41	.120
OP	.138	41	.054	.941	41	.037
CP	.213	41	.340	.874	41	.068
FS	.205	41	.027	.870	41	.090

4.9.2 Test of Linearity

Linear regression analysis requires that data must be linear and as such there should be no multicollinearity or autocorrelation. A scatterplot was used to test for linearity and indicated that the variables were related in a linear fashion as shown in Appendix VI.

4.9.3 Test of Multicollinearity

Multicollinearity among CEO's Performance, CEO's Power, Firm Size and CEO's compensation was assessed with Pearson's product moment coefficient (r) that varies over a range of +1 through to 0 to -1. Where r value of -1 indicates a negatively perfect relationship among variables, 0 represent no relationship and +1 indicates "a perfect positive" relationship.

Table 4.12: Results of Inter-variable Correlation analysis

		CC	OP	CP	FS
	Pearson Correlation	1			
CC	Sig. (2-tailed)				
	N	42			
	Pearson Correlation	.490**	1		
OP	Sig. (2-tailed)	.001			
	N	42	42		
	Pearson Correlation	-.284	-.117	1	
CP	Sig. (2-tailed)	.076	.472		
	N	42	42	42	
	Pearson Correlation	.276	.103	-.501**	1
FS	Sig. (2-tailed)	.085	.528	.001	
	N	42	42	42	42

The correlation matrix in Table 4.12 was derived from inter-item correlation analysis. The results for testing multicollinearity using the correlation coefficients of CEO's Performance, CEO'S Power and Firm Size were less than 1 hence indicating that there was no multicollinearity.

In order to further confirm non-multicollinearity, an assessment was done using the variance inflation factor (VIF) method. First, the measure of tolerance on the influence of a variable on other variables was computed using the first step linear regression analysis method. Tolerance is specified as $T=1-R^2$. Such that, when T is less than 0 .1, it is an indication that there might be some multicollinearity whereas when T is less than 0.001 it is an indication that multicollinearity is certainly present. On the other hand, VIF is the inverse of tolerance (thus 1/T). Such that, when VIF is greater than 10, it implies presence of multicollinearity. But "if VIF" is "greater than 100, then certainly", there is "multicollinearity" (Hair et.al., 2008).

Table 4.13: Regression coefficients for study variables

Model coefficients	Tolerance	Variance Inflation Factor
constant		
OP	0.984	1.017
CP	0.745	1.343
FS	0.747	1.339

The study results indicate that VIF ranged from 1.017 to 1.343 which are less than 10 (<10) while the tolerance values were between 0.745 to 0.984, hence the values were

greater than 0.01 (>0.01). The results imply that there is no multicollinearity among CEO's Performance, CEO's Power and Firm Size.

The application of "linear regression" imposes the condition of "no autocorrelation" among the study variables. "Autocorrelation" of the variables was confirmed using Durbin Watson's approach which requires that the Durbin Watson (d) value should be <2.5 and not above (1.5<d<2.5) to confirm that there is no autocorrelation.

4.10 Test of Hypotheses

The study aimed at establishing the link among CEO's Performance and CEO's Compensation as moderated by CEO Power and Firm Size. The hypotheses were tested using simple and "stepwise regression analysis". In order to test the hypotheses, composite scores were computed for CEO's Performance and CEO Power by adding the scores of the indicators and obtaining the average.

4.10.1 Influence of CEO's Performance on Compensation

Objective one of the study was intended to ascertain the effect of CEO's Performance on CEO's Compensation in the firms listed at the NSE. Hypothesis one was drawn from this objective. It stated that:

Hypothesis 1: CEO'S Compensation is influenced by* CEO's *Performance.

Simple linear regression analysis was applied to test this hypothesis. The findings are presented in Table 4.14.

Table 4.14: Regression Results for the Influence of CEO's Performance on Compensation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.880[a]	.774	.769	10.44397

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14962.558	1	14962.558	137.175	.000[b]
	Residual	4363.064	40	109.077		
	Total	19325.622	41			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.376	1.749		.787	.036
	OP	.960	.082	.880	11.712	.000

Predictors: (Constant), CEO's Performance
Dependent Variable: CEO's Compensation

As shown in Table 4.14, results indicate a model fit ($F=137.175$, $P<0.05$). The findings further reveal a significant effect of CEO's Performance on compensation ($R^2=.774$, $F=137.175$, $P<0.05$). This suggests that 77.4% of changes in CEO's Compensation was due to variation in CEO's Performance. The table further reveals that beta coefficient was significant ($\beta=0.96$, $t=11.712$, $P<0.05$). This suggests that CEO's Compensation varies by 96% with every unit change in CEO's Performance. Hypothesis one was thus supported.

This study's main objective was to establish the influence of CEO's Performance on CEO's Compensation and as such it was deemed important to delve further into the components of CEO's Performance as proposed by the balance score card. This would help us understand the contribution of each of those individual indicators of

organizational performance and in turn identify the organizational performance factors that boards of directors consider important when determining the CEO's Compensation.

The overall regression model can be stated as **CC=1.376+0.96OP+ε.**

Table 4.15: Regression Results depicting the effect of Indicators of CEO's Performance on Compensation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.472[a]	.223	.204	19.37243
2	.375[a]	.141	.119	20.37726
3	.729[a]	.531	.519	15.05174
4	.890[a]	.792	.787	10.02742

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4313.981	1	4313.981	11.495	.002
	Residual	15011.642	40	375.291		
	Total	19325.622	41			
2	Regression	2716.312	1	2716.312	6.542	.014
	Residual	16609.310	40	415.233		
	Total	19325.622	41			
3	Regression	10263.421	1	10263.421	45.302	.000[b]
	Residual	9062.201	40	226.555		
	Total	19325.622	41			
4	Regression	15303.658	1	15303.658	152.201	.000
	Residual	4021.964	40	100.549		
	Total	19325.622	41			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.873	.536		3.496	.001
	IP	.747	.266	.414	2.804	.008
2	(Constant)	2.535	.500		5.068	.000
	CS	.356	.216	.259	1.651	.107
3	(Constant)	1.101	.458		2.406	.021
	LD	.876	.174	.632	5.026	.000
4	(Constant)	1.905	.594		3.206	.003
	FI	.596	.242	.371	2.460	.019

a. Dependent Variable: CEO's Compensation
b. Predictors: (Constant), Internal Processes
c. Predictors: (Constant), Customer Satisfaction
d. Predictors: (Constant), Learning and Development
e. Predictors: (Constant), Financial Indicators

Table 4.15 provides the results of regression on the effect of the individual factors of CEO's performance on CEO's compensation. Model 1, 2, 3 and 4 present results of the influence of internal processes (IP), customer satisfaction (CS), learning and development (LD) and financial indicators (FI) respectively, on CEO's compensation. The results indicate coefficients of determination in respect of the CEO's performance factors as (R^2=0.223, 0.141, 0.531 and 0.792). This implies that financial indicators explain 79.2% of variation is CEO's compensation, followed by learning and development which explains 53.1% of variations in compensation. 22.3% of difference in CEO's compensation is due to internal processes while 14.1% is explained by customer satisfaction. Further the influence of financial indicators, customer satisfaction, internal processes and learning and development on CEO's compensation is at the rate of a unit increase in financial indicators, customer satisfaction, internal processes and learning and development to an increase of 0.371, 0.259, 0.414 and 0.632 respectively on CEO's compensation (β= 0.371, 0.259, 0.414 and 0.632; t=-2.460, 1.651, 2.804, 5.026; P<0.05).

4.10.2 CEO'S Power, Performance and Compensation

The second objective sought to establish the moderating influence of CEO's Power on the link between CEO's Performance and CEO's Compensation. This was established through testing the following hypothesis.

Hypothesis 2: CEO's Power Moderates the Relationship between CEO's *Performance and CEO Compensation*

Hypothesis 2 was tested using Hierarchical regression analysis. The steps are:

Step 1: CEO's Compensation was regressed on CEO's Performance

Step 2: CEO's Compensation was regressed on CEO's Performance and CEO's Power

Step 3: CEO's Compensation was regressed on CEO's Performance, CEO's Power and interaction between CEO's Performance and CEO's Power.

The results of the Hierarchical regression analysis are presented in Table 4.16

Table 4.16: Hierarchical Regression Results on Moderating Effect of CEO's Power on the Relationship between CEO's Performance and Compensation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.880[a]	.774	.769	10.44397	.774	137.175	2	40	.000
2	.880[b]	.774	.763	10.57640	.000	.000	0	0	.000
3	.898[c]	.807	.791	9.91685	.033	84.338	1	38	.000

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14962.558	1	14962.558	137.175	.000
	Residual	4363.064	40	109.077		
	Total	19325.622	41			
2	Regression	14963.074	2	7481.537	66.883	.000
	Residual	4362.549	39	111.860		
	Total	19325.622	41			
3	Regression	15588.551	3	5196.184	52.837	.000
	Residual	3737.071	38	98.344		
	Total	19325.622	41			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.376	1.749		.787	.036
	OP	.960	.082	.880	11.712	.000
2	(Constant)	2.773	20.662		.134	.004
	OP	.960	.083	.880	11.541	.000
	CP	-.331	4.874	-.005	-.068	.046
3	(Constant)	3.123	19.374		.161	.003
	OP	.168	.454	-.154	-.371	.013
	CP	-.426	4.570	-.007	-.093	.024
	OP_CP	.271	.107	1.049	2.522	.016

a. Dependent Variable: CC (CEO's Compensation)
b. Predictors: OP (CEO's Performance)
CP (CEO'S Power)
OP*CP (Interaction between Organizational Performance and CEO'S Power)

As shown in table 4.16, the overall regression model was statistically significant (R^2=0.807, F=52.837, P<0.05), implying model fit. In step one: CEO's Compensation was regressed on CEO's Performance. The findings presented in table 4.16 reveal a significant effect of CEO's performance on compensation (R^2=0.774, F=137.175,

P<0.05), implying that 77.4% of change in CEO's compensation is attributed to CEO's performance. The findings further indicate that a unit change in CEO's performance is associated with 0.96 change in CEO's compensation (β=0.960, t =11.712, P<0.05).

In step two: CEO's compensation was regressed on both CEO's performance and CEO's power. The findings presented in the table reveal a significant effect of CEO's performance and CEO's power on compensation (R^2=0.774, F=66.883, P<0.05), suggesting that 77.4% of change in CEO's compensation is attributed to both CEO's performance and CEO's power. From the rate of change perspective, the findings show a significant beta coefficient for the effect of CEO's performance and CEO's power on compensation (β=0.960, t=11.541, P<0.05). This means that a unit change in CEO's performance elicits 0.960 unit change in CEO'S compensation. The results, however reveal a statistically insignificant effect of the CEO's power on CEO's compensation (β= -0.331, t= -0.068, P>0.05). The finding suggests that a unit decrease in CEO's power reduces CEO's compensation by 0.068.

In step three: interaction term depicting product of CEO's power and CEO's performance was added to the regression equation. The purpose of adding the interaction term was to establish whether CEO's power has significant effect on the link between CEO's performance and compensation. Findings in table 4.16 indicate a model fit (F=52.837, P<0.05). Results further show a significant coefficient of determination in step three of the stepwise regression analysis (R^2=0.807, F=52.837, P<0.05), suggesting that CEO's power together with CEO's performance explain 80.7% of change in CEO's compensation. Model 3 in the model summary provides regression results of the interaction between CEO's performance and CEO's power significantly accounting for more variance in CEO's compensation than when organizational CEO's and CEO's

power act by themselves (R^2 change = 0.003, P>0.000). This indicates that there is a moderating effect of CEO's power on the relationship between CEO's performance and CEO's compensation. The influence of the interaction between CEO's performance and CEO's power on compensation is at the rate of a unit increase in the interaction term (CEO's performance*CEO's power) to an increase of 0.271 in CEO's compensation (β=0.0271, t=2.522, P<0.05). The results of step three therefore support hypothesis 2 which proposes that the effect of CEO's performance on CEO's compensation is moderated by CEO's power. In other words, CEO's power weakens the effect of CEO's performance on CEO's compensation. Using findings from table 4.16, the overall predictor model can be stated as: **CC=3.123+0.168OP-0.426CP+0.271OP*CP +ε**

4.10.3 Effect of Firm Size on the Relationship between CEO's Performance and Compensation

The study's third objective aimed at establishing the influence of firm size on the effect of CEO's performance on compensation. This was assessed by testing hypothesis 3.

Hypothesis 3: Firm Size Moderates the Relationship between* CEO's *Performance and CEO'S Compensation.

Hierarchical Regression technique was used to test Hypothesis 3.

Step 1: CEO's compensation was regressed on CEO's Performance

Step 2: CEO's compensation was regressed on CEO's Performance and Firm Size

Step 3: CEO's compensation was regressed on CEO's Performance, Firm Size and interaction between CEO's Performance and Firm Size.

The results of the Hierarchical regression analysis are presented in Table 4.17.

Table 4.17: Hierarchical Regression Results for the Moderating Effect of Firm Size on the Relationship between CEO's Performance and Compensation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.880[a]	.774	.769	10.44397	.774	137.175	2	40	.000
2	.912[b]	.832	.823	9.13454	.000	.000	0	0	.000
3	.924[c]	.853	.841	8.64583	.079	63.663	1	38	.000

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14962.558	1	14962.558	137.175	.000[b]
	Residual	4363.064	40	109.077		
	Total	19325.622	41			
2	Regression	16071.473	2	8035.736	96.306	.000[c]
	Residual	3254.150	39	83.440		
	Total	19325.622	41			
3	Regression	16485.105	3	5495.035	73.512	.000[d]
	Residual	2840.517	38	74.750		
	Total	19325.622	41			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.376	1.749		.787	.036
	OP	.960	.082	.880	11.712	.040
2	(Constant)	1.994	1.787		-1.116	.021
	OP	.465	.153	.427	3.033	.004
	FS	.582	.160	.513	3.646	.001
3	(Constant)	1.733	1.695		-1.022	.013
	OP	.417	.402	-.382	-1.036	.007
	FS	.529	.153	.466	3.465	.001
	OP*FS	.222	.095	.863	2.352	.024

a. Dependent Variable: CC (CEO's Compensation)
b. Predictors: OP (CEO's Performance)
FS (Firm Size)
OP*FS (Interaction between CEO's Performance and Firm Size)

In step one: CEO's compensation was regressed on CEO's Performance. The findings presented in table 4.17 reveal CEO's performance having significant effect on CEO's compensation (R^2=0.774, F=137.175, P<0.05), and also implies model fit. The results indicate that 77.4% of variation in CEO's compensation is attributed to CEO's performance. The results also indicate a significant F ratio as an indication of model fit.

The findings further revealed a unit change in CEO's performance is due to 96% change in CEO compensation (β=0.96, t=11.712, P<0.05).

In step two: CEO's compensation was regressed on both CEO's performance and firm size. The findings presented in the table reveal a significant effect of firm size on CEO'S compensation (R^2=0.832, F=96.306, P<0.05), implying that 83.2% of change in CEO'S compensation is attributed to CEO's Performance and Firm Size. From the rate of change perspective, the findings show a significant beta coefficient for the effect of CEO's performance on compensation (β=0.465, t= 3.033, P<0.05). This means that a unit change in CEO's performance elicits 0.582 variations in CEO'S compensation. Results also indicated a statistically insignificant effect of firm size on CEO's compensation (β=0.582, t= 3.646, P<0.05). The finding suggests that a unit increase in firm size increases CEO's compensation by 0.465. This is because the individual influence of size of a firm on CEO's compensation was positive.

In step three: an interaction depicting the product of firm size and CEO's performance was added to the regression equation. The purpose of adding the interaction term was to establish whether the moderator had significant effect on the link between CEO's performance and compensation. The findings in table 4.17 indicate a model fit (F=73.512, P<0.01). The results further show a significant coefficient of determination in step three of the hierarchical regression analysis (R^2=0.853, (F=73.512, P<0.01), suggesting, size of a firm together with CEO's performance explain 85.3% of change in CEO's compensation. When CEO's performance interacts with firm size, they significantly account for more variance for more variation in CEO's compensation that when CEO's performance acts independently R^2 change = 0.079, P<0.05). This indicate that firm size has a moderating effect on the relationship between CEO's performance

and compensation. Further the influence of the interaction between CEO's performance and size of a firm on CEO's compensation at the rate of a unit increase in the interaction term (CEO's performance*firm size to an increase of 0.222 in CEO's compensation (β=0.222, t=2.352, P<0.05). These results of step three, therefore, support hypothesis 3 which proposes that the effect of CEO's Performance on compensation is moderated by firm size. In other words, firm size strengthens the effect of organizational performance on CEO's compensation. Thus, the bigger the firm size the greater the effect of CEO's Performance on compensation. From the findings the overall predictor model can be stated as: **$CC=1.733+0.417OP+0.529FS+0.222OP*FS+\varepsilon$**

4.10.4 The Joint Effect of CEO's Performance, Power and Firm Size on Compensation

The study's fourth objective was to investigate if the joint effect of CEO's Performance, CEO's Power and Firm Size was greater than their individual effect on compensation. This was assessed by testing hypothesis 4.

Hypothesis 4: Joint effect of* CEO's *Performance, Power and Firm Size is greater than the Average Effect of the Individual Predictor Variables on Compensation

Multiple Linear Regression analysis was used to test this hypothesis. The findings are summarized in Table 4.18.

Table 4.18: Multiple Regression Results for the Joint effect of CEO's Performance, Power and Firm Size on Compensation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.880[a]	.774	.769	10.44397
2	.880[b]	.774	.763	10.57640
3	.912[c]	.832	.818	9.25187

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14962.558	1	14962.558	137.175	.000[b]
	Residual	4363.064	40	109.077		
	Total	19325.622	41			
2	Regression	14963.074	2	7481.537	66.883	.000[c]
	Residual	4362.549	39	111.860		
	Total	19325.622	41			
3	Regression	16072.929	3	5357.643	62.591	.000[d]
	Residual	3252.693	38	85.597		
	Total	19325.622	41			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.376	1.749		.787	.036
	OP	.960	.082	.880	11.712	.000
2	(Constant)	2.773	20.662		.134	.004
	OP	.960	.083	.880	11.541	.000
	CP	-.331	4.874	-.005	-.068	.946
3	(Constant)	4.354	18.182		-.239	.012
	OP	.465	.155	.426	2.991	.005
	CP	.557	4.271	.009	.130	.897
	FS	.583	.162	.514	3.601	.001

a. Dependent Variable: CC (CEO's Compensation)
b. Predictors: (Constant), CEO's Performance
c. Predictors: (Constant), CEO's Power
d. Predictors: (Constant), Firm Size

Key:
OP – CEO's Performance
CP – CEO'S Power
FS – Firm Size

The results in table 4.18 indicate that Joint effect of CEO's Performance, Power and Firm Size on Compensation was significant as shown in the overall model (R^2 = 0.832, F = 62.591 P<0.01), implying model fit. In the presence of CEO's power and firm size, the effect of CEO's Performance on compensation was significant (β=0.456, t=3.267, P<0.05). The effect of Power on Compensation in the presence of CEO's Performance and Firm Size was insignificant (β=-0.465, t=2.991, P>0.05. Similarly, the influence of Firm Size on Compensation in the presence of CEO's Performance and Power was not significant (β=0.96, t=11.541, P>0.05). As such, only CEO's performance had significant effect on CEO's Compensation in the presence of CEO's Power and Firm Size. Overall model of regression results showed that joint effect of CEO's Performance, Power and Firm Size on Compensation was significant (R^2=0.912, P<0.01). Hence hypothesis 4 was confirmed.

The overall model of the joint effect of CEO's Performance, Power and Firm Size on Compensation can be stated as follows: **CC=-4.354+0.465OP+0.557CP+0.583FS+ε.**

4.11 Discussion of the findings

In this section the results are discussed under each research objective and conceptual hypothesis. The study findings are discussed in comparison to the results of previous studies that are related to the study variables to reveal any consistencies or inconsistencies. The results are also discussed in relation to theories that underpin them.

4.11.1 The Influence of CEO's Performance on Compensation

Objective one of the study was set to investigate the influence of CEO's performance on remuneration for firms listed at the NSE. Hypothesis one was confirmed by the results of the simple linear regression analysis (R^2=.774, F=137.175, P<0.05). Further, the results

revealed that the rate of change (β=0.96, t=11.712, P<0.05) between the two variables was significant. The findings concur with those of the previous studies that indicate a strong link between CEO's performance and compensation, where the performance of an organization was measured using ROA and ROE. Jensen and Murphy (1990) found a significantly positive association among CEO's cash components of compensation and CEO's performance measured through wealth of shareholder. In addition, Joskow and Rose (1994) reported a significant relationship between CEO's performance measured through "market-based and accounting measures" and CEO's "total compensation".

However, the current study expanded the measures of CEO's performance to include the balanced scorecard elements of financial indicators, customer satisfaction, internal processes and learning and development. Results of regression analysis on the balance scorecard measures revealed that they had significant relationships with CEO's compensation (R^2 = 0.223, 0.141, 0.531 and 0.792). This implied that learning and development explained 79.2% of variations in CEO compensation, internal processes explained 53.1% of the variations, and financial indicators explained 22.3% of the variation while customer satisfaction explained 14.1% of the variations in CEO's compensation. Beta coefficients display a similar pattern.

These results affirm the preposition of Kaplan and Norton (1992) who argued that CEO's performance should not be viewed narrowly by focusing on the financial results but rather CEO's performance measurement should as a whole consider the factors that drive and contribute to firm's performance like learning and development, internal processes and customer satisfaction. Results of this study reveal that firms listed at the NSE consider both the financial and non-financial indicators of CEO's performance when making decisions on CEO remuneration levels. These results also concur with Esptein

and Roy's (2005) argument that several organizations today use "non-financial measures" to evaluate CEO performance.

The results of this study however contradict Tarus (2014) and Aduda (2011), which established a weak link between executive compensation and financial performance of organizations. This could be attributed to the fact that the two studies, although done in the Kenyan context, focused on the overall executive compensation and not the individual CEO'S compensation. Besides, the studies were conducted in specific industries, namely insurance and banking while the current study included all firms listed at the NSE which represent many sectors. The results of this study indicate that organization boards consider CEO's performance in determining the level of compensation to offer the CEO's. This is consistent with the theoretical propositions of the "Agency theory" that shareholders of an organization delegate authority for decision making to an "agent", the CEO. The theory proposes the existence of an "agency problem" where a CEO and the organization's shareholders in most cases hold varying interests. This makes the CEO'S adopt strategies that satisfy their individual interests which sometimes end up hurting the organization (Jensen and Mackling, 1976). As such, in deciding the level of CEO remuneration, Boards consider the CEO's performance so as to influence the their behavior and interest towards enhancing organizational performance.

4.11.2 The Effect of CEO's Power on the Relationship between CEO's Performance and Compensation

Objective two of this study aimed at establishing influence of CEO's power on the relationship between CEO's performance and compensation. Hierarchical regression

model was applied in testing the hypothesis. The findings in step three of the regression analysis that introduced interaction between CEO's performance and compensation, revealed a significant moderating effect by CEO's power (β=0.271, t=2.522, P<0.05). There are no previous studies that considered the moderating effect of CEO'S power on the relationship between CEO's performance and CEO remuneration. However, past studies considered the direct effects of CEO's performance and CEO power on CEO remuneration. Results of this study revealed that, the influence of the interaction between CEO's performance and power on compensation is at the rate of a unit increase in the interaction term (CEO's Performance*CEO'S Power) to a decrease of -3.148 in CEO'S compensation (β=-3.148, t = 0.271, P<0.01). This implies that CEO's Power causes a decline in the effect of CEO's performance on remuneration. CEO's of firms in the study may have very limited power to effect change in their compensation packages. In fact, some board members of the firms listed at the NSE observed that CEOs do not have power to influence decisions over their compensation. As suggested by Harrison et al. (1998), one source of power that CEOs can have is when they double up as board chair. For listed firms at NSE, it is a requirement by the CMA that CEOs should not double up as chair of the board hence limiting their ability to have control of the board and in turn control over their compensation decision. Though the CEOs of firms listed at the NSE have limited power to influence decisions over their compensation levels, the study found that their respective compensation packages have been increasing. This could be explained by "tournament theory" which considers compensation as a prize such that the first prize goes to the CEO which is the highest ranking position in an organization (Laser and Rosen, 1981). "Tournament theory" also proposes a large compensation difference between the tournament winner, thus the CEO and other company executives act as an

effective means of lowering the monitoring costs and help to merge the needs of the shareholders and needs of the CEOs.

The study findings concur with the propositions of Expectancy Theory which advocates for rewarding executives in accordance with their input levels to the organization (Gerhart e. al; 2005). In support of this theory, it can be argued that that CEOs can perceive their compensation to be equivalent to their effort when their compensation is comparable to those of other CEOs with equivalent managerial capabilities and responsibilities. This helps explain the finding that there has been general increase in CEO remuneration among firms listed at the NSE.

4.11.3 The Effect of Firm Size on the Relationship between CEO's Performance and Compensation

The third objective was designed to establish the effect of size of an organization on the relationship between CEO's Performance and compensation. Hierarchical regression analysis was applied in testing this hypothesis. Results showed a significant coefficient of determination in step three of the stepwise regression analysis (R^2=0.853, F=73.512, P<0.01), suggesting that size of a firm acting together with organizational performance explains 4.8% of change in CEO's compensation. Further interaction between CEO's performance and size of a firm causes increase in CEO's compensation by 0.222 (β=0.222, t=2.352, P<0.05). This implies that size of a firm enhances the link between CEO's performance and compensation (R^2 change = 0.079). This could be explained as suggested by previous studies that increase in CEO's compensation in large firms is justified by greater responsibility of the CEO, larger scale of operations and greater complexity in the CEO'S work (Hijazi and Bhatti, 2007). Sonenshine et. al. (2016) note

that previous research have empirically established that firm size play a key role in the determination of CEO's compensation, and in line with this argument, CEO'S of larger firms generally tend to receive higher compensation. The school of thought that suggests pay based on performance, argue that larger firms will recruit highly competent CEOs that will command higher pay. Further, increase in firm size will upscale the resources under the CEO's control and will cause him to demand higher or more incentives so as to keep his/her interest aligned to organizational goals. Study findings concur with this school of thought. As noted by Core et. al. (1999) CEO's compensation can be seen as a function of firm performance, complexities of organizational operations, opportunities for firms to grow and board composition. However, there are no previous studies that examined the moderating effect of firm size on the link between CEO's performance and compensation. Instead, past research only examined direct effect of organizational performance and firm size on CEO's compensation.

4.11.4 The Joint Effect of CEO's Performance, Power and Firm Size on Compensation

The fourth and last objective was meant to find out whether joint effect of the CEO's Performance, CEO's Power and Firm Size on compensation is different from their individual effects. Multiple regression analysis was applied to test hypothesis drawn from this objective. Results revealed that the three predictor variables together had significant effect on CEO's compensation (($R^2 = 0.832$, $F = 62.591$ $P<0.01$). This implies that 83.2% of difference in CEO remuneration was jointly explained by CEO's performance, CEO's power and firm size.

The results also indicated significant influence of CEO's performance on compensation in the presence of CEO's power and firm size (β=0.456, t=3.267, P<0.05). Further a rise in CEO's performance drives their compensation upwards as earlier discussed. However, the study indicates further that the effect of CEO's power on remuneration in the presence of CEO's performance and firm size was insignificant (β=-0.465, t=2.991, P>0.05). Similarly, the effect of firm size on compensation in the presence of CEO's performance and CEO's power was not significant (β=0.96, t=11.541, P>0.05). This implies that only CEO's performance had significant effect on compensation in the presence of CEO's power and firm size. The influence of CEO's performance on CEO remuneration is enhanced with the presence CEO power and firm size. The basis of this conclusion is that while acting individually, CEO's performance contributed 77.4% to change in CEO's compensation ((R^2=0.774, P<0.01), but while acting jointly with CEO's power and firm size, it explained 83.2% of change in CEO compensation. As such, 5.8% of difference in CEO's compensation can be attributed to CEO's power and firm size. This implies that in the determination of CEO remuneration, CEO's performance makes a greater contribution to the decision on CEO compensation than does firm size and CEO power.

CHAPTER FIVE: SUMMARY, CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

5.1 Introduction

The study intended to investigate the outcome of Firm Size and CEO's Power on the link between CEO's Performance and Compensation for listed firms at NSE. This section provides a summary of key findings and their implications, recommendations and conclusions of the study. It further provides the study limitations and proposes issues of interests that future related studies could focus on. The study aimed at achieving four objectives. The first objective was to establish the influence that CEO's Performance has on the determination of CEO compensation for firms listed at the NSE. The second objective aimed at investigating the influence of CEO's Power to the connection among the CEO's Performance and CEO remuneration. The third objective sought to investigate the effect of firm size on the link amid organizational performance and CEO remuneration. While the fourth and last objective aimed at revealing the joint effect of CEO's Performance, CEO Power, and Firm Size on CEO Compensation.

5.2 Summary of Findings

In respect to objective one that investigated the influence of CEO's Performance on CEO remuneration, the findings revealed a positive and significant association among CEO's Performance and CEO remuneration. CEO's performance was measured using 4 sub-variables in line with balance score card that is financial indicators, internal processes, customer satisfaction and learning and growth. A correlation analysis indicated a moderately positive and high link among financial performance indices and internal processes with CEO compensation. There was a positive but weak link among customer

satisfaction and CEO's compensation though the relationship was insignificant. Link amid CEO remuneration and learning and growth was positive and significant. Of the four variables, learning and growth explained variations in CEO's compensation to a higher degree, followed by internal processes, financial indicators and the lowest being customer satisfaction. Multiple regression for the effect of CEO's performance on CEO remuneration indicated that organizational outcome explains 77.4% of variations in CEO'S compensation and the relationship was significantly positive (R^2 = 0.774, β= 0.960, P<0.05). Financial indicators, internal processes and learning and growth reveal significant relationships with CEO's compensation but insignificant relationship with customer satisfaction.

Findings connected to objective two revealed that CEO power had negative consequence to the connection among organizational performance and CEO's power. Results indicated that the introduction of the moderating term (OP*CP) weakened the strength of the association among CEO's performance and compensation but was still significant (R^2=0.807, β=0.271, F=52.837, P<0.05) The initial model revealed that CEO's performance explained 77.4% of variations in CEO remuneration although with the introduction of the interaction among organizational outcome and CEO'S power, it explained 80.7% of difference in CEO remuneration (R^2=0.033) as shown in table 4.17, thus CEO power enhanced the relationship between CEO's performance and CEO remuneration.

The third objective was met by confirming that firm size exerted a moderating positive and significant consequence on the association among organizational outcome and CEO remuneration. The initial model for link among CEO's performance and compensation revealed that CEO's performance explained 77.4% of variations in CEO's compensation

where (R^2=0.774, β=0.96, F=137.175, P<0.05). Results indicated that the introduction of the interaction term (OP*FS) strengthened the link among the CEO compensation and CEO's performance variable by explaining 85.3% of difference in CEO remuneration, (R^2=0.85.3, β=0.222, F=73.512, P<0.05). This implies when CEO's performance acts together with firm size, the relationship between CEO's performance and compensation is enhanced by 7.9% than when it acts alone (R^2 change = 0.079)

The fourth objective was also confirmed using a multiple regression model for the three predictor variables, CEO's performance, CEO's Power and Firm Size. The results indicated that the three variables jointly explained 83.2% of variation in CEO remuneration (R^2=0.832, F=62.591, P<0.01). In the presence of CEO's Power and Firm Size, the effect of CEO's performance on compensation was significant (β=0.456, t=3.267, P<0.05). The effect of CEO's Power on Compensation in the presence of CEO's Performance and Firm Size was insignificant (β=-0.465, t=2.991, P>0.05. Similarly, the influence of Firm Size on CEO's Compensation in the presence of CEO's Performance and CEO's Power was not significant (β=0.96, t=11.541, P>0.05). As such, only CEO's performance had significant effect on CEO's Compensation in the presence of CEO's Power and Firm Size. Overall model of regression results showed that joint effect of CEO's Performance, CEO's Power and Firm Size on Compensation was significant (R^2=0.912, P<0.01). Findings further revealed that joint relationship among the three variables with the dependent variable was significantly positive. This shows the joint effect of the predictor variables on CEO remuneration was significant.

Table 5.1: Research Findings, Summary and Conclusions

OBJECTIVE	HYPOTHESIS	RESEARCH FINDINGS	CONCLUSIONS
Objective 1 To establish the influence of organizational performance on the determination of CEO's compensation	H_1 CEO's performance has an influence on CEO's compensation	The study's results study indicate that CEO's Performance explained 774% of variations on CEO's compensation and the relationship is positive and statistically significant (R^2=.774, F=137.175, P<0.05), (β=0.96, t=11.712, P<0.05). The predictor simple regression model was **CC=1.376+0.96P+ε**	Hypothesis one was supported
Objective 2 To determine the effect of CEO's power on the link among CEO's performance and the revision of CEO's compensation	H_2 The influence of CEO's performance on CEO's compensation is moderated by CEO's power	The results indicated that the introduction of the moderating variable, CEO's power, weakened the strength of the association among CEO's performance and CEO's compensation but was still significant (R^2=0.807, F=52.837, β=0.271, t=2.522, P<0.05) The overall model was **CC=3.123+0.168OP-0.426CP** **+0.271OP*CP +ε**	Hypothesis two was supported
Objective 3 To establish the effect of firm size on the link between CEO's performance and their revision of	H_3 The influence of CEO's performance on CEO's compensation is moderated by	The results indicate that the introduction of the moderating variable strengthens the association among the performance of an organization and CEO compensation variable but was statistically significant ((R^2=0.853, F=73.512, β=0.222, t=2.352, P<0.05) The overall model was **CC=1.733+0.417OP+0.529FS+0.222OP*FS +ε**	Hypothesis three was supported

CEO's compensation	Firm Size		
Objective 4 To establish the joint effect" of CEO's performance, CEO's power, and firm size on CEO's compensation.	H_4 The joint effect of CEO's performance, CEO's power and Firm Size is greater than their individual effects on CEO's compensation	The results indicated that the three predictor variables jointly explain 30.9% of variations in CEO's compensation and the relationship is moderately positive and significant. (R^2=0.912, P<0.01), β=0.456, t=3.267 and P<0.05) The overall model was **CC=4.354+0.557CP+0.583FS+ε**	Hypothesis four was supported

Source: Author

5.3 Implications of Findings

5.3.1 Theoretical Implication

Sonenshine et al. (2016) observes that two main prevailing approaches exist to expound the determinations of CEO'S compensation. The first approach which was proposed by the Agency theory, explains that organizations "board of directors" design the contracts of compensation for CEO's in a way that provides incentives for the CEO's to increase and maximize the wealth of shareholders. The second school of thought is the 'managerial power' view proposed by Bebchuk and Fried (2003) which argues that CEO's exercise authority on members of board of their organizations and this power gives them to effectively participate in decisions of their own compensation levels. Principal-Agent approach justifies the high average levels of CEO remuneration by supporting it as a means of compensating the CEO for the risk they bear through connecting CEO remuneration to organizational outcome through stocks and options. This proposal is seconded with the study results which revealed a positive and significant link amid organizational outcome and CEO remuneration. Conversely, in the "managerial power" approach, the high levels of compensation that CEOs receive are attributed weak corporate governance which gives CEO's power of the board and compensation committee. This proposition was upheld by the study findings which revealed that CEO's of firms listed at the NSE have limited power over their boards hence cannot influence decisions of their compensation.

The reinforcement theory proposed by Skinner (1953), suggests that the behavior of individuals in an organization is largely instrumental. Such that people act on their surrounding as well as deliberately get into and out of varying situations thus, the

behavior of employees is often instrumental in generating desired outcomes. When employees receive desired outcomes after engaging in specific forms of behavior, those behavior patterns are likely to recur in future. This position was first posited by Thorndike (1911) and is summarized in "Thorndike's law of effect" which states:

> Of several responses made to the same situation, those which are accompanied or closely followed by satisfaction the animal will, other things being equal, be more firmly connected with the situation, so that when it recurs, they will be more likely to occur. Those which are accompanied or closely followed by discomfort to the animal will, other things being equal, have their connection with that situation weakened, so that when it recurs, they will be less likely to occur. The greater the satisfaction or discomfort, the greater is the strengthening or weakening of the bond.

The consequences of employees' performance are seen to have powerful implications on employee's day to day activities when employees' performance is followed by frequent, contingent & positive consequences, meaningful and significant improvement seen in future performance (Steers et al, 1996). In affirmation to these proposals, CEO's compensation is influenced by organizational performance. The prepositions of reinforcement theory are confirmed by the study results which found out that organizational board of directors consider organizational performance when determining CEO'S levels of compensation as confirmed by hypothesis 1 of the study.

Agency theory proposes that the shareholders of an organization pass on their responsibility of making strategic decisions to an agent, in this case the CEO. A CEO and the firms' shareholders in most cases have varying interests such that the CEO may

make strategic decisions that certify their interests as individuals and such interests may harm the firm (Jensen and Mackling 1976). The "boards of directors" of a firm are the watchdog of shareholders. Their role includes monitoring the CEO's actions and designing and implementing an effect compensation package for the CEO. They would therefore seek to develop a CEO compensation package hick links the CEO's interests to those of shareholders (Elsenhardt, 1989). Agency troubles emerge in cases where authority delegates accountability of duties to other persons. Study findings are in line with propositions of the "agency theory". Findings do reveal that firms listed at the NSE tied CEO remuneration to organizational outcome in the hope that the CEO will strive to enhance organizational performance in order to increase probability of increased compensation. Theory provides that self-governing directors and consultants who are engaged to provide advise the board usually possess minimal or no concern in protecting shareholders' interests. As such, the CEO can manage to influence their own compensation and lead to distortion of their compensation and lead to distortion of their compensation contract (Bebchuk et.al. (2010). This implies that "percentage of independent directors in the board" should be at a minimal level so as to trim the power of the CEOs to influence their own compensation.

According to Expectancy theory formulated by Vroom (1964) that explains the process by which employees' behavior is driven in work settings, people consciously enter into and rationally select the behavior to adopt at work. The theory argues that employees weigh the various work behavior to engage in a rational basis and then choose to engage in those behaviors that they hope will elicit valued work related rewards. John (1992) supports this theory by further explaining that employees will choose to exert effort to work that they consider to be attractive and whose expectations they believe they can

meet. He further alludes to the fact that the extent to which the employee perceives that the accomplishment of certain work will elicit desired outcomes defines the level of attractiveness to that work, where desired work related outcomes may include; satisfactory pay, job satisfaction, team work, job security among others. Suggestions from this theory indicate that organizational performance which measures CEO's performance will drive the level of compensation. The findings from the study affirm this theory by showing that CEO's performance has significance influence on compensation hence confirming hypothesis 1 of the study.

5.3.2 Implication for Policy and Managerial Practice

CEO's compensation has been on a continuous rise and there has been a growing concern for the explanation of the same. The current study sought to investigate influence of organizational performance, CEO's power and firm size on the determination of CEO compensation. Results of the study revealed that organizational performance had significance effect on CEO's compensation while CEO's power and firm size had insignificant effect. Therefore, board directors of firms listed at the NSE should consider a compensation policy on CEO remuneration requiring that determination of CEO compensation should put into consideration the performance of organizations. Further the policy should specify the elements of organizational performance and the weights attributed to them in determining how much to pay the CEOs. This includes the balanced score measures of financial indicators, "customer satisfaction", learning and development and internal processes. The study further implies that CEO's should enhance overall performance of organizations by putting into consideration the key drivers of performance as proposed by the balanced scorecard.

As noted by Elhagrasey et al. (`1999) most research on CEO compensation have failed to adequately consider the vast power that CEO's may have in influencing their own compensation by exercising various forms of power at their disposal. It is of strategic importance for an organization to understand the forms and uses of CEO's power in order to understand the controls and constraints that corporate leaders face. This kind of understanding is important to shareholders, corporate directors and public policy makers who attempt to associate CEO's compensation to corporate performance.

5.4 Study Limitations

The study faced two main limitations. The first limitation had to do with the research design. The study adopted crosssectional research design which collected data from specific point of time thus 2016/ 2017 and 2017/2018. A longitudinal research design would have enabled comparison of pay practices and performance levels to reveal trends in CEO compensation.

The second limitation arose from the susceptible character of the study that required disclosure of the level of CEO remuneration. Most of the board members were not willing to disclose the actual figures of the CEO's compensation as was intended. This resulted in review of the questionnaire to instead ask for percentage increase in compensation. The actual figures of compensation would have provided more precise measure of the CEO remuneration and may be improved its relationship with the predictor variables.

5.5 Key Contributions of the Thesis

The debate on the need for justification of the continuous rise in CEO's Compensation among scholars is far from over. Previous studies on CEO's Compensation reveal a

significant link among CEO's Performance and Compensation (Finkelstein Hambrick, 1989, "Jensen & Murphy, 1990, Joskow and Rose, 1994" and Kobo, 2001).

However, the studies done in the Kenyan context focused generally on executive remuneration and its relation to organization performance (Aduda, 2011 and Tarus, 2014). Study outcome revealed that there existed no significant relations among remuneration of executive and firm outcome.

The current study focused specifically on CEO's Compensation and the factors that influence it. Primary data was collected to measure the opinion of board members of firms listed at the NSE on the extent to which they consider various elements of organizational performance, CEO's Power and Firm Size in determining the level of CEO remuneration. Study outcomes revealed that indeed board members significantly consider CEO's Performance when revising CEO's compensation. The study further revealed that CEO's Power has insignificant effect on CEO remuneration. This is largely attributed to requirements of CMA for listed firms that limits the CEO's power hence the influence they may have over compensation decisions. This is of importance to other firms that may not be listed to benchmark of organizational governance principles. More importantly this research adds to knowledge through the introduction of the moderating effects of Firm Size and CEO's power on the link among CEO's Performance and CEO's remuneration. The study results confirmed that CEO's Power weakens the strength of the association among CEO's Performance and CEO remuneration while Firm Size strengthens the link among the two variables. This can be considered as the key contribution that this study makes.

5.6 Recommendations for Further Research

"This study only captured data for 40 listed firms at NSE that had a total of 65 firms at the time the study was conducted. Future researchers may consider expanding the sample size of the study to include all the firms listed at NSE to increase generalizability of results across the firms. CEO compensation raise was measured using percentage increase of compensation from one year to another. However future researcher could use the actual figures of CEO remuneration increase to be more precise if the information is accessible".

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APPENDICES

Appendix I: Introductory Letter

UNIVERSITY OF NAIROBI
P.O. Box 30197-00100
NAIROBI

To Whom It May Concern

Dear Sir/Madam,

RE: CHIEF EXECUTIVE OFFICER'S PERFORMANCE AND COMPENSATION IN FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE

I am a Doctor of Philosophy (PhD) candidate at the University of Nairobi, in the Faculty of Business and Management Sciences. As part of the requirement for the award of the degree, I am expected to undertake a research study and I am seeking for your participation.

The purpose of the study is to assess the influence of CEO's Power and Firm Size on the relationship among CEO's Performance and Compensation. The interview will take approximately ten minutes to complete. Kindly answer all the questions as honestly as possible. The research results will be used for academic purposes only and will be treated with utmost confidentiality. Only summary results will be made public. Only firm will have access to these records. Should you require the summary of study findings, kindly indicate so at the end of the questionnaire. Your co-operation will be appreciated.

Yours faithfully,

Anne Omamo
Ph.D Candidate
Telephone: 0734-727515
Email: omamoann@yahoo.com

Appendix II: Questionnaire

This interview guide is designed to collect data from Executive Board members of listed firms at the NSE. This academic research is part of the effort to contribute to the study of factors influencing CEO's compensation. The data and research findings will be used for academic purposes and will be treated with strict confidence.

Thank you.

PART I: GENERAL INFORMATION

1) Name of company…….
2) Total number of employees…….

PART II: CEO'S PERFORMANCE

Rate the following performance measures in relation to your organization where 1 is very large extent thus 20% and above, 2 - large extent thus 15%-19%, 3 - moderate extent thus 10%-14%, 4 - less extents thus 5%-9% and 5 - not all thus 4% and below.

Variables	**1**	**2**	**3**	**4**	**5**
Management of Customer Satisfaction					
1. Percentage increase in the number of new customers/clients					
2. Percentage of repeat purchases					
3. Growth in sales volume in the last 10years					
4. Growth in market share					
Internal Processes					
5. My company's On-time Delivery of goods or services has been decreasing					
6. The quality of my company's products have been increasing					
7. My company's operating efficiencies have been increasing in the last five years					
Learning and growth					
8. My company's investment in research and development has been increasing in the last five years					
9. My company has been developing new products over the last					

five years					
10. Employee Satisfaction has been increasing in my company in the last five years					
11. Development and retention of key personnel in my company has been increasing in the last five years					
12. My company has built a diverse talent base over the last five years					
13. My company has always put in place a management succession plan					

PART III: CEO'S POWER

Rate the extent to which the following power bases apply to your CEO where 1 is very large extent, 2 – large extent, 3 – moderate extent, 4 – less extent and 5 – not all.

CEO'S Power Bases	**1**	**2**	**3**	**4**	**5**
14. The CEO is also the chair of the board					
15. The CEO of the company owns majority shares of the company					
16. CEO influences the appointment of new board members					
17. The number of times the current board has revised the CEO's Compensation upwards					
18. The number of times that the CEO has successfully negotiated with the board for improvements in his/her compensation package					
19. The CEO is an expert in the firms core business					

SECONDARY DATA COLLECTION FORM

Company Name	Number of Employees	CEO'S Basic Pay (2017)	CEO'S Basic Pay (2018)	Total Assets (2017)	Total Assets (2018)	Profits/Loss before tax (2017)	Profits/Loss before tax (2018)

Appendix III Secondary data collection form

S/NO.	Company Name	TOTAL SALES	number of staff	%INCREASE IN BASIC PAY	BASIC PAY2017/2018	Basic Salary 2018	Basic salary 2017	Profit/Loss before Tax 2018	Profit/loss before Tax /2017	Total Assets/2018	Total assets 2017	ROA/2018	ROA/2017	CHANGE IN ROA	%CHANGE IN ROA
1	Sasini Tea and Coffee Limited	3,515,220,000	4000	41.66911765	5,667,000	19,267,000	13,600,000	448,806,000	520,921,000	12,961,380,000	13,196,025,000	0.03462640 6	0.03947 56	-0.0048491 9	-12.2840291
2	Sameer Africa Limited	2,067,928,000	232	-42.67822736	-8,860,000	11,900,000	20,760,000	-478,114,000	27,164,000	2,587,824,000	2,969,868,000	-0.18475522 3	0.00914653 4	-0.1939017 6	-211 9.9478 1
3	The Co-operative Bank of Kenya	12,755,749,000	4251	5.67134 2685	5,660,000	105,460,000	99,800,000	18,157,131,000	16,398,638,000	413,670,710,000	386,857,567,000	0.04389 2716	0.04238 9343	0.0015033 7	3.5465831 29
	Equity Bank	12,689,588,000	6318	0	0	60,474,400	60,474,400	24,382,342,000	23,085,843,000	438,508,784,000	406,404,487,000	0.05560 2859	0.05680 5089	-0.0012022 3	-2.1164126 1
4	HF Group	555,093,000	403	-0.83415774 8	-371,000	44,105,000	44,476,000	64,413,000	311,624,000	60,549,350,000	67,541,116,000	0.00106381	0.00461384 1	-0.0035500 3	-76.943075 6
5	KCB Group	24,393,247,000	6220	4.61538 4615	3,000,000,000	68,000,000,000	65,000,000,000	33,859,000,000	29,114,000,000	714,313,000,000	646,668,000,000	0.04740 0789	0.04502 1557	0.0023 7923	5.2846 52087
6	National Bank of Kenya Limited	605,429,000	1356	5.57251 9084	2,190,000	41,490,000	39,300,000	587,502,000	749,373,000	115,143,443,000	109,942,042,000	0.00510 2349	0.00681 6073	-0.0017137 2	-25.142400 6
7	Express Kenya Limited	50,323,130	1500	13.375	1,926,000	16,326,000	14,400,000	-75,793,578	-94,309,918	320,941,770	359,932,908	-0.23615990 5	-0.26202082 6	0.0258609 2	-9.8697960 3
8	Kenya Airways Limited	100,222,000	3986	-5.88411349 2	-3,932,000	62,892,000	66,824,000	-7,588,000,000	-9,988,000,000	136,634,000,000	147,623,000,000	-0.05553 5225	-0.06765 8834	0.0121 2361	-17.918 736 6
9	Longhorn Publishers	156,259,000	260	3.62654 321	611,000	17,459,000	16,848,000	273,146,000	179,147,000	2,407,529,000	1,858,734,000	0.11345 4916	0.09638 1193	0.0170 7372	17.714 787 01

10	ITS Eastern Africa Limited (Serena	36,718,000	1215	105111.8325	41,929,110	41,969,000	39,890.00	65,837,000	72,877,000	5,512,528,000	5,510,452,000	0.01194315 9	0.01322523 1	-0.0012820 7	-9.6941339 5
11	Deacons East Africa	660,770,000	153	14.3892264	2,484,388	19,750,000	17,265,612	-823,200,000	-385,057,000	1,552,835,000	2,281,680,000	-0.53012715 5	-0.16876029 9	-0.3613668 6	214.13025 24
12	Bamburi Cement Company Limited	6,466,000	802	189.686137 8	21,757,000	33,227,000	11,470,000	1,852,000,000	1,866,000,000	50,357,000,000	47,203,000,000	0.03677740 9	0.03953138 6	-0.0027539 8	-6.9665567 5
13	Crown Berger Limited	174,520,000	1000	-11.8636331 6	-4,539,218	33,722,400	382616 18	395,935,000	398,129,000	5,475,693,000	5,871,607,000	0.07230774 3	0.06780579 8	0.0045019 4	6.6394680 13
14	Total Kenya	2,738,216,000	373	38.6082229 6	8,949,000	32,128,000	23,179,000	4,131,816,000	3,598,524,000	39,259,921,000	38,012,115,000	0.10524259 6	0.09466781 8	0.0105747 8	11.170403 68
15	Britam	26,393,611,000	509	20.48	10,752,000	63,252,000	52,500,000	-2,295,870,000	865,843,000	103,656,332,000	99,024,857,000	-0.02214886 4	0.00874369 4	-0.0308925 6	-353.31244 7
16	CIC Insurance Group Limited	17,078,711,000	496	3.00000051 8	1,565,049	53,733,340	52,168,291	851,621,000	519,156,000	32,975,733,000	30,505,376,000	0.02582568 8	0.01701850 8	0.0088071 8	51.750597 18
17	Kenya Re-insurance Corporation Limited	440,446,000	133	2.88648348 6	624,000	22,242,000	21,618,000	3,101,850	4,558,551	44,363,000	42,733,000	0.06991975 3	0.10667519 2	-0.0367554 4	-34.455470 5
18	Centum Investment Company (ICDCI) Limited	10,171,132,000	176	7.91022504 3	10,443,000	142,462,000	132,019,000	412024600	2656298000	101,764,000,000	96,288,000,000	0.04048824 7	0.02758701	0.0129012 4	46.765624 85
19	Olympia Capital Holdings Limited	500,787,000	107	-18.5701830 9	-2,130,000	9,340,000	11,470,000	-3,488,000	38,848,000	1,647,834,000	1,638,796,000	-0.00211671 8	0.02370520 8	-0.0258219 3	-108.92933 8
20	Kengen	22,185,000	2500	-37.7884	-8,957,	14,746,00	23,703,00	11,745,467,0	11,461,188,000	379,353,005,000	376,729,582,000	0.03096184	0.03042285	0.0005389	1.7716575

				656	000	0	0	00					1	9	03
21	Kenya Power	125,854,230,000	7000	84.6869290 8	5,099,000	11,120,000	6,021,000	3,089,209,000	7,656,639,000	336,655,189,000	331,236,232,000	0.00917618 1	0.02311534 3	-0.0139391 6	-60.302638 4
22	Kenol Kobil	1,381,720,000	87	14.7525500 6	7,810,000	60,750,000	52,940,000	3,680,466,000	3,538,256,000	24,099,030,000	24,201,705,000	0.15272257 8	0.14619862 5	0.0065239 5	4.4623902 49
24	Nairobi Securities Exchange Limited	626.191,000	50	30.5356111	5,548,461	23,718,921	18,170,460	240,849,000	269,522,000	2,218,388,000	2,108,220,000	0.10856937 6	0.12784339 4	-0.0192740 2	-15.076272 4
25	British American Tobacco Kenya Limited	20,750,135,000	400	59.1804635 8	7,149,000	19,229,000	12,080,000	5,880,740,000	4,886,943,000	15,007,596,000	15,239,895,000	0.39185 09	0.32066776 1	0.0711831 4	22.198408 54
26	East African Breweries Limited	73,456,822,000	1136	40.0937349 8	10,009,000	349730 00	249640 00	2,460,326,000	9,464,281,000	71,246,826,000	66,666,312,000	0.03453243	0.14196497	-0.1074325 4	-75.675387
27	Eveready East Africa Limited	251,720,000	450	1.07439565 2	172,000	16,181,000	16,009,000	-166,831,000	249,134,000	573,778,000	772,652,000	-0.29075879 5	0.32244011 5	-0.6131989 1	-190.17451
28	Unga Group Limited	9,034,206,000	481	12.9740119 3	3,240,000	28,213,000	24,973,000	1,299,266,000	228,350,000	9,932,664,000	9,455,316,000	0.13080740 5	0.02415043 6	0.1066569 7	441.63579 9
29	Safaricom Limited	233,717,000	5500	7.57299270 1	6,640,000	94,320,000	87,680,000	79,909,000,000	70,632,000,000	167,439,000,000	161,689,000,000	0.47724245 8	0.43683862 2	0.0404038 4	9.2491446 71
30	B O C Kenya	966,543,000	33	10.1678085 6	1,024,000	11,095,000	10,071,000	119,592,000	83,613,000	2,141,747,000	2,228,669,000	0.05583852 8	0.03751701 1	0.0183215 2	48.835224 83
31	Barclays Bank of Kenya	7,421,247,000	2268	2.48931468 1	832,125	34,260,000	33,427,875	10,645,731,000	10,360,979,000	32483966600.00	2,711,773,770.00	0.03277226 3	3.82073870 4	-3.7879664 4	-99.142253 2
32	Diamond Trust Bank	6,489,932,000	922	-1.80031941 2	-1,116,000	60,873,000	61,989,000	10,970,789,000	10,089,845,000.00	377,719,314,000	363,303,400,000	0.02904481 9	0.02777250 4	0.012723 2	4.5812040 85
33	East African Portland Cement	5,182,721,000	500	42.1857923 5	4,632,000	15,612,000	10,980,000	6,962,122,000	-1,712,903,000	38,027,520,000	27,357,388,000	0.18308114 8	-0.06261208 1	0.2456932 3	-392.40546 5
34	Flame Tree	2,488,610,130	1000	1.98566	446,0	22,907	22,461	42,147,3	41,409,855	1,839,271,8	1,680,769,788	#VAL	0.02463	#VAL	#VAL

	Group Holdings			404	00	,000	,000	11		08		UE!	7434	UE!	UE!
35	I&M Holdings	2,878,878,000	1600	3.28658536	970,200	30,490,200	29,520,000	11,497,780,000	9,339,609	288,522,049,000	240,110,741,000	0.03985061	3.88971E-05	0.0398117	102351.3958
36	Liberty Kenya Holdings	9,312,050,000	327	1.96928 03	1,468,000	76,013,000	74,545,000	924,956,000	1,104,270,000	36,579,039,000	37,338,972,000	0.02528 6504	0.02957 4194	-0.0042 8769	-14.498 0803
37	Nation Media Group	9,660,600,000	1542	21.0355 9871	6,500,000	374 000 00.00	30,900,000	1634 0000 00	15410 00000	10428 10000 0	113119 00000	0.15669 2015	0.13622 822	0.0204 638	15.021 700 37
38	WPP ScanGroup	4,504,904,000	852	0	0	428 500 00	428 500 00	9598 8800 0	69641 4000	14425 19800 0	137589 12000.00	0.06654 2449	0.05061 5485	0.0159 2696	31.466 584 23
39	Sanlam Kenya	6,345,825,000	1500	4.40705 3077	1,967,000	46,600,000	44,633,000	-2,129,186,000	251,065,000	29,101,630,000	29,811,484,000	-0.07316 3806	0.00842 1755	-0.0815 8556	-968.74 7782
40	Standard Group	4,836,030,000	740	11.6638 2253	2,734,000	26,174,000	23,440,000	397,225,000	-282,186,000	4,676,133,000	4,459,637,000	0.08494 7327	-0.06327 5554	0.1482 2288	-234.24 9836
41	Trans Century	207,947,000	82	4.54 545 4545	1,500,000	34,500,000	33,000,000	-732,453,000	-323,783,000	18,740,964,000	18,911,552,000	-0.03908 2995	-0.01712 0911	-0.0219 6208	128.27 637 34
42	Williamson Tea Kenya	3,984,971,000	864	8.44 264 899 5	1,860,000	23,891,000	22,031,000	8100 5600 0	-35194 4000	95050 74000	836412 7000	0.08522 3534	-0.04207 7792	0.1273 0133	-302.53 803 6

Appendix IV Companies listed at the Nairobi Securities Exchange (2016)

Agricultural Sector

1. Eaagads Limited
2. Kakuzi Limited
3. Kapchorua Tea Company Limited
4. Limuru Tea Company Limited
5. Rea Vipingo Plantations Limited
6. Sasini Tea and Coffee Limited
7. Williamson Tea Kenya Limited

Automobiles and Accessories

8. Car and General (Kenya) Limited
9. Marshalls (EA) Limited
10. Sameer Africa Limited

Banking

11. Absa Bank
12. CFC Stanbic Bank
13. The Co-operative Bank of Kenya
14. Diamond Trust Bank (Kenya) Limited
15. Equity Bank Limited
16. Housing Finance Company Limited
17. Kenya Commercial Bank Limited
18. National Bank of Kenya Limited
19. NIC Bank Limited
20. Standard Chartered Bank Kenya Limited
21. IandM Holdings Limited.

Commercial and Services

22. Express Kenya Limited
23. Kenya Airways Limited
24. Longhorn Kenya Limited
25. Nation Media Group Limited
26. Scangroup Limited
27. Standard Group Limited
28. TPS Eastern Africa Limited (Serena Hotels)

29. Uchumi Supermarkets Limited
30. Hutchings Biemer Limited
31. Atlas Development and Support Services

Construction and Allied Sector

32. Athi River Mining
33. Bamburi Cement Company Limited
34. Crown Berger Limited
35. East African Cables Limited
36. East African Portland Cement Company

Insurance

42. British-American Investments Company (Kenya) Limited
43. CIC Insurance Group Limited
44. Jubilee Holdings Limited
45. Kenya Re-insurance Corporation Limited
46. Liberty Kenya Holdings Limited
47. Pan Africa Insurance Company Limited

Investment

48. Centum Investment Company (ICDCI) Limited
49. Olympia Capital Holdings Limited
50. Trans-Century Limited
51. Home Afrika Limited
52. Kurwitu Ventures

Investment Services

53. Nairobi Securities Exchange Limited

Manufacturing and Allied

54. Boc Kenya Limited
55. British American Tobacco Kenya Limited
56. Carbacid Investments Limited
57. East African Breweries Limited
58. Eveready East Africa Limited
59. Mumias Sugar Company Limited
60. Unga Group Limited
61. Kenya Orchards Limited

62. A. Baumann Company Limited

63. Flame Tree Group Holdings Limited

Telecommunication and Technology

64. Safaricom Limited

Real Estate Investment Trust

65. Stanlib Fahari I-REIT

Appendix V: Detailed Descriptive Statistics

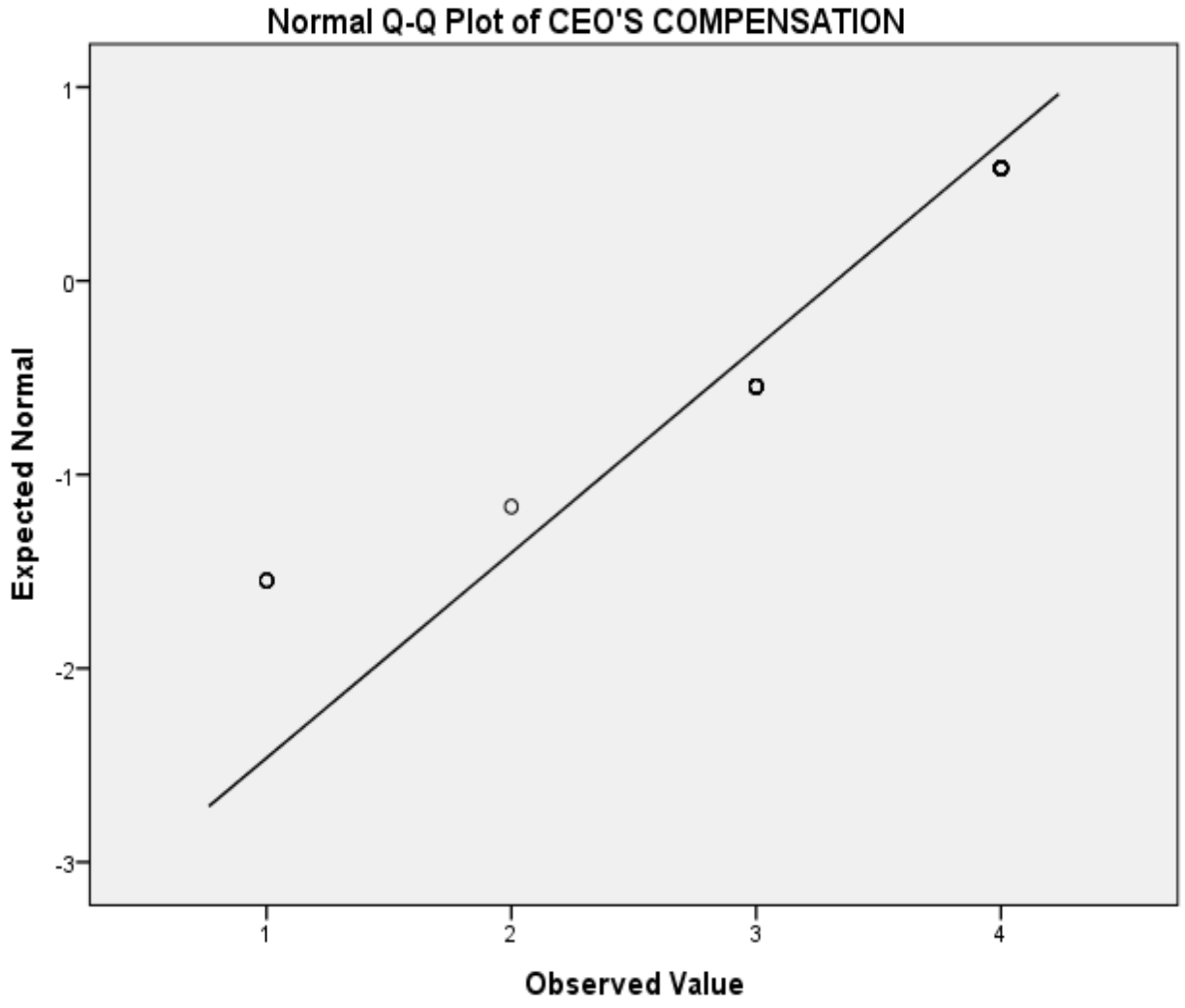
Descriptive Statistics

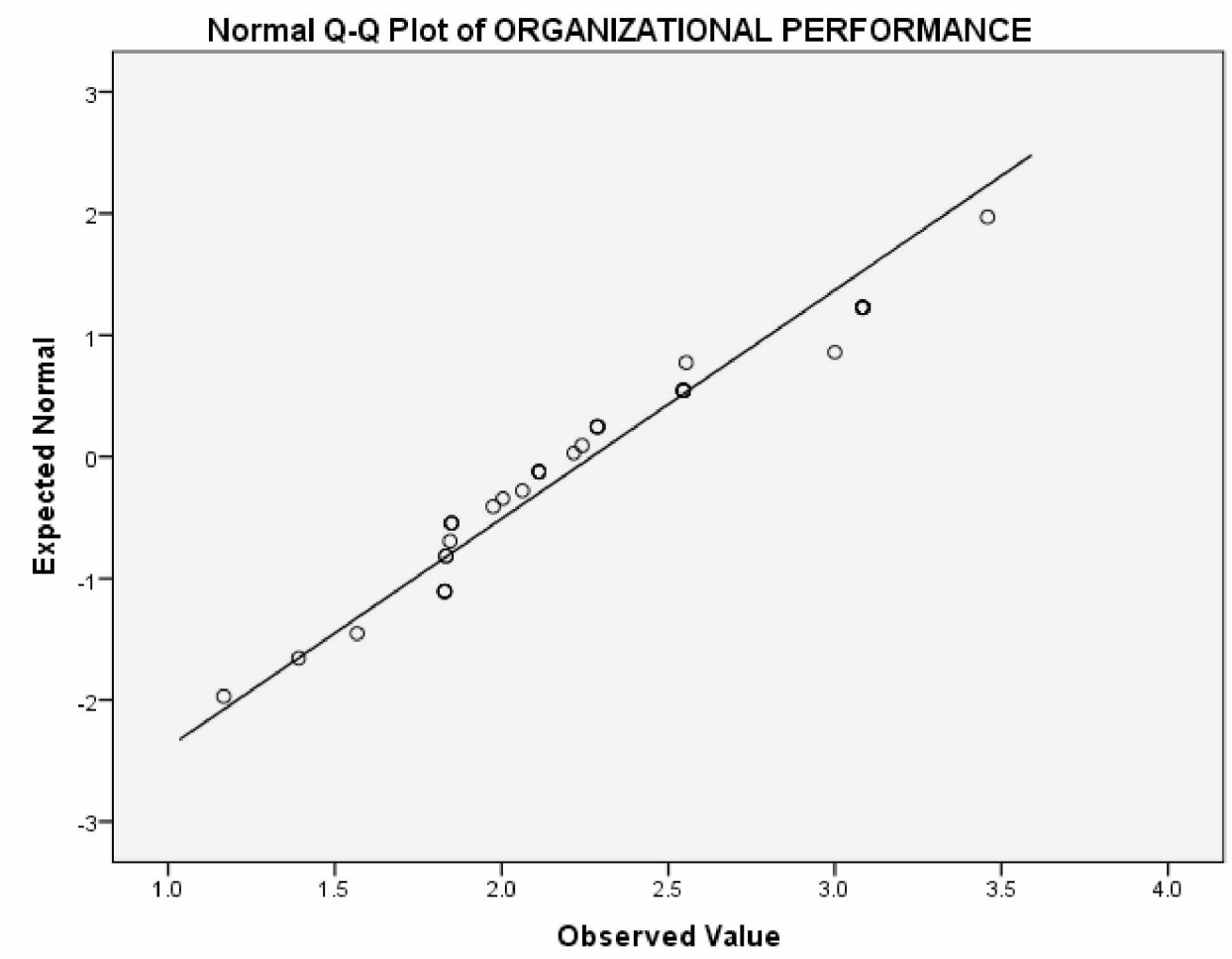
Questionnaire items	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Total number of employees	42	1.00	5.00	3.6250	1.16987	-.217	.374	-1.043	.733
Percentage increase in number of new customers	42	1.00	4.00	2.1750	1.03497	-.077	.374	-1.643	.733
Percentage of repeat purchase	42	1.00	4.00	2.0500	.84580	.170	.374	-.977	.733
Growth in sales volume in the last ten years	42	1.00	4.00	2.0500	.87560	.141	.374	-1.167	.733
Growth in market share	42	1.00	4.00	2.0500	.81492	.504	.374	-.018	.733
On time delivery of goods and services	42	1.00	4.00	1.9500	1.03651	.395	.374	-1.467	.733
Development of quality products	42	1.00	4.00	2.4250	.98417	-.120	.374	-1.015	.733
Operating efficiency	42	1.00	4.00	1.7500	.58835	.895	.374	4.126	.733
Investment in research and development	42	1.00	4.00	3.1250	.85297	-1.032	.374	.946	.733

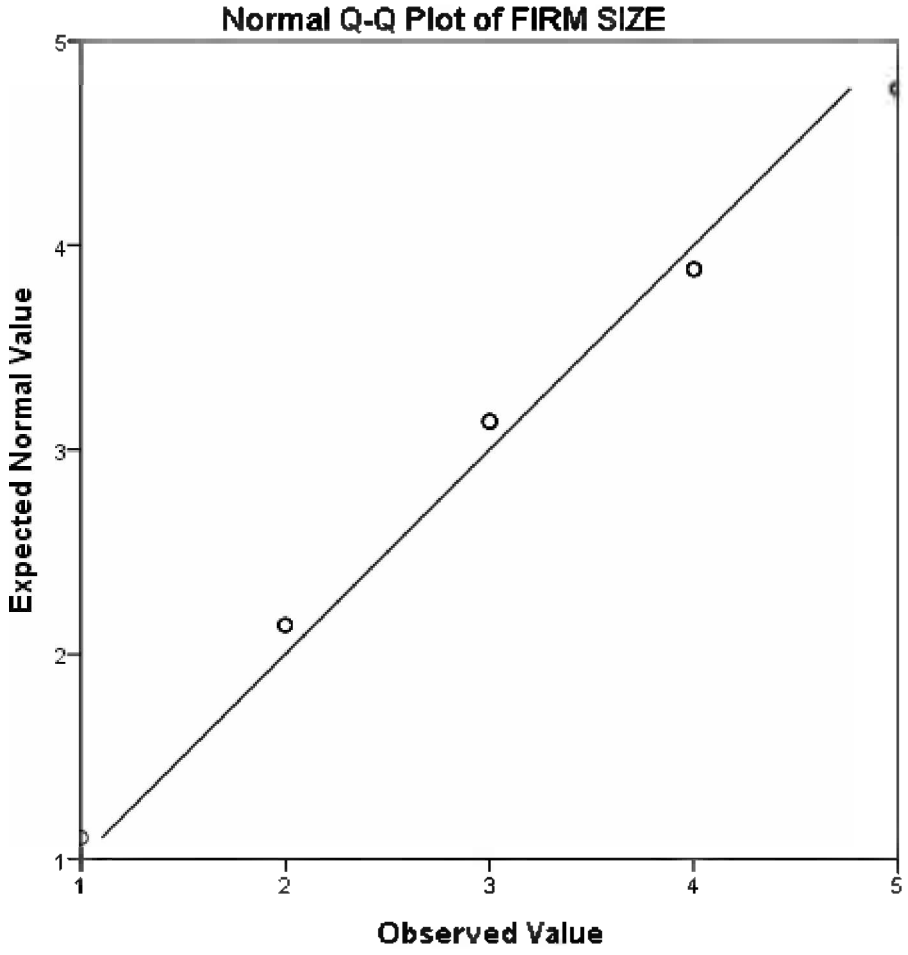
New product development and growth as a percentage of development budget	42	1.00	4.00	2.6750	1.09515	-.165	.374	-1.281	.733
Employee satisfaction	42	1.00	3.00	2.2250	.65974	-.274	.374	-.662	.733
Development and retention of key personnel	42	1.00	4.00	2.3250	.85896	-.444	.374	-1.055	.733
Building diverse talent	42	1.00	4.00	2.3500	.89299	-.317	.374	-.976	.733
Management succession planning	42	1.00	5.00	2.5250	1.10911	.230	.374	-.871	.733
CEO frequently chairs the board meetings	42	1.00	5.00	4.7500	.70711	-4.180	.374	20.655	.733
CEO owns majority of shares in the firm	42	1.00	5.00	3.800	1.01779	-0.805	0374	.297	.733
CEO influences the appointment of new board members	42	4.00	5.00	4.3500	.48305	.654	.374	-1.658	.733
The number of times the board has revised the CEO'S compensation upwards	42	1.00	5.00	3.300	1.06699	0.021	.374	-.787	.733

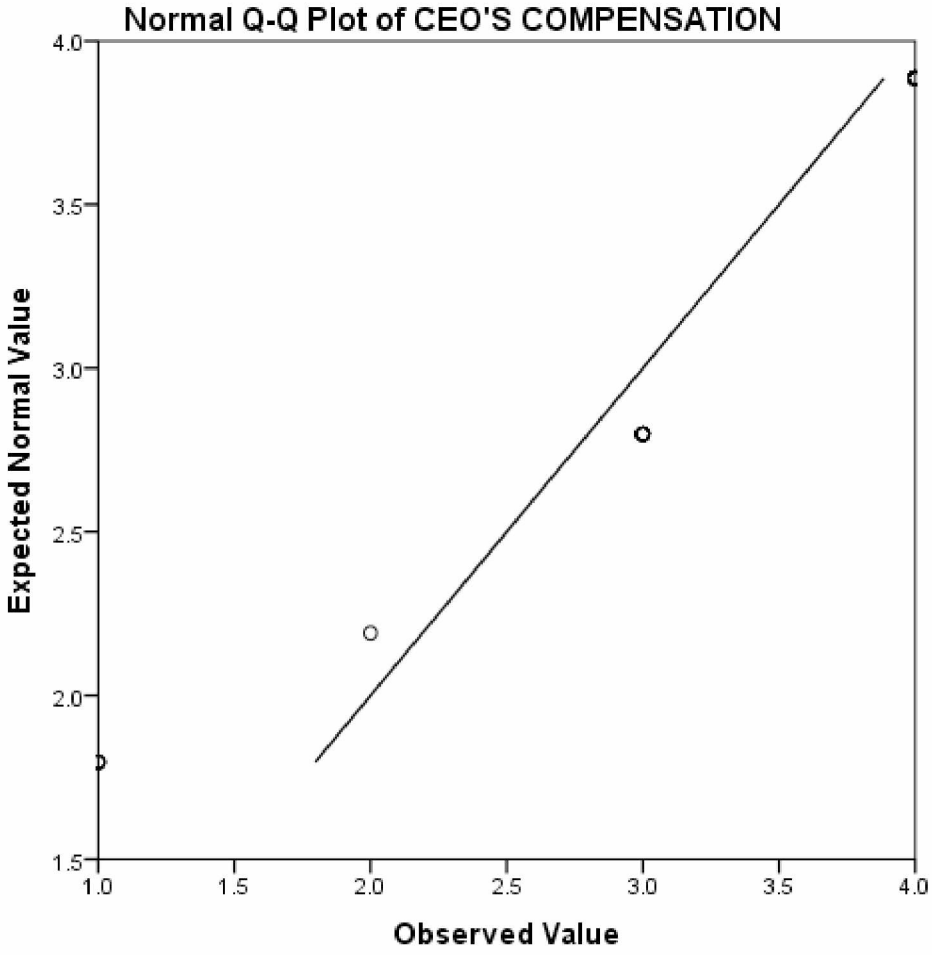
The number of times the CEO has successfully negotiated with the board for improvements in compensation	42	1.00	5.00	3.9500	1.15359	-.848	.374	-.314	.733
CEO is an expert in the firms core business	42	4.00	5.00	4.7000	.46410	-.907	.374	-1.242	.733
Percentage Change in CEOs compensation 2016/2017 and 2017/2018	42	1.00	4.00	3.3250	.94428	-1.484	.374	1.445	.733
CS	42	1.00	4.00	2.2200	.68657	.087	.374	-.372	.733
IP	42	1.00	3.00	1.9438	.52345	-.321	.374	-.633	.733
LD	42	1.00	3.83	2.5375	.68092	.017	.374	-.597	.733
CP	42	3.00	4.78	4.2111	.34756	-1.368	.374	2.502	.733
FI	42	1.67	3.33	2.3833	.58738	.411	.374	-1.063	.733
FS	42	1.00	5.00	3.6250	1.16987	-.217	.374	-1.043	.733
CC	42	1.00	4.00	3.3250	.94428	-1.484	.374	1.445	.733
OP	42	1.17	3.46	2.2711	.53184	.384	.374	-.398	.733
OPCP	42	4.67	15.37	9.5430	2.29578	.509	.374	.226	.733
OPFS	42	2.24	15.00	8.2952	3.34356	.049	.374	-.913	.733
Valid N (list wise)	42								

Appendix VI: Scatter Plot Diagrams




Normal Q-Q Plot of ORGANIZATIONAL PERFORMANCE
Expected Normal
Observed Value
3
2
1
0
-1
-2
-3
1.0
1.5
2.0
2.5
3.0
3.5
4.0


Normal Q-Q Plot of FIRM SIZE
Expected Normal Value
Observed Value
1
2
3
4
5


Normal Q-Q Plot of CEO'S COMPENSATION
Expected Normal Value
Observed Value
4.0
3.5
3.0
2.5
2.0
1.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0

CEO's Compensation

- Basic pay